

**ENDING A RIGGED TAX CODE: THE
NEED TO MAKE THE WEALTHIEST
PEOPLE AND LARGEST CORPORA-
TIONS PAY THEIR FAIR SHARE OF
TAXES**

HEARING

BEFORE THE

**COMMITTEE ON THE BUDGET
UNITED STATES SENATE**

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FIRST SESSION

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ENDING A RIGGED TAX CODE: THE NEED TO MAKE THE WEALTHIEST PEOPLE AND LARGEST CORPORATIONS PAY THEIR FAIR SHARE OF TAXES

THURSDAY, MARCH 25, 2021

U.S. SENATE,
COMMITTEE ON THE BUDGET,
Washington, D.C.

The Committee met, pursuant to notice, at 11:00 a.m., via Webex and in Room SH-216, Hart Senate Office Building, Honorable Bernard Sanders, Chairman of the Committee, presiding.

Present: Senators Sanders, Whitehouse, Warner, Kaine, Van Hollen, Luján, Padilla, Graham, Grassley, Crapo, Toomey, Johnson, Braun, and Scott.

Staff Present: Warren Gunnels, Majority Staff Director; Nick Myers, Republican Staff Director; Richard Phillips, Majority Senior Tax Analyst; and Erich Hartman, Republican Economist.

OPENING STATEMENT OF CHAIRMAN BERNARD SANDERS

Chairman SANDERS. Let me call this hearing to order. Let me thank the Ranking Member, Lindsey Graham, for his help, and let me thank our colleagues on the Committee and our witnesses who will be testifying remotely—almost all, not all—this morning.

Right now there is a vote that has been called. It will be the first of four votes, so I think you are going to see members moving in and out.

Last week, as some may recall, the Budget Committee held a hearing on income and wealth inequality in America. We talked about the economic absurdity of two people in this country—Jeff Bezos and Elon Musk—owning more wealth than the bottom 40 percent of the American people. Two people owning more wealth than the bottom 40 percent. We talked about the obscenity of the 50 wealthiest Americans owning more wealth than the bottom half of our society—165 million people—while over 90 million Americans are uninsured or underinsured, unable to go to the doctor when they need.

We talked about the absurdity of the top one-tenth of 1 percent owning more wealth than the bottom 90 percent, as the same time as half a million Americans are homeless and children in our country are going hungry.

We have talked about the fact that over 650 billionaires in America became \$1.3 trillion richer during the pandemic while 63 percent of Americans have been living paycheck to paycheck, worried

that if their cars break down or their kids get sick, they are going to be in financial disaster.

Today, in the midst of massive wealth and income inequality, this hearing is going to talk about the need to end a corrupt and rigged Tax Code that has showered trillions of dollars in tax breaks to the wealthiest people in our country and the most profitable corporations. Warren Buffett, one of the very wealthiest people in America, is right. Buffett is right. We can no longer tolerate a Tax Code that allows him, worth \$95 billion, to pay a lower tax rate than his secretary. We can no longer tolerate many large corporations making billions of dollars a year in profits paying nothing, zero, in Federal income taxes while at the same time half of older Americans have no retirement savings and no idea about how they will be able to retire with dignity.

According to recent studies, in America today the top 1 percent is responsible for 70 percent of the taxes that go unpaid each year. In other words, the top 1 percent is evading some \$266 billion in Federal taxes each and every year. And even in Washington, that is a tidy sum of money.

If we collected just a third—one-third—of the unpaid taxes of the very rich, we could provide in this country and make public colleges and universities tuition free, provide universal school meals to every child, and guarantee clean drinking water to every person in our country. And that is because the people on top have under-reported some 20 percent of their income.

Despite what some of my Republican colleagues may claim, the reality is that when you take into account Federal income taxes, payroll taxes, gas taxes, sales taxes, and property taxes—i.e., the entire tax system—we have as a Nation an extremely unfair Tax Code that allows billionaires to pay a lower effective tax rate than public school teachers, truck drivers, and nurses. And that has got to change.

We need a progressive tax system based on the ability to pay, not a regressive tax system that rewards the wealthy and the well-connected.

Let us be clear. As I think all of us know, this country faces enormous structural crises that we must address. Everybody understands that our infrastructure is crumbling, that is, our roads, bridges, dams, wastewater plants, sewers, culverts, and, yes, affordable housing. And it is going to take a lot of money to rebuild our crumbling infrastructure.

In order to combat climate change, which is an existential threat to our planet, we need to fundamentally transform our energy system to make it energy efficient and to build sustainable emergency systems, also an expensive proposition.

Further, we need to do what every other major country on Earth does, and that is to guarantee health care to every man, woman, and child as a human right, not a privilege. We need to make sure that all of our children, regardless of their income, are able to get a higher education if that is what they desire. We need to expand not cut Social Security so that 20 percent of our seniors are no longer forced to survive on an income of less than \$13,500 a year.

Now, I think as many people know, as a result of the Trump tax cuts for the rich, in 2018 over 90 Fortune 500 companies not only

paid nothing in Federal income taxes, they actually received billions of dollars in tax rebates from the Internal Revenue Service (IRS). Profitable corporations pay nothing in Federal taxes, get a rebate from the IRS.

For example—just a few examples—in 2018 Amazon received a \$129 million refund check from the IRS after making \$10.8 billion in profits. Delta received a \$187 million refund check from the IRS after making over \$5 billion in profits. Chevron received a \$181 million refund check from the IRS after making \$4.5 billion in profits. And this gross unfairness never ends.

Recently, as many know, some of my Republican colleagues introduced a bill to give a \$1.7 trillion tax break to the 650 richest families in America, families who are now worth over \$4 trillion. So in the midst of all of the problems facing our country, some of my Republican colleagues have decided that what we should do is give massive, massive tax breaks to the very, very wealthiest families in America, the top one-tenth of 1 percent.

For example, under this effort to completely repeal the estate tax, which some of my Republican colleagues are talking about, the Walton family, the richest family in America and the owners of Walmart, will get a tax break of up to \$88 billion. Got that? Richest family in America under the repeal of the entire estate tax would get an \$88 billion tax break.

The family of the wealthiest individual in the world, Jeff Bezos, owner of Amazon, complete repeal of the estate tax would mean that that family would receive a tax break of more than \$70 billion.

Meanwhile, under that plan to completely repeal the estate tax, over 99.9 percent of families in America, including every family farmer, rancher, and small business owner, would get nothing—not a penny in tax relief. Why? Because the estate tax repeal only applies to people who inherit over \$11.7 million in wealth.

Well, needless to say, I have a very different perspective, and that is why I am introducing today an estate tax bill with Senators Whitehouse, Gillibrand, Reed, and Van Hollen that would do exactly the opposite of what my Republican colleagues would do. It would demand that the families of the billionaire class not only not get a tax break but start paying their fair share of taxes.

And, by the way, interestingly enough, when we talk about the estate tax, I hope my colleagues understand this is not an idea invented by Bernie Sanders and some other progressives. It was an idea developed, created by a good Republican named Teddy Roosevelt. And as Teddy Roosevelt said—and this is an important quote because it is as relevant today as it was back then. Roosevelt said, “The absence of effective State, and, especially, national, restraint upon unfair money-getting has tended to create a small class of enormously wealthy and economically powerful men, whose chief object is to hold and increase their power. The prime need is to change the conditions which enable these men to accumulate power. Therefore, I believe in a graduated inheritance tax on big fortunes...properly safeguarded against evasion, and increasing rapidly in amount with the size of the estate.”

Teddy Roosevelt, Republican. And Roosevelt was, of course, exactly right.

Further, today I am introducing the Corporate Offshore Tax Dodging Prevention Act, legislation that would prevent corporations from shifting their profits offshore to avoid paying U.S. taxes and would restore the top corporate rate to 35 percent, where it was before Trump became President. Today corporations are avoiding hundreds of billions of dollars in taxes by shifting their profits to offshore tax havens in the Cayman Islands, Bermuda, and other locations.

Interestingly, in 1952, corporate income taxes amounted to 32 percent of all Federal revenue. Today that figure is down to just 7 percent.

So here is the bottom line. We are living in a country which has enormous needs, we have a very large deficit, and yet we have a Tax Code which enables the very, very richest people in America and the largest corporations to avoid paying their fair share of taxes. That has got to change.

With that, I am happy to give the microphone over to my colleague, the Ranking Member, Lindsey Graham.

OPENING STATEMENT OF SENATOR LINDSEY GRAHAM

Senator GRAHAM. Thank you, Mr. Chairman. These debates are very worth having, well worth having. In 2017, we did, in fact, cut taxes. We cut taxes in a way to make American corporations competitive with the worldwide rate. What happened before COVID, you saw a rise in wealth among every segment of the American family. Latino and Hispanic household incomes increased. African American incomes increases. Women's income increased. We added 5 million jobs. People benefited mightily.

What happened after that is that the top 1 percent account, I think, for 19 percent of all income in the country. They pay 40-something percent of income taxes; 35 percent of the people in the United States do not pay any income taxes. And so I think a model of increasing taxes now in the name of going after the wealthy hurts the middle class as much as it would hurt anybody else.

The one thing that I differ with Senator Sanders is that we live in a world that is very competitive. If you go to a 35 percent corporate tax rate, you are going to incentivize people in the wrong way to find locations that are more friendly. Why are we doing so well in South Carolina? Because we have a low, business-friendly tax structure, hardworking people with a good education system to help them acquire the skills they need to work in a modern economy. That is why BMW, Michelin, and Boeing—I could go on and on and on—the premier manufacturers in the world have chosen my State because of a good workforce and good sound tax policy.

To those who are listening out there, tax policy is job policy. The way you structure your Tax Code is going to determine how competitive you can be vis-à-vis the rest of the world. And if you want to declare war on the top income earners in this country because you think they have too much because they do not pay their fair share, well, what is a fair share? Reader's Digest has been doing polling on this issue for decades, and most people say around 25 or 30 percent is a fair share of anybody to pay.

What Senator Sanders does not get, in my view, is that most people who are struggling to make it out there would like to be

wealthy and do not resent people who are wealthy who have done it right and fairly. So when the Government is going to determine how much you can make, what the ratio should be of what a CEO can make in any company, what else are we going to do?

So the bottom line is that free enterprise works. The model you are proposing has been followed throughout the world, and it crashes and burns over time. I am not advocating eliminating the death tax, but I am advocating making it possible for people to work all their lives to pass wealth to their families. And when Bill Gates' time comes, I think he has done a good job with his money. I do not want the Government to grab all of it at the end.

This insatiable desire by my friends on the left to grab as much money and power as they can is going to ruin the country. There has to be some balance. I do believe in a progressive Tax Code, but every time we meet, we are talking about another group of people in America, to grab their money to do things with that politicians like on the left. And we will see where this goes. We are going to have an election in 2022, and I want everybody in South Carolina to know that if Senator Sanders gets his way, it is going to be hard for corporations to remain competitive in our country.

The reason people are leaving New York and California in droves to come to where I live is they are making it impossible to do business there. And we are not going to do that to the country with Republican votes. I think our tax cuts in 2017 were well designed. They have benefited everybody in the country, and we will fight you appropriately and respectfully as you try to rearrange America in a fashion that I think is contrary to what we stand for as a country. A debate worth having and a fight worth engaging in.

Chairman SANDERS. Thank you, Senator Graham.

We have some wonderful witnesses today, and let me begin with Abigail E. Disney. Ms. Disney is the CEO and co-founder of Fork Films, chair and co-founder of Level Forward. She is a filmmaker, philanthropist, activist, and an Emmy-winning director. Ms. Disney is the granddaughter of Roy O. Disney, co-founder of the Walt Disney Company, which makes her an heiress to the Disney family fortune.

Ms. Disney, thank you very, very much for being with us.

STATEMENT OF ABIGAIL E. DISNEY, CHIEF EXECUTIVE OFFICER AND CO-FOUNDER, FORK FILMS, CHAIR AND CO-FOUNDER, LEVEL FORWARD

Ms. DISNEY. Thank you, Senator Sanders, and also thank you to Ranking Member Graham for letting me come and testify for you here today.

I grew up with one of the most recognizable names on Earth in a family that went from dirt poor to embarrassingly wealthy in two generations. My grandfather managed to accumulate a large amount of wealth in a tax environment some now call "punitive." He built a series of wildly successful businesses despite negotiating with highly empowered unions who had support from the Federal Government. He managed to navigate a regulatory environment many now describe as "draconian." Somehow, he managed to do all of this, despite living under conditions that many rich people now would claim would make their lives impossible.

The commonly held image of the wealthiest being ungenerous and elitist is, I am sorry to say, completely consistent with my own experience. The bubble it creates can be self-affirming, and poverty, hard work, and struggle become a distant and exotic experience meant for other sorts of people. You can start to believe that you are admirable because you have money and you have money because you are admirable. And this mythology of relative merit conveniently supports doing nothing about the unfair structures advantaging a handful of people that are supported in this delusion by a political system that needs your money more than it needs to fight for constituents.

We have gone so far down this rabbit hole to hell that we have lost touch with some common-sense notions like that those who have benefited more from society should pay more for its upkeep or that a profitable company is not built as much by executives as by its workers.

One place to start to right this wrong is by changing how we tax people like me who inherit huge sums of money and pay less in taxes for owning things than most Americans pay on the money that they earn by working. That is why I support the For the 99.5 Percent Act and equalizing capital gains and earned income tax rates.

Some Senators have recently proposed repealing what is left of the estate tax, which would do nothing but reward people who lucked into the American dream just by being born into wealthy families.

As if inheriting money was not advantage enough, I am able to use it entirely by living off of investments, and thanks to the capital gains tax rate, I pay half the tax rate of people who are working for a living. It is time to stop rewarding people who make money simply by having money.

Lately, I have made myself obnoxious by pointing out that the CEO at the company that shares my name should not earn 1,400 times what his average worker makes or more than 2,000 times what his lowest-paid worker makes.

I am not against a person making a lot of money per se, but if you do so while people who cash paychecks with your name on them are skipping insulin or, in one heartbreaking case, dying while sleeping in their car, it is only common sense that a larger share of profits would be better deployed to make sure your employees can meet their basic needs.

Of course, Disney is not the only company overpaying its CEO, and it is not even the worst. That is why I support a higher minimum wage because there is such a thing as “not enough.” But I also support the Tax Excessive CEO Pay Act because there is also a thing as “too much.”

In 1970, a CEO—and that would have included my grandfather—got paid roughly 20 times what their typical worker was paid. Today the average CEO makes about 320 times. This is absurd, and our Tax Code should treat it as such. If these CEOs are worth their astronomical salaries, these companies are more than welcome to cover the tax or to raise wages for their other employees.

It is also time to institute a wealth tax so that we can deploy at least some of the hoarded and impossible-to-spend sums of money that the wealthiest have locked up, often built on the backs of workers, to programs that help give those same workers a fair and decent life. It is time for the wealthy to stop viewing taxes as a punishment instead of a responsibility. A half-century has been spent denigrating the Government and all it can do to protect its vulnerable and poor, but good governance is possible, and it cannot exist without revenues adequate to the challenges it has. The wealthy have begun to think that society and Government should serve their interests alone. That is why I am a proud class traitor. It is time for the rich to ask what we can do for our country, not the other way around.

Thank you, Chairman Sanders and Ranking Member Graham and the Committee.

[The prepared statement of Ms. Disney appears on page 35]

Chairman SANDERS. Thank you very much, Ms. Disney.

Our next panelist is Gabriel Zucman, associate professor of economics at the University of California at Berkeley. His research focuses on accumulation, distribution, and taxation of global wealth, analyzes the macro distributional implications of globalization.

Professor Zucman, thanks very much for being with us.

**STATEMENT OF GABRIEL ZUCMAN, ASSOCIATE PROFESSOR
OF ECONOMICS, UNIVERSITY OF CALIFORNIA, BERKELEY**

Mr. ZUCMAN. Thank you, Chairman Sanders, Ranking Member Graham, and members of the Committee, for inviting me to testify today. My name is Gabriel Zucman, and I am a professor of economics at the University of California, Berkeley.

The United States used to have one of the most progressive tax systems in the world. Let us take a look. From 1930 to 1980, the top marginal Federal income tax rate averaged 78 percent. This top rate reached as much as 91 percent from 1951 to 1963. No other country, with the exception of the United Kingdom, ever applied such high marginal tax rates on the wealthy. Moreover, the U.S. tax system was progressive not only on paper, but in actual facts. All taxes, including the average tax rates of the top 0.1 percent highest earners, reached 50 to 60 percent in the 1950s and 1960s.

Today the situation is very different. When taking into account all taxes paid at all levels of Government, the U.S. tax system looks like a giant flat tax that becomes regressive at the very top end. Americans pay an average 28 percent of their income in taxes; this is the official tax to national income ratio of the United States. And all groups of the population pay more or less 28 percent of their income in taxes. The main exception is the 400 richest Americans, billionaires, who pay less than 25 percent, less than the middle class.

So how is this possible? Working-class Americans pay a significant fraction of their income in payroll and sales taxes. Billionaires, on the other hand, enjoy two major tax breaks.

Number one, dividends and capital gains—the two key sources of income for billionaires—are subject to low statutory tax rates of 20 percent.

Second, and more important, a lot of the income of billionaires is not subject to the personal income tax. Jeff Bezos, Elon Musk, Mark Zuckerberg, Larry Page, Sergei Brin, Warren Buffett—I just named six of the ten wealthiest Americans. They are all large shareholders of companies that do not distribute dividends. Their true economic income is their share of their companies' profit, but because the companies do not distribute dividends, most of their economic income is tax free.

The only sizable tax that billionaires pay is the corporate tax they pay through the companies they own. But now a key problem comes into view: the corporate tax has almost disappeared. In the early 1950s, the corporate income tax collected as much revenue as the individual income tax, in both cases about 6 percent of national income. Today the corporate tax raises only about 1 percent of U.S. national income. A large part of the decline owes to the rise of tax avoidance, in particular, the shifting of profits to tax havens. More than half of the foreign profits of U.S. companies are booked in tax havens today.

In 2018, according to the most recent data, U.S. multinationals booked more profits in Bermuda and Ireland than in the United Kingdom, Japan, France, Germany, and Mexico combined. So how to make the tax system more progressive? With a stronger corporate tax, a more progressive income tax, and also with the wealth tax, why isn't the income tax enough? Because many billionaires have little taxable income, so that even increasing the top marginal income tax rates would not make a significant difference to the taxes they pay. The proper way to tax billionaires is with a wealth tax, and a wealth tax can work. In the U.S., property rights are well defined; most assets have clear market values; and when market values are missing, they can be estimated. There is no technical obstacle to making the tax system more progressive. Tax avoidance and tax evasion are not laws of nature. They are policy choices.

Before the creation of the Federal income tax in 1913, income taxation was decried as impractical, dangerous, a fantasy imported by "European professors." Today the Federal income tax is widely recognized as a large success. A wealth tax on billionaires could be a success, too.

I look forward to your questions. Thank you.

[The prepared statement of Mr. Zucman appears on page 40]

Chairman SANDERS. Thank you very much, Professor Zucman.

Our next panelist is, in fact, with us today in the room, and that is Amy Hanauer, who is the executive director of the Institute on Taxation and Economic Policy (ITEP). She has 30 years of experience working to create economic policy that advances social justice and, as the executive director of ITEP, works to promote fair and equitable State and national policy.

Ms. Hanauer, thanks so much for being with us.

**STATEMENT OF AMY HANAUER, EXECUTIVE DIRECTOR,
INSTITUTE ON TAXATION AND ECONOMIC POLICY**

Ms. HANAUER. Thank you for having me. Chairman Sanders and Ranking Member Graham, thank you for the opportunity to speak

to this Committee. My name is Amy Hanauer. I am the executive director of the Institute on Taxation and Economic Policy.

In 2020, the pandemic killed hundreds of thousands of Americans, and unemployment soared to levels not seen since we began collecting data in the 1940s. Despite that, Amazon's profits surged to \$20 billion last year, but the company paid just 9.4 percent of its profits in Federal corporate income taxes after paying zero in 2018 and about 1 percent in 2019. Their total effective Federal corporate income tax rate over 3 years was just 4.3 percent on \$44.7 billion in profits. That is a far cry from the statutory rate of 21 percent.

Netflix's 2020 profits surged to \$2.8 billion because people went out less and watched more TV at home. Yet the company paid less than 1 percent of those profits in Federal corporate income taxes after paying nothing in 2018 and about 1 percent in 2019. Over those 3 years, Netflix paid a total effective rate of just 0.4 percent on \$5.3 billion in profits. Again, not at all close to the 21 percent statutory rate.

And late last week, we learned that Zoom, the videoconferencing platform that has become ubiquitous for meetings, saw its profits spike by a staggering 4,000 percent last year, but the company paid zero in Federal corporate income taxes for 2020.

Zoom, Amazon, and Netflix are not alone. The pandemic has been hard on many businesses, large and small, and many reported losses last year. But some with profits, indeed, even some with record profits, still avoided paying corporate income tax. So far my colleagues have found more than 50 Standard and Poor's (S&P) 500 corporations that reported profits but paid no Federal corporate income tax last year—a year when our lives depended on public resources for testing, research, and vaccine distribution.

Let me point out some truths about corporate tax avoidance.

First, lawmakers could address this, but have chosen not to. We knew about the corporate tax avoidance crisis long before Congress drafted a major tax overhaul signed into law by former President Trump in 2017. In fact, the figures I share with you today are the result of that law's first 3 years.

Second, the tax avoidance is not due to the current economic crisis. The corporate income tax is a tax on corporate profits. It does not affect companies that are not profiting. Closing special breaks and loopholes would not hurt businesses laid low by the pandemic.

Third, the corporate tax dodging hurts ordinary Americans by reducing resources to pay for things we all need. Trump administration officials claimed their corporate breaks would boost the economy. In fact, Gross Domestic Product (GDP) growth in the law's first 2 years was 2.9 percent and 2.2 percent, comparable to or well below 2015 levels. Proponents of the tax breaks also said benefits would be passed on to workers, claiming salaries would increase by \$4,000 to \$9,000 annually. This never happened, and the Congressional Research Service found that instead \$1 trillion went to share buybacks, which mostly enrich wealthy stockholders.

This matters to the Senate Budget Committee because you will soon be asked to decide what our Nation can afford to do to improve our economy and health going forward. Our research finds that corporations already have too many tax breaks, but some law-

makers want to preserve or even expand corporate tax cuts in the Trump law. As you know, the law includes a tax break, the expensing provision, that is set to expire. It also includes tax increases related to interest deductions and research expenses that have yet to take effect. Lawmakers call for extending the temporary break and repealing the upcoming increases, but both of those would be a mistake. Yet some of these same lawmakers also claim that we cannot afford to help people directly. They argue that we cannot make permanent the child tax credit expansion that is projected to reduce child poverty by 45 percent, or that we cannot invest in green jobs or we cannot invest in updating our failing infrastructure.

I ask that instead of choosing corporate tax breaks, you choose to provide benefits directly to families in ways that clearly reduce poverty and improve lives. In my written testimony, I specify how we can stop corporate tax avoidance, including by passing some of the bills introduced by members of this Committee.

We look forward to working with you on making our Tax Code work for all of us. Thank you so much for the opportunity to testify.

[The prepared statement of Ms. Hanauer appears on page 55]

Senator GRAHAM. [Presiding.] Well, thank you very much.

Our next witness is Maya MacGuineas, president of the Committee for a Responsible Federal Budget. She is a leading budget expert and a political independent. She has worked closely with members of both parties.

Ms. MacGuineas, welcome.

STATEMENT OF MAYA MACGUINEAS, PRESIDENT, COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET

Ms. MACGUINEAS. Thank you so much. Chairman Sanders, Ranking Member Graham, and members of the Committee, thank you for inviting me here today.

Let me start by saying that we have engaged in an unprecedented amount of borrowing in the past months, which is exactly what we should have been doing. This has been a terrible crisis, and while the most recent package was larger and less targeted than we thought was warranted, the overall COVID response has been very successful in fighting the pandemic, alleviating economic hardships, and fostering the recovery.

The good news is that we seem to be coming out of the worst part. The bad news is we had a mountain of debt before the crisis, and we have a much larger mountain now.

Going forward, we are on track to borrow \$15 trillion over the next decade, assuming there is no new borrowing. And barring fixes, we will have four major insolvent trust funds, including both Social Security Trust Funds. This leaves people who depend on these programs vulnerable. It leaves our economy vulnerable to shifts in interest rates and foreign demand for our debt, and it leaves the Nation vulnerable as the national debt is a national security threat as well. So I appreciate the topic of the hearing because revenues will have to be a significant part of the solution.

The main point I would like to make today is that they alone will not fix the imbalances we face or pay for the expansive agendas

that are being discussed. So one of the tricky things about paying the fair share is, of course, that “fair” is in the eye of the beholder. I personally think that making the Tax Code and our spending programs more progressive is the right thing to do in light of trends in inequality, mobility, security, and opportunity. So here are some options to consider.

Clearly, we need to do something about the very large tax gap and ensure that people pay what they actually owe. We should look to reduce tax expenditures, which this year alone will lead to \$1.8 trillion in lower revenues, and while some of these breaks are worthwhile, many are expensive, regressive, distortive, and we should make a number of changes. We should also consider changes to the estate tax and how we tax capital.

On the corporate side, rate reduction to 21 percent far exceeded what most think was necessary in terms of competitiveness, and we can bring up that rate, though I have always thought the more sensible approach is to tax more on the individual side rather than the corporate side because capital is so mobile.

One thing that we most certainly should not do is tax cuts further—we should not do further tax cuts for the well-off. For example, by restoring the State and local tax (SALT) deduction, which would provide an average of \$40,000 in annual tax cuts for millionaires and billionaires. So I think that would be one of the most unwise tax policies we could consider.

How far will this get us? To stabilize the debt at today’s level of 100 percent of GDP over the next decade, which is very high, it would take \$4 trillion in savings. This could be done by enacting all of President Biden’s proposed campaign agenda: tax increases, higher tax rates, limits on tax expenditures, expanding the minimum tax, et cetera.

If you want to finance his spending agenda as well, probably \$11 trillion in new initiatives, you would have to go further from what is already a pretty aggressive set of tax increases, for example, by imposing a wealth tax, transaction tax, boosting individual and corporate rates as high as 50 and 35 percent, respectively, and this would still leave a \$6 trillion hole.

A more expansionary set of policies such as Medicare for All, free college, student debt cancellation would cost even more. And even if net revenues needed were able to be kept below \$30 trillion, you would need to impose either a 32 percent payroll tax, a 25 percent increase in all income tax rates, including raising the bottom rate to 35 and the top to 62, a 42 percent Value-Added Tax (VAT), or doubling the individual and corporate income tax rates, or some combination.

So the point is we need to look at both sides of the ledger. Going forward, the growth in deficits is driven primarily by growth in health, retirement, and interest, which are responsible for 86 percent of the growth in spending over the next decade.

The types of measures we could consider on that side: measures to control health care costs for sure. That would have many benefits. Changes to save Social Security, which also can be used to make this program more progressive, same as the Tax Code. So we could start by means-testing or changing the benefit formula. Other changes will need to be made to save Social Security, includ-

ing lifting the payroll tax cap, broadening the base, increasing the retirement age, and/or fixing Cost-of-Living Adjustments (COLA). Finally, we should reinstate reasonable discretionary spending caps at a level that we can actually stick to.

So the fiscal hole is so deep that basically all credible options will need to be on the table, and the longer we wait, the longer this list will have to grow.

Fiscal responsibility is not about big government or small government. It is about being willing to pay for the priorities you want to spend money on. Shifting costs to the future is at odds with the principle of serving as a good steward for the economy, the Nation, or the next generation, even when that is money well spent.

So thank you again for hosting this hearing today. It is so important that we focus on these important issues.

[The prepared statement of Ms. MacGuineas appears on page 71]

Senator GRAHAM. Thank you, Maya.

Scott Hodge is next, president of the Tax Foundation. He is recognized as one of Washington's leading experts on tax policy, the Federal budget, and Government spending.

Mr. Hodge.

**STATEMENT OF SCOTT A. HODGE, PRESIDENT, TAX
FOUNDATION**

Mr. HODGE. Thank you, Ranking Member Graham, Chairman Sanders, and members of the Committee. I appreciate the opportunity to speak with you today.

Let me suggest that there is no objective standard for what defines "fair share." It is a purely subjective concept. But there are facts, which are objective, and the facts suggest that the U.S. tax and fiscal system is very progressive and very redistributive. Let us dive into some of those facts. We will start with individual taxes and move on to corporate taxes.

According to the latest IRS data for 2018, the year after the Tax Cuts and Jobs Act, the wealthy in America now bear the heaviest share of the income tax burden than at any time in recent history. The data shows that the top 1 percent of taxpayers pays 40 percent of all the income taxes. By contrast, the bottom 90 percent of taxpayers, about 130 million taxpayers, combined pay less than 30 percent of all income taxes.

It is hard to say that the Tax Code is rigged in favor of the rich when more than 53 million low- and middle-income taxpayers—that is one-third of all taxpayers—have no income tax liability because of the numerous credits and deductions that have been created over the last few decades.

Since the creation of the child tax credit in 1997, the percentage of income tax filers who have no income tax liability has increased from 23 percent to nearly 35 percent. The doubling of the child tax credit in the Tax Cuts and Jobs Act knocked more than 4 million taxpayers off the income tax rolls.

Redistribution is also at record levels. According to a recent Congressional Budget Office (CBO) report, the bottom 60 percent of households in America receive more in direct Government benefits than they pay in all Federal taxes. Meanwhile, the top 20 percent

of households paid \$1.7 trillion more in taxes than they received in direct Government benefits. These figures demonstrate the results that one would expect from a highly progressive tax and fiscal system.

Now let us look at the corporate side of the tax ledger. Now, if the Tax Code was rigged in favor of corporations, we would have more of them. Today there are about 1.6 million corporations, the fewest number in 50 years, and a million fewer corporations than there were in 1986. The likely reason for that decline is the fact that we have levied one of the highest corporate tax rates in the developed world for the past 30 years, and the fact that, of course, corporate income is taxed twice—once at the entity level, and again at the shareholder level.

But because of the growth in pass-through businesses over the last few decades, more business income is taxed today on individual tax returns than on traditional corporate tax returns.

That said, an Organisation for Economic Co-operation and Development (OECD) study found that the U.S. tax system is still one of the most business-dependent tax systems anywhere as American businesses pay or remit 93 percent of all the taxes in America.

More importantly, economic studies show that workers bear at least half of the economic burden of corporate taxes through lower wages, with women, low-skilled workers, and younger workers impacted the most.

Another OECD study found that the corporate income tax is the most harmful tax for economic growth because capital is the most mobile factor in the economy. So raising the corporate tax rate would not only slow the economy, it would hurt marginal workers.

The Tax Foundation's General Equilibrium Tax Model determined that raising the corporate tax rate to 28 percent would reduce long-run GDP by nearly 1 percent and eliminate nearly 160,000 jobs. Over the long term, we found that the model—or the model shows that middle- and low-income taxpayers would see their incomes fall by 1.5 percent.

Raising the corporate tax rate to 28 percent would once again give the United States the distinction of having the highest corporate tax rate in the industrialized world after factoring in our State rates.

This is no time to do that when France and Sweden and other countries are cutting their corporate tax rates to attract more investments and jobs. In fact, China's corporate tax rate is 25 percent, and we do not want to lose ground against our biggest economic competitor either.

Let me conclude by saying the best way to address inequality in America is through permanent tax policies that promote increased productivity, more jobs, higher real wages, and real economic growth. That is the kind of inclusive growth that all of us should be able to support.

Thank you for your time and attention. I would appreciate any comments or questions that you may have. Thank you, Mr. Chairman.

[The prepared statement of Mr. Hodge appears on page 78]

Chairman SANDERS. [Presiding.] Thank you very much, Mr. Hodge. And, again, I am going to apologize. There are a number of votes taking places on the floor, so you are going to see people disappearing for a while. Let us start the questions off with Professor Zucman.

Professor Zucman, how does it happen that the top 1 percent in the United States are able to underreport about 21 percent of their true income? How do they do that? And what does that mean for tax revenue in our country?

Mr. ZUCMAN. Thank you very much, Senator, for your question. Indeed, according to a recent study that was published earlier this week, the top 1 percent underreport about 20 percent of its true income, and by contrast, the bottom 50 percent of taxpayers underreports about 7 percent of their true income. So income underreporting appears to rise quite significantly with income. And that is due to a number of reasons, but one reason I want to emphasize is the dramatic budget cuts that have happened from the IRS over the last decade that severely limit the ability of the IRS to audit high-income taxpayers extensively. And I think it is particularly important and, in fact, this should be the number one step towards a fairer tax system to increase the IRS budget for enforcement. This is essential to improve the actual progressivity of the tax system. And let me mention two areas where enforcement could be improved and two reasons why there is a significant tax gap at the top. One is that there is substantial evasion in complex business structures, including partnerships. And, second, there is continued offshore tax evasion, concealment of assets and income in offshore tax havens. These are two areas where there is a need for much stronger enforcement.

Chairman SANDERS. Professor, thank you very, very much.

Let me go to Ms. Hanauer. Ms. Hanauer, in 2018, Amazon, one of the most profitable corporations in the world, paid nothing in Federal income taxes. People are shocked to hear that. How does that happen that a usually profitable corporation owned by the wealthiest guy in the world paid nothing in Federal income tax?

Ms. HANAUER. Yeah, thank you so much for that question, Senator. I mean, I think that there are three primary ways that you see very profitable corporations avoiding income tax. One is the offshore corporate tax avoidance that Professor Zucman talked about, and we could address that by equalizing rates on domestic and foreign profits, or coming as close as possible to doing so. I know you have had a bill to address that, and I think that is a very good direction to go in.

A second is in the more domestic way, which is that a lot of companies use accelerated depreciation or even expensing to avoid taxes on their assets, and we would favor instead having economic depreciation on those assets. And, again, I think that is something that you have proposed.

And another way that we see a lot of domestic tax avoidance is having this stock options book tax gap where, when companies pay out compensation in stock options, they report one thing to the IRS

and they report something entirely different to their investors. That does not make a lot of sense.

So we agree with Professor Zucman that better funding the IRS is part of the solution, but so is addressing these three major forms of avoidance.

Chairman SANDERS. Thank you very much.

Let me direct a question to Ms. Disney. Your father and uncle created one of the great iconic corporations in the world. Did the high tax rates of the 1950s and 1960s cause your family to work less hard and be less innovative?

Ms. DISNEY. Thank you, Senator Sanders. I would offer that the proof for that is probably in the pudding. We know that the 1950s and the 1960s were some of the most creative, successful years of the Walt Disney Company. They were never entirely working for the money, and so what the tax environment was really did not have an impact on how they went about their business.

But over and above that, it is really important to remember that so much of what they did could not have been done without massive spending, for instance, on the highway bill in the 1950s. Without the highway bill, you get no Disneyland, no Disney World. So, in fact, they benefited by the high-tax environment because of the massive Federal and State investments in infrastructure.

Chairman SANDERS. Thank you very much.

Senator Graham.

Senator GRAHAM. Mr. Hodge, for about 30 seconds, would you like to comment on the Amazon situation?

Mr. HODGE. Senator, I have never looked at Amazon's tax returns or their books. What I can say is that when companies pay very low taxes, generally what they have done is followed the rules that Congress has provided in the tax system. So in order to take things like accelerated depreciation or bonus expensing, they have to do the right thing. They have to buy new trucks, new equipment for their factories, new tools for their workers. That all increases GDP and economic growth, so that is a good thing.

They also provide stock options for their employees, which makes their employees wealthier. So they are sharing the wealth of the company with their employees.

All of those are in the Tax Code, and so they are doing the right thing, and that is all things that Congress has put in the Tax Code for companies to do.

Senator GRAHAM. Okay. Let us see if we can get a baseline of understanding about whether all these numbers are accurate or not. You say that 1 percent, the top 1 percent of the wealthiest people in the country pay 46 percent of income taxes. Is that right?

Mr. HODGE. Forty percent of income taxes, yes.

Senator GRAHAM. Mr. Zucman—is that right?

Chairman SANDERS. Professor Zucman.

Senator GRAHAM. Professor?

Mr. ZUCMAN. Yes, this is correct, I believe.

Senator GRAHAM. Okay. That is correct. All right. That is good. Is it true that about 30 percent-plus of Americans pay no income tax?

Mr. HODGE. Thirty-five percent of all Americans who file an income tax return pay zero income taxes because of largely tax cred-

its such as the child tax credit, earned income tax credit, education tax credits and so forth.

Chairman SANDERS. That is Federal income tax, correct?

Mr. HODGE. Federal income tax, that is correct.

Senator GRAHAM. Yes.

Mr. HODGE. And according to CBO data, many of those are refundable tax credits, which actually completely offset their payroll taxes as well. Actually, according to CBO data, the bottom two quintiles have negative effective tax rates because of the generosity of those refundable tax credits.

Senator GRAHAM. Professor, do you agree with that statement?

Mr. ZUCMAN. Senator, I think when studying the progressivity of the tax system, it is important to take into account all taxes at all levels of Government, and—

Senator GRAHAM. I know. I just asked you a question. Do you agree with what he said?

Mr. ZUCMAN. Yeah, I agree with this.

Senator GRAHAM. Okay. Now, I understand where you are coming from, but I am just trying to get some data points here.

What is the average corporate tax rate in the industrialized world, Mr. Hodge?

Mr. HODGE. It is a little over 25 percent if you adjust it for economy size. The U.S. corporate tax rate right now, when you add the Federal rate of 21 percent plus the State rate, is about average in the industrialized world right now.

Senator GRAHAM. And the proposal to go to 35 percent, how does that affect our ability to create jobs in our economy here at home?

Mr. HODGE. That would instantly make the U.S. having the highest overall corporate tax rate at around 32 percent, which would be much higher than even France right now, which is moving to 25 percent. Sweden is reducing their rate to around 20 percent as well. That is the trend among global countries to make themselves more attractive for investment and jobs.

Senator GRAHAM. So, Ms. MacGuineas, are you with us? Ms. MacGuineas?

Ms. MACGUINEAS. I am with you.

Senator GRAHAM. Okay. So if you took the entire wealth of the top 1 percent—their houses, their dogs, everything they own—how much money would that be for the Federal Government?

Ms. MACGUINEAS. I am sorry, Senator. I do not know the answer to that offhand. I am hoping one of our other panelists does.

Senator GRAHAM. I think it is about \$30 trillion. I cannot remember. But, you know, it is a fraction of what you would need to get us out of debt, is my question. Do you agree with that? If you confiscated all the wealth of the top 1 percent, that does not get the Nation out of debt. Is that a fair statement?

Ms. MACGUINEAS. Yeah, I think you could not possibly confiscate all the wealth, and it would not be able to get us out of debt on the debt trajectory that we are on. That is correct.

Senator GRAHAM. Okay. And for us to get out of debt, we are going to have to adjust entitlement spending and maybe revenue generation, too. Is that correct?

Ms. MACGUINEAS. Yeah, and I want to be sort of realistic. I do not think we are going to be able to get out of debt. I do not think we need to get completely out of debt. At this point, I—

Senator GRAHAM. No, a better—right, a better ratio.

Ms. MACGUINEAS. Just get us to the point where the economy is growing faster than the debt instead of the reverse, and we are not going to be able to do that along with this expansive agenda without looking at all parts of the budget, so taxes on the well-off, but also probably broad-based taxes if we are talking about big expansions, and certainly changes on the spending side.

Senator GRAHAM. Yeah, the spending side is really driven by entitlements—is that correct?—mostly.

Ms. MACGUINEAS. That is correct. Health care and retirement, and growth on interest as well.

Senator GRAHAM. So Social Security and Medicare have to be dealt with, or they are going to run into a major shortfall. Is that correct?

Ms. MACGUINEAS. I think it is such an important point because by not having dealt with them over the past years, we have ignored the reality that we are an aging population; that every year we wait to deal with them, the costs become greater and fall more on the people who depend on them. And many of the things that could have helped to shore up those programs before are now not going to be enough, and so it is really dangerous how long we have waited, and we should not wait any longer. You are going to need to make changes—

Senator GRAHAM. Thank you.

Ms. MACGUINEAS. —so that we do not have across-the-board benefit cuts.

Senator GRAHAM. Thank you very much.

I am sorry, Mr. Chairman. I went over.

Chairman SANDERS. Thank you, Senator Graham.

Senator Van Hollen will join us via video.

Senator VAN HOLLEN. Thank you, Mr. Chairman. I want to thank all of our witnesses here today.

Ms. HANAUER, I think Mr. Hodge just acknowledged in response to Senator Graham's question that the figure he cited about 1 percent, the top 1 percent paying 20 percent—having 20 percent of income but paying 40 percent of taxes did not include State and local government taxes. I think it does not include payroll taxes either. I know that your organization has looked at this. Can you tell us, when you factor those in, what the numbers are?

Ms. HANAUER. Yes, thank you so much. I think that that is a very important point. We need to look at payroll taxes, State and local taxes, and sales taxes, and all of the taxes that people pay when looking at the progressivity of our Tax Code. And when we look at all of those things combined, we find that the Tax Code is very, very slightly progressive when we do not consider wealth. And so we are hardly in a position where we are taxing the rich. In fact, quite to the contrary, as Ms. Disney so eloquently pointed out, it is the wealthy who gain the most from our systems and our society, and we need to make sure that we can pay for all of the things that help to grow wealth in this country.

Senator VAN HOLLEN. Thank you. Now, I want to talk a minute about stepped-up basis because I am going to be introducing legislation in the coming days to deal with the issue of stepped-up basis and how very wealthy families can pass that wealth on from one generation to another without facing any taxes.

Could you, Mr. Zucman, talk briefly to the importance of addressing this issue of stepped-up basis and what the consequences of allowing that loophole to continue would be?

Mr. ZUCMAN. I think this is indeed very important. Stepped-up basis is a major loophole in the Federal Tax Code, and closing it would not only directly improve the progressivity of the tax system, but more importantly, it would make it much easier to increase the tax rate on capital gains, because right now high-income individuals can defer capital gains realization and benefit from this loophole stepped-up basis. By closing this loophole, it would become much simpler to increase capital gains taxation, so this is extremely important.

Senator VAN HOLLEN. Thank you. And, Ms. MacGuineas, first, thank you for mentioning the tax gap, the fact that the IRS has not received adequate funding. It has not only resulted in a lack of good service to taxpayers, but also a large annual tax gap. We know that about 70 percent of those unpaid taxes are from the very wealthy, so that would be a first important start.

But I note you mention in your testimony the issue of looking at taxes on capital, individual capital, and what are your views on addressing the stepped-up basis problem?

Ms. MACGUINEAS. I think looking at stepped-up basis is a perfectly appropriate and smart policy. We can debate what the appropriate tax rate would be for capital gains, but there should not be a huge loophole where people pay zero. And so improving this would be a way to raise revenues and make the Tax Code fairer and more efficient. And it was in the past that we did not have the administrative ability to do this so well, but I believe that now we do.

Senator VAN HOLLEN. Thank you. And, Ms. Disney, thank you for your testimony, your active participation in all these issues and trying to have a more fair and equitable society. Can you talk about how families have been able to use the stepped-up basis loophole over time?

Ms. DISNEY. Thank you, Senator. I am a little bit of a poster child for the benefits of the stepped-up basis because my basis in—well, Disney stock is pretty nearly zero, and I can imagine this for someone like Jeff Bezos being an incredible boon to his capacity to pass wealth on untaxed to his children, because if I were to pass my shares off on to my children, with a basis of almost zero, and now at however many multiples of 190, whatever it is right now, that would be just offering them all that wealth appreciation with no tax at any time on its growth. So it does seem to me to be rather a big giveaway.

Senator VAN HOLLEN. Well, I appreciate that.

Ms. Hanauer, I know we do not have much time left. Do you have a view on this very quickly?

Ms. HANAUER. Yeah, absolutely, I think that this is absolutely the right way to go. It enables dynastic wealth to be passed on, and

we have families in this country that cannot afford child care for their children. It would make much more sense to pass on our collective wealth in ways that enable every family to afford those necessities.

Senator VAN HOLLEN. Well, we have a draft piece of legislation that is almost finalized. As I said, we intend to introduce it shortly. I would like to circulate it to all the witnesses here for your comments in the coming days.

Thank you, Mr. Chairman.

Chairman SANDERS. Thank you very much, Senator Van Hollen. Senator Kaine, I believe—I do not know that we have any Republicans on the line, so, Senator Kaine, your timing is perfect.

Senator KAINE. Thank you, Mr. Chair. I wish my timing were always as good as it just was. And I thank you for calling the hearing. I think this is a very important one.

To the witnesses, you have probably noticed we have been alternating between votes and other committee hearings, but I am glad to have you with us.

I think there is a lot of big ideas about tax reform that are out there. I think Senator Wyden has an idea about tax reform. Senator Cardin has, I think, often introduced a comprehensive tax reform bill that would look at a consumption tax. Senator Johnson—and I do not know if he has been here today—has ideas about tax reform.

I hope we might get into a big kind of theory or structural tax reform discussion. My worry about 2017, not only did I oppose the bill, but it was not really tax reform. I just viewed it as a set of tax cuts benefiting people at the top. And I am a little bit nervous. I think we will probably get a proposal from the White House dealing with taxes potentially as a pay-for for an infrastructure plan, and they might all be individual items that I approve. But I am not really sure it is going to be tax reform. I think it is just going to be a readjustment back from what we did in 2017. And I would love to have a significant discussion about tax reform.

Woody Guthrie has this great line in a song called “I Ain’t Got No Home in This World Anymore.” “The gamblin’ man is rich an’ the workin’ man is poor.” And if you look at our Tax Code, I have always sort of felt that way about it, that if you gave it to a Martian and said, “Tell us what it says about us,” the Martian would say, “You know, I have looked at that Tax Code, and it says that you like investment a lot more than you like work,” because the tax rates applied to wages and salary are higher than they are applied to many forms of investment income, carried interest, capital gains, and others.

I really like investment, but I like work every bit as much, and I just do not like the fact that we have a Tax Code that does not tax earnings at the same level as wages and salary, investment earnings, because it, A, skews the way we structure transactions, skews the way people choose to get paid; but it also has a significant disadvantageous and inequitable effect on lower-income people because they do not have the ability necessarily to get paid in ways that get the lower tax rate applied.

So, really, my one question to you all is: Why not have a Tax Code that basically kind of treats income as income and applies the

same tax rates to all kinds of income—capital gains, interest, dividends, carried interest, wages, and salaries. Wouldn't that be a better way to both simplify and make a Tax Code that is more equitable?

Ms. HANAUER. Yeah, thank you—

Ms. MACGUINEAS. Should I just jump in?

Senator KAINE. Please.

Ms. MACGUINEAS. I will jump in, Senator.

Ms. HANAUER. Oh, sorry. Go ahead.

Senator KAINE. So we will go Amy and Maya and then Scott, and I do not know, there might be a fourth person, too, but that is my only question.

Ms. HANAUER. Thank you so much. I really appreciate that question, and I think you are absolutely right. The disparity in the way that we tax earnings from work as opposed to earnings from wealth does not make any sense, because, you know, people who get up every day and work hard deserve to have those earnings treated as favorably as somebody who simply watches their investment portfolio grow. And I think it leads to great economic divides in this country. It leads to wealth that gets passed on from generation to generation. It also leads to deep racial divides because we know that Black and Latino families have not had the same opportunity to build wealth in housing and in stocks in the same way that White families have as a whole.

So what we really need to do is to restore that equity as you are describing, and I appreciate your interest in that issue.

Senator KAINE. How about to Maya and then Scott? I think Scott wanted to say a word.

Ms. MACGUINEAS. Yes, thank you, Senator. I was nodding through the whole question because I think it used to be so important that we incentivize saving and investments more so than it is today, and we really need to focus on incentivizing work. I think that is true both in the Tax Code and also on the spending side of the budget.

What I really wanted to add is your point about comprehensive tax reform is so critical because our entire economy is changing massively, whether it is still ongoing issues in globalization, technology, the future of work. We have so many tax breaks that make no sense. We have to clean this up and do a big overhaul, keeping in mind issues of competitiveness, economic growth, changes in technology, and income inequality. So I really welcome that approach.

Senator KAINE. Great. Mr. Hodge?

Mr. HODGE. Yes, Senator, what you have described is the Estonian tax system, which has on the corporate side a distributive profit tax, so it is not taxed when it is kept within the company, but only taxed when it is distributed to shareholders. They have a flat income tax rate of 20 percent and then a flat corporate rate of 20 percent, and so you basically tax the same income only once, and there is no level of double taxation like what we have in our system.

Senator KAINE. I like that idea. I would still have progressive rates, but I do like applying the same rate to income wherever it comes from.

Mr. HODGE. Australia does that, and their imputation system has a progressive system, but it applies a credit for the corporate taxes paid to individual shareholders, so it equalizes that. It is quite a good system.

Senator KAINE. Great. Thank you, Mr. Hodge.

Thank you, Mr. Chairman.

Ms. DISNEY. I would love if I could just—

Senator KAINE. Please.

Ms. DISNEY. Oh, thank you. I just wanted to say, as a beneficiary of the favorable capital gains tax rate and the way that just in general we privilege ownership over work, I get the same amount of money at the end of every day whether I have been sitting on my tuchus filing my fingernails or whether I have actually been a contributing member of society. And I think it is really important to remember that the Tax Code is as much a message as anything else, and the message that we are sending right now with our Tax Code only reinforces the idea people have of themselves at the very high end of society that they are somehow better, more worthy, more valuable to society, when, as we know, it is quite the opposite. The people we need most of all and called for a year now “essential” are the people who do the work every day.

Senator KAINE. Ms. Disney, thank you.

Mr. Chair, I just want to say my grandfather, Leo Michael Burns, grew up with your grandfather, Walt Disney, in Marceline, Missouri.

Ms. DISNEY. Fabulous.

Chairman SANDERS. Senator Johnson.

Senator JOHNSON. Thank you, Mr. Chairman. I could not be more pleased to be following the comments from Senator Kaine. There is an awful lot of area of agreement. I think I mentioned in our wealth disparity hearing that income ought to be taxed as income. Income is income. And as a result, I do not think it is any secret I was not a real fan of the 2017 tax reform. I in the end voted for it because I think we needed a more competitive tax system, and I do not think we were. I do not necessarily agree with Ms. MacGuineas when she said that we overshot the corporate rate. But during that time frame, I was talking to people like Senator King and Senator Kaine as well as a lot of economists on all sides of the political spectrum about what I called the “true Warren Buffett tax.” Close to 95 percent of American businesses have their business income tax at the ownership level. I think, Maya, you were talking about the fact that it is best to tax individuals.

So what I was proposing is make all business income taxable at the individual level. Turn C-corps into pass-throughs. I actually talked to Mr. Buffett about this because I was going to call it the “true Warren Buffett tax.” He was intrigued by it. I am not saying he supported it, but he was intrigued enough to put me in touch with his shareholder services company to iron out the details. We had about, I do not know, an hour-long meeting with three experts from Joint Committee on Taxation. I think at the end of that meeting, I think everybody decided that, yeah, this is a change, but what those shareholder services companies have to do for companies and shareholders is far more complex than what I was contemplating.

So this is doable, and the advantage of it, let me just quickly lay out—and, Mr. Hodge, you obviously were working on this. You helped me score it. I would like for you to try and score this again. But the simple way of talking about this is let us say a little old lady in Oshkosh, Wisconsin, owns a share of stock, and \$100 of income is attributed to that share. So she is going to get something like a W-2 that says you have to report \$100 of income. But the corporation who has already deposited, like payroll withholding, \$25 on your behalf.

Now, the benefit here is the tax has already been paid. Again, Mr. Hodge, you were saying 93 percent of taxes are collected from corporations. So we have got the tax collected. But that little old lady, if she has only got a 10 percent tax rate, she will be able to claim a 15 percent refund.

Now, Warren Buffett, he will have to pay more taxes, which means there will be a little bit more pressure for corporations to divest themselves of all this pent-up capital. They will have to pay more dividends for more efficient allocation of capital. This would incentivize low-income earners to become shareholders. Again, it will force corporations—not to pay tax, the individuals are paying tax, but to distribute income for more efficient allocation. Now, if there are all kinds of things for that corporation to invest, they can sell more stock, and they will be able to get capital. They can also borrow money.

So, Mr. Hodge, I know we spoke about this. First of all, let me ask you, are you willing to do another round? I think I have got some people interested in this. I just met with my White House liaison and gave her all the information as well. They were going to have further discussions. Can we count on the Tax Foundation to look at this and potentially score it?

Mr. HODGE. Absolutely, we would be delighted to work with your team on it. I think moving toward what you might call an integrated system for corporate taxation is the right approach, removes that double layer of taxes, and then provides some equity there, as you suggest, with a more progressive rate on the individual side.

Senator JOHNSON. And, by the way, a very small percentage of C-corporation income is ever double taxed. So much of it is owned by nonprofits, foundations, pensions, that type of thing. So the double taxation of dividends just does not happen all that much. So, again, there is a lot of income that we never tax, and, quite honestly, some of this massive wealth has been accumulated because of the C-corp status, because you never pay dividends, the stock price just increases, and it is never really subjected to tax ever. So this also would eliminate that tax avoidance problem.

Ms. Hanauer, your organization also does scoring. Correct?

Ms. HANAUER. I do not know that we exactly do scoring, but we do analysis of the Tax Code.

Senator JOHNSON. Okay. Well, I would love you to take a look at this as well if you are interested. I would love to meet with you if this—

Ms. HANAUER. We would absolutely love that. And I just should say I lived many happy years in Wisconsin, had my first child there, so it is nice to meet you.

Senator JOHNSON. Why did you leave?

Ms. HANAUER. For a job.

Senator JOHNSON. Okay. That is a good answer.

Maya, do you want to just weigh in on this a little bit?

Ms. MACGUINEAS. I would just add I have been a supporter of this approach forever. I read many of the old corporate integration approaches. There are clear problems about making sure people do not find different loopholes, but, yes, this is what we should be shooting for. And, you know, Senator, I am always pleased when you are working on big, bold ideas. I am excited to hear you are doing this.

Senator JOHNSON. Well, thank you all, and thank you, Mr. Chairman.

Chairman SANDERS. Thank you, Senator Johnson.

Senator Luján.

Senator LUJÁN. Thank you very much, Mr. Chair. I appreciate you calling this important hearing, and also Ranking Member Graham.

When I talk to my constituents, many are struggling to keep a roof over their head, food on the table, and their businesses open. As President Biden has said, America is facing a national emergency that requires an aggressive response from Congress. The American Rescue Plan that I voted for puts Americans on the right path to recovery. Under the American Rescue Plan, families in New Mexico with two married adults and two children receive \$5,600. This is a one-time payment in helping New Mexico families who struggle to get a car, to safely look for work, to pay for rent, or even to get food on the table for their children. However, as you know, some of my Republican colleagues have suggested that we cannot afford to provide meaningful assistance to struggling families.

Ms. MacGuineas, in my short time that I have, and if there is anything you want to submit to the record, I would invite you to do so, but I am looking for some numbers here. I have a few questions for you. Do you know how much the Republican tax bill of 2017 provides in tax cuts to a person making \$200,000 this year, in 2021?

Ms. MACGUINEAS. Okay. I am going to make sure we submit the proper answer, but I think it is roughly—it would be roughly \$5,000 this year.

Senator LUJÁN. So the number that I have is, on average, \$6,500, so I would be happy to chat with you about that, and we will—

Ms. MACGUINEAS. If you include the corporate tax incidence as well, I think.

Senator LUJÁN. I appreciate that.

Ms. MACGUINEAS. I hope that makes sense.

Senator LUJÁN. Ms. MacGuineas, do you know how much these tax cuts helped those making \$1 million? How much will they receive from the Republican tax bill?

Ms. MACGUINEAS. And if you are counting that corporate part as well, probably in the neighborhood of \$50,000.

Senator LUJÁN. That is what I have, about \$51,000. Is that a one-time payment, or is it annual?

Ms. MACGUINEAS. That would be every year, and the past years, every year going forward until these tax cuts expire.

Senator LUJÁN. So every year someone making \$1 million gets about \$51,000 from that tax cut in 2017. Okay.

Ms. MACGUINEAS. Also, for the record, if we do SALT, a lot of them would be getting another \$40,000 tax cut as well.

Senator LUJÁN. Okay. Mr. Zucman, what is the average tax rate for the median taxpayer in the United States?

Mr. ZUCMAN. It is about 28 percent today.

Senator LUJÁN. And, Mr. Zucman, which income group has the lowest tax rate in the United States?

Mr. ZUCMAN. According to our estimates, it is billionaires, the top 400 richest Americans who have the lowest effective tax rate today in the U.S.

Senator LUJÁN. So the top 400 richest people in America have a tax rate of 24 percent, and the average tax rate for the median taxpayer—that is middle-income families—is 28 percent? It is 4 percent higher?

Mr. ZUCMAN. Correct.

Senator LUJÁN. Is that tax system progressive or regressive?

Mr. ZUCMAN. It is a tax system that is not progressive. It is mildly progressive up to the very, very rich, and then becomes deeply regressive at the very top end.

Senator LUJÁN. Can you just help middle-income families back in New Mexico understand this a little bit more?

Mr. ZUCMAN. Yes, absolutely, Senator. So what is really important to understand is that all Americans pay a lot in taxes, including working-class Americans. They pay payroll taxes. They pay sales taxes. Very wealthy Americans pay the income tax, but for billionaires the income tax is only a very small fraction of their true economic income. Or to put it differently, it is just very small compared to the profits of the company they own and compared to their wealth. And that is why at the end of the day you end up in a situation where billionaires as a group have a lower effective tax rate than the middle class.

Senator LUJÁN. I appreciate that response.

Mr. Chairman, it seems to me that the richest amongst us—and I congratulate them for their wealth. They have done well for themselves. But when the richest amongst us in America pay the lowest rates, the richest amongst us have over \$50,000 more every year from the 2017 tax bill, the Republicans' tax plan cost Americans \$1.8 trillion and largely benefited the largest corporations and the wealthiest 1 percent of Americans, however our colleagues on the other side of the aisle now insist that the United States cannot afford to provide a meaningful relief to these middle-class families, including in New Mexico, it just seems wrong to me. The 24, 28, those numbers just do not add up. And I am hopeful that we can all work together to provide relief to families back home that I represent.

Thank you, and I yield back.

Chairman SANDERS. Senator Luján, thanks very much.

Senator Toomey.

Senator TOOMEY. Yeah, I would just point out to my colleague from New Mexico that he might want to take a look at the approximately \$4 trillion that Republicans voted for over the course of last year, the large majority of which were direct payments in one form

or another to low- and middle-income people. To suggest that Republicans are unwilling to do anything is to simply choose to ignore the very recent history.

I could carry on about the best economy of any of our lifetimes which occurred just before the pandemic hit and included a narrowing of the income gap, a narrowing of the wealth gap, accelerating wages, full employment, more job openings than there were people looking for work; and maybe some people would suggest that that is all a big coincidence that that happened right after we did a profound tax reform that made our Tax Code much more competitive. But I do not think that was the case. I think it was related very much to making—and I would suggest that our Democratic colleagues might think about wanting to go back to the best economy of our lifetime, want to go back to accelerating wage gains for low-income workers, because that is what I would like to do. I would like to get back to the most successful economy we had in my lifetime, and it was very much partly a result of the tax reform we did.

I also want to correct the wild mischaracterization that we do not have a progressive Tax Code. In 2018, if you look at the share of who paid Federal income taxes for starters, the top 1 percent of income earners earned about 21 percent of all the income—21 percent. They paid 40 percent of all the taxes. Well, gee, hard to say that people are not paying their fair share.

But look at the bottom 50 percent. The bottom 50 percent pay 2.9 percent. So the top 1 percent pay 40 percent of all taxes, income taxes collected. The bottom 50 percent pay 2.9. If you include all Federal taxes and transfer payments through the Tax Code, the top 1 percent in 2018 paid about 30 percent; the bottom 50 percent of taxpayers have a negative effective tax rate because they get more back from the Tax Code than they pay in. Those are just the facts.

Now, you could decide that you want to make sure to punish successful and productive people more and more, and you could make that value judgment. But, please, let us at least be honest about this.

Mr. Hodge, do you think it is fair to say that the U.S. Tax Code is not progressive?

Mr. HODGE. It is exceptionally progressive, Senator, and as I outline in my testimony, there is a great deal of redistribution that goes on through both tax and spending policy. What CBO data shows is that between taxes and redistribution, the top 20 percent are seeing \$1.7 trillion worth of their income being transferred from them to other households.

Senator TOOMEY. Right. I appreciate that. I am going to run out of time, so just a very quick question. In your studies, is the American Tax Code actually even more progressive than many of the OECD countries, for instance?

Mr. HODGE. An OECD study found that the U.S. Tax Code, Income Tax Code, is one of the most progressive tax systems in the industrialized world.

Senator TOOMEY. So we are being told that we do not have a progressive Tax Code when, in fact, we have the most progressive Tax Code. That is amazing.

Now, here is one of the other ironies. It is our Democratic colleagues that are pushing for a provision that is absolutely factually regressive, and that is the repeal of the SALT cap. Now, as you recall, SALT is the acronym for “State and local taxes,” and while I would have preferred that we not allow any deduction for State and local taxes, the compromise we had to settle for was a \$10,000 limit.

Now, our Democratic colleagues want a bigger limit or no limit at all, and what the ability to deduct State and local taxes does is it simply transfers the tax burden to lower-income people who do not have large State and local taxes to pay, and it takes it away from wealthy people who do.

So, you know, if you live on the Upper East Side of Manhattan and you have got a multi-million-dollar home, you have got a lot of State and local taxes. And if you can deduct all that, that means that the middle-income family in Dauphin County, Pennsylvania, has to pay that much more.

Let me ask Ms. MacGuineas, am I getting this wrong, or do you agree that increasing the SALT deduction would be regressive?

Ms. MACGUINEAS. Senator, you are so, so right on that. Getting rid of the SALT cap is really one of the more regressive tax cuts we could think about. I do not know why it is on the table. It would leave huge annual tax cuts for millionaires and billionaires, and the Tax Code, like you said, it is progressive. It is okay to want a more progressive Tax Code, but you should not do that while pushing for progressive tax cuts or imposing progressive changes on the spending side, I would add.

Senator TOOMEY. Yeah, and if your argument is that we need to take the world’s most progressive—one of the world’s most progressive Tax Codes and make it still more progressive, okay, we can have that discussion. But, please, let us not suggest that we do not have a progressive Tax Code. I mean, that is just patently ridiculous.

I would also again stress there is actually a lot to be said for having an economy where there are more job openings than there are people looking for work, where the income differential is narrowing, where it is narrowing at an accelerating pace. I have yet to hear someone tell me what is wrong with the direction we were heading in. We had a hearing on this Committee a few days ago where the data set that was presented to us was cherry-picked to create a misleading impression that the income differential was widening when, in fact, for 10 years now it has been narrowing.

All I am saying is I think that is a good thing, and I would like to get back to a booming economy where people are experiencing that accelerated earning and narrowing the income and wealth gap.

Ms. MacGuineas, you looked like you were going to say something?

Ms. MACGUINEAS. Well, yes, but you are not going to like my answer because I take that differently. As you know, we have disagreed on the tax cuts. But I think a lot of that growth, which was tremendous, particularly what it was doing to the wage gap, was driven by the demand side and the huge deficits and kind of the short-term stimulus, which cannot be sustained over the long term.

So if you are debt financing everything—and we borrowed \$4.7 trillion in taxes and spending increases during that period—huge burst for the economy, but not sustainable and damaging in the longer term would be the point I would make.

Senator TOOMEY. Well, you are right. We disagree about that.

Ms. MACGUINEAS. We disagree. I know.

Chairman SANDERS. Okay.

Senator TOOMEY. Thank you for your indulgence, Mr. Chairman. I ran over.

Chairman SANDERS. Okay. Thank you, Senator Toomey.

Senator WARNER.

Senator WARNER. Well, thank you, Mr. Chairman, and let me just say that I have great respect for my friend Senator Toomey, but I have got to tell you, in the last presentation, there was some cherry-picking going on, and let me agree with him that on the SALT tax, I agree with him and my good friend Maya MacGuineas. But the notional idea that somehow we have this progressive tax system in our country, when you look at income tax, you are right, many Americans do not make enough to afford income tax. But when you look at the overall tax burden that low- and moderate-income Americans pay, when you add in sales tax, when you add in Federal Insurance Contributions Act (FICA), when you add in Medicare, when you add in a gas tax, when you add in a host of other taxes and fees, there is no doubt at all that our tax system does not rank as a system on the more progressive side. And the level of transfer payments—now, I candidly probably a little bit agree with Senator Toomey. I do not want our transfer system to kind of duplicate the full European system, but I think, you know, let us not cherry-pick our numbers here when we are going to have this kind of overall discussion about Tax Code and fairness.

I do want to go to my friend Maya MacGuineas, which, again, I agree we have spent close to \$5 trillion in the last year, borrowed money. I think in the long run history would say it was appropriate to recover both from COVID and get the economy reworking. But that was exacerbated by the fact that we had spent \$2 trillion of additional borrowed money on a tax cut that disproportionately did benefit people like me and businesses at the top. And as a matter of fact, we now have corporate tax revenues the equivalent of 1.1 percent of our GDP in 2019. That is the lowest of any in the G-7, and I have been pressing my staff on this because I thought they were saying it is also 33rd out of 35 on OECD. I actually thought that was our overall tax revenue rate, not our corporate tax rate, since many other countries have a nominally lower corporate tax rate, but they then have a VAT to make up for it. But, no, they have said, you know, even at the corporate rate, we are 33 out of 35 in OECD nations.

So, you know, Ms. MacGuineas, how are we ever going to be sustainable with these corporate rates and revenue coming out of industry at this size that is so small compared to all of our competitors? And how is that ever sustainable? At what point—now, again, we have thought that that point was going to happen sooner than it has, that this does not just blow up in our face?

Ms. MACGUINEAS. Thank you for the question, Senator, and I agree with you on so many of those things. We did think that the

last recovery bill was more than it needed to be and not as well targeted, but overall we did such an important job of being able to borrow to help with this, and thankfully we were able to borrow despite the fact that in the 3 years when the economy was strong prior to then, we borrowed \$4.7 trillion—\$2 trillion from tax cuts, but also another \$2 trillion from spending cuts and another \$500 billion in tax cuts. It was a free-for-all, and this has led our debt situation to be unsustainable and leaving us in a vulnerable situation where if interest rates go up by 1 percentage point, the interest payments we have will go up—they are already \$300 billion a year, \$2,400 per family. They will go up by another \$250 billion per year, 1 interest percentage point.

So we are going to have to get on top of this fiscal situation, and we also, frankly, are underinvesting, so there are going to have to be new initiatives, and we are going to have to reform our social contract. But I do not think we should overpromise how we can do this just on taxes for the very rich. I think it makes sense to start there. I think we do have to look at the corporate tax rate, which at 21 percent is too low, though I do not think it should go back to where it was before. But we are also going to have to look at the spending side of the budget, fixing Social Security is a must, and we will probably have to do broad-based taxes.

So I feel like the more things we are talking about honestly, the closer we will be to ending the vulnerabilities we have from this unstable fiscal situation and this weak fiscal balance sheet.

Senator WARNER. Well, I agree with you. I also think, you know, when we have a Federal spend rate before COVID that had research and development (R&D), infrastructure, and any kind of training programs as less than 10 percent of our Federal spend, that is a bad business plan that I would never invest in.

I know my time is out, Mr. Chairman, but I will submit for the record a question of Mr. Zucman about the fact that whatever intentions that came out of the so-called tax reform of 2017, the guilty in many terms that most Americans do not recognize unfortunately resulted, particularly in terms of R&D and intangible assets, in actually companies moving more of their operations offshore, not back to America. Senator Brown, Senator Wyden, and I are working on proposals to try to correct that. We appreciate the opportunity to have this issue brought to our forefront, Mr. Chairman.

Senator PADILLA. [Presiding.] Thank you.

While Senator Sanders is off to vote, I will continue this hearing and begin with my statement. While millions of working families in California and across the Nation are struggling to keep up with their bills, stay in their homes, and put food on their tables after decades of stagnant wages and the devastating impact of the current economic crisis due to the pandemic, the Federal Tax Code clearly works well for the wealthy and for large corporations.

Just looking at the last couple of decades, under Republican administrations Congress has passed tax cuts that have largely benefited top earners and business interests. The 2017 Republican tax cut alone was particularly regressive, providing more than \$1 trillion in tax breaks to corporations and the top 1 percent of earners. This law has allowed billionaires to pay lower effective tax rates

than many working families. It has also—and this is equally important—failed to deliver on the promises of a business investment boom, even before the pandemic.

By contrast, President Biden and congressional Democrats passed the American Rescue Plan which is delivering critical tax relief to working families by delivering direct payments, improving the earned income tax credit, and enhancing the child tax credit that will cut child poverty in half this year.

As we continue our work to defeat COVID-19 and reopen our economy safely, pursuing a progressive tax agenda is critical to building a more equitable and prosperous future for all Americans.

Now, I do have an area of questioning for Professor Zucman and Ms. MacGuineas relative to the IRS. Following nearly a decade of funding cuts, the Internal Revenue Service's capacity to enforce our tax laws, particularly for the wealthiest corporations and the wealthiest families, who tend to have more complex filings, has been severely diminished. In the past 10 years, the agency has been forced to eliminate 22 percent of its staff, and funding for enforcement activities has dropped by about 30 percent. These cuts have primarily benefited the wealthiest households and corporations that failed to pay their taxes in full.

A 2019 study found that 70 percent of owed but unpaid taxes equaling \$267 billion is explained by the underpayment by the top 1 percent. Since 2012, the number of tax returns filed by millionaires that were audited fell by 72 percent. During that same period, the share of companies with more than \$20 billion in assets that were audited fell 59 percent.

Investing in the IRS would not only support fairness and the integrity of the Tax Code, but it would also help reduce the deficit. The Congressional Budget Office estimates that increasing IRS funding by \$20 billion over the next 10 years would actually reduce the deficit by \$40 billion due to the collection of additional unpaid taxes.

So, Professor Zucman and then Ms. MacGuineas, can you explain how increasing funding to the IRS is critical to instituting a fairer tax system?

Mr. ZUCMAN. Absolutely, Senator. I fully agree with what you said. I think that there is an urgent need to increase audit rates and fund more thorough audits for high-income and high-wealth taxpayers. The data that we have today suggests that the top 1 percent highest earners in the U.S. underreport about 20 percent of their income. So that closing tax evasion just for that group, collecting all the taxes evaded by the top 1 percent alone would raise more than \$170 billion annually, each year, in extra Federal income tax revenues. To me, this is the number one step to making the tax system more progressive, and let me mention there is broad agreement among economists that better funding the IRS more than pays for itself. So this is really critically important.

Ms. MACGUINEAS. Yeah, Senator, I am strongly in this camp in that I am very concerned that overall the sort of—that you can have—that the “you do not have to pay for anything” fairy seems to be taking over thinking and lawmakers on the idea that tax cuts pay for themselves. No, they do not, and we are going to start hearing that about infrastructure, and as much as we need to invest in

this country, it does not pay for itself. And we have even seen studies that if you deficit-finance it, economic growth could be negative.

But if there is one thing that probably does pay for itself, it is funding appropriately for the IRS to close the tax gap and things like data analysis technology. And so I do think looking at this, particularly when you compare it to the other revenue options once we acknowledge we are going to have to raise revenues, it makes really good sense to start with making sure we kind of abide by the rule of law and collect the taxes that we are owed.

Senator PADILLA. Ms. MacGuineas, as a follow-up, are there any specific areas of investment to the IRS to expand capacity that you would recommend or prioritize?

Ms. MACGUINEAS. Absolutely. I think looking at different kinds of technology that we can figure out where the gap is likely to be, understand where we have had tax gap issues before, and enforce an audit appropriately makes a lot of sense. I also think third-party reporting will play a critical role in all of this.

There is a huge gap there. I do not want us to overpromise. We are not going to be able to collect it all. People evade taxes as quickly as we can figure out how to enforce them. But there is so much better reporting now and data tracking that it will be much easier to do so.

Senator PADILLA. A last question. I imagine there are a number of States that have taken this philosophy and this approach. Are there any examples, any best practices, again, investing in more thorough and equitable enforcement of tax laws and policies that have reaped good results that we should consider?

Ms. MACGUINEAS. If you are asking me, I apologize. I do not know which States have the best practices. I do know we need to do a lot of updating in our States based on our unemployment issues as well. But, in general, more auditors, more customer service, things that are helping taxpayers so that they do not make mistakes in the first place, all of those investments are likely to have high returns.

Senator PADILLA. Professor Zucman, is there anything you wish to add?

Mr. ZUCMAN. I think Scandinavian countries are particularly good at enforcing their tax laws, thanks to a systematic collection of third-party reporting information which allows them to send pre-populated tax returns to taxpayers. With a pre-populated tax return, you will reduce evasion possibilities significantly, and so I think that is a good practice that the U.S. should try to emulate.

Chairman SANDERS. [Presiding.] Senator Whitehouse.

Senator WHITEHOUSE. Thank you very much. I appreciate this. Thank you, Chairman. I am sorry to come late, but we had some partisan festivities in the Judiciary Committee this morning that pulled us over the time.

Let me ask Professor Zucman, if I may, fair to say that under-reporting is rampant in our tax system and that there is abundant revenue that could be collected from simple enforcement measures?

Mr. ZUCMAN. Thank you, Senator. I think this is fair to say. According to the best available estimates, the top 1 percent under-report about 20 percent of its income. I am not saying that it would be possible—

Senator WHITEHOUSE. That was the question I was about to get to, which is you agree that underreporting is rampant and that there is significant revenue to be collected from simply enforcing the existing laws. Correct?

Mr. ZUCMAN. I do agree with this statement.

Senator WHITEHOUSE. And then, further than that, your evidence seems to show that underreporting is bigger and worse higher up the income scale than it is for people who are ordinary wage earners. Is that also true?

Mr. ZUCMAN. This is absolutely correct, Senator.

Senator WHITEHOUSE. And if you are one of those high earners, what is your likelihood of being audited compared to that of, say, a poor earned income tax credit recipient? Where is the IRS dedicating its attention?

Mr. ZUCMAN. Unfortunately, today the likelihood is about the same. Due to dramatic budget cuts, the IRS has reduced its audit rates on the wealthy very significantly over the last decade.

Senator WHITEHOUSE. And it is likely to be a slightly more complicated scheme at the high-income level than from an earned income tax credit recipient. Correct?

Mr. ZUCMAN. Absolutely.

Senator WHITEHOUSE. So it takes a little bit more skill on the part of the auditor?

Mr. ZUCMAN. This is true.

Senator WHITEHOUSE. Okay. So let us move it up one last step, and that is people who are not just underreporting but are actually setting up mechanisms to avoid taxes, where there is really deliberate planning underway, whether it is through shell corporations or through offshore entities or through trust devices? Is that a separate and more rampant category for enforcement?

Mr. ZUCMAN. There is significant danger among the wealthy that involves such sophisticated schemes—offshore wealth and income that is not properly reported, evasion through complex businesses, networks of personally held businesses. And uncovering that form of evasion requires specific resources within the IRS to fund specialized audits.

Senator WHITEHOUSE. Precisely. This is the hard work. This is more complicated. Correct?

Mr. ZUCMAN. Absolutely.

Senator WHITEHOUSE. And with respect to shell corporations, we just gave Treasury a tool to find who the true beneficial owners are. What is your expectation about the IRS taking advantage of that information to help protect against tax evasion and avoidance?

Mr. ZUCMAN. I think there is great potential there. It is absolutely correct that Treasury and the IRS have access to more information about the owners of shell companies, about the owners of foreign bank accounts, and by putting resources and systematically using that information, it would be possible to reduce tax evasion among the rich quite significantly.

Senator WHITEHOUSE. So I do not know if your expertise extends this far—this will be my last question—but let us just say that if we were to crack down on offshore locations that allow people to hide their income and their assets from not just the U.S. authorities but from any authorities, would there be collateral benefits to

that transparency, to shining that spotlight beyond just U.S. tax collection?

Mr. ZUCMAN. Oh, yes, absolutely there would be benefit for other countries as well if there was an effort on the part of the U.S. at fostering more financial transparency. There is a lot of financial opacity today. Financial transparency would benefit the world as a whole.

Senator WHITEHOUSE. Thank you, Chairman, for this. I will just flag we are working on this in other committees as well, that the way that the dark economy enterprises support international criminal cartels, support kleptocrats, support enemies of our country who are planning against our country but use the shelter of the banking system for the assets they have stolen, this goes beyond just tax collection. It gets into a whole variety of even national security implications. So I am grateful for you calling this hearing, and I apologize again for being a late arrival.

Chairman SANDERS. Senator Whitehouse, thank you very, very much.

Senator Braun.

Senator BRAUN. Thank you, Mr. Chairman.

I was in here earlier and heard part of the conversation with Mr. Hodge. I have got a question for you and then one for Maya.

Coming from the world where you have to pay your bills or else you are out of business, I noticed here from modern monetary theory to the fact that there are not any guardrails, I do not disagree with what Sheldon said in terms of, you know, getting more revenue out of what should be collected. But what I see mostly is an intractable \$1 trillion deficit that we have kind of shrugged off, and I think we are right at the cusp of seeing what we do about it.

Well, obviously there is one side of the aisle that thinks we can spend a whole lot more, which will inevitably raise that structural deficit on top of everything we have spent for COVID, and I am not taking on where we should spend the money. I would just like to keep the entity healthy in the long run for as many people that look to the Federal Government for what they want from it. It is not a good business partner in my mind when you control your economics the way it does.

I want to focus on corporate tax rates, and this would—in my mind, there is a difference between C-corps and sub-S's, LLCs, partnerships, proprietorships. That is Main Street. Corporate tax is based upon someone that is in a huge entity that has got a lot of advantages that you would not have on Main Street.

When it was 35 nominal rate and taken down to 21, what was the effective tax rate? In my mind, all the research I did, it was under 21. Is that true or not? What was the effective tax rate when it was a nominal rate of 35?

Mr. HODGE. I believe it was around 22 percent. It varies every year.

Senator BRAUN. Yes. That is close. So what that means is that there are tons of loopholes or things that have been built into the Tax Code that, when you have got a Main Street business, a small one, I bemoaned every year that my marginal tax rate was about the same as the effective tax rate, because you do not have the deductions.

How much would we save if we eliminated every loophole or any special preference in the Tax Code as it would apply to C-corps, roughly?

Mr. HODGE. Well, on the business side, according to the Joint Committee on Taxation's report on tax expenditures last year, there are only about \$200 billion worth of "tax expenditures" on the corporate side of the ledger. There are \$1.3 trillion worth of tax expenditures on the individual side of the ledger. A lot of the loopholes in the corporate code have been eliminated over the last few—

Senator BRAUN. But it still would be the difference between what was a 35 nominal and a 22 effective, and you cited \$200 billion. I think it makes two points—

Mr. HODGE. But all due respect, though—

Senator BRAUN. There is not as much there to bridge a \$1 trillion deficit?

Mr. HODGE. Not at all. And many of those "loopholes" are actually things like full expensing for buying equipment and tractors and so forth.

Senator BRAUN. And I know we all love that in business, but we have got a crisis here, in my mind, that we are at probably the worst balance sheet that we have ever had in the history of the country. Back when we were about like this coming out of World War II, we were savers and investors. Now we are spenders and consumers.

Mr. HODGE. Right.

Senator BRAUN. Thank you for putting some light on that particular point.

The next question is for Maya. I would love to hear whether we have got a spending problem or a revenue problem. In a business, you have got to take care of both, and here in the Federal Government, when I look at the fact that revenues were going up close to 5 percent pre-COVID but spending, due to mandatory spending mostly, had been going up between 6 and 7 percent, there is no way we ever catch up. And, Maya, I would like you to comment in two places. How much revenue do you think you could get that would be valid without starting to tank the economy? Do you think there is anything—or highlight the spending problem this Federal Government has?

Ms. MACGUINEAS. Okay. Thanks so much for the question, Senator. Sort of like fairness, there is no right or wrong in the balance of spending and revenues, but one cannot deny, looking at the numbers, that both spending and revenue are on trajectories to grow faster than their historical levels, spending by much, much more. Health care, retirement, interest account for the vast majority, over 80 percent, of all spending increases over the next decade.

Again, people have to figure out where they want to make those changes, but the realistic frame—and it is what I would like to emphasize throughout this really important hearing—is that our fiscal problems are already too large to really deal with this on only one side of the balance sheet, and that is more true many multiples of time if we are talking about expanding spending further, which seems to be a popular discussion right now. It would take \$4 trillion just to stabilize the debt at 100 percent of GDP. That is al-

ready way too much. It would take \$9 trillion to bring the debt back down to balance. I doubt we will be able to do that. It would take \$11 trillion to pay for the Biden agenda. Many important things there, but we should not pretend those can just come from taxing millionaires and billionaires.

So the point is—and I think it is what you are making—this fiscal challenge is huge. It is really important. It leaves us vulnerable in so many places, and we have to look at all sides of the balance sheet. But you cannot ignore that the growth in spending has been driving this for quite some time, and that will become more true with the aging of the population and health care costs and growing interest.

Senator BRAUN. Thank you for driving home that point.

Chairman SANDERS. Thank you, Senator Braun.

I believe that Senator Braun is the last of our Senators, so let me take this opportunity to thank all of our panelists for their testimony. And I want to thank all of the witnesses as well. All of their written statements will be included in the record.

As information for all Senators, questions for the record are due by 12 o'clock noon tomorrow with signed hard copies delivered to the Committee clerk in Dirksen 624. Email copies will also be accepted due to our current conditions. Under our rules, the witnesses will have 7 days from receipt of our questions to respond with answers.

With no further business before the Committee, this hearing is adjourned. Thank you.

[Whereupon, at 12:52 a.m., the Committee was adjourned.]

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

[Prepared statements, responses to written questions, and additional material submitted for the record follow:]

PREPARED STATEMENT OF MS. DISNEY

Before the United States Senate

Committee on the Budget

Hearing on “Ending a Rigged Tax Code: The Need to Make the Wealthiest People and Largest Corporations Pay Their Fair Share of Taxes,”

Written Testimony of Abigail E. Disney

March 25, 2021 11:00 AM

I was born to one of the most famous families on earth, a family that went from dirt poor to embarrassingly wealthy in just two generations. When I was young, we were wealthy, but not extravagantly so, and I was taught that the virtues of humility and honesty were the ones most necessary to live a decent life--that to flaunt one's advantages was not only unseemly but downright indecent.

That tended to be the view of a lot of families like mine back in the 60's and 70's, but our culture dramatically changed during the 70's and 80's. As money flooded upward into the hands of lucky folks at the top of the income spectrum, a different ethos began to take hold. The man in the gray flannel suit gave way to the wolf of Wall Street, and America would never be quite the same.

The changes that came in the 80's and 90's didn't just "happen." They were the fruit of a long and very effective campaign on behalf of the wealthy and the business class more broadly to remake America as a more "pro-business" country. And my goodness did that campaign ever succeed.

What came with the changes was a dramatic attitudinal shift among wealthy people and among those with aspirations to be wealthy.

My grandfather managed to accumulate a large amount of wealth in a tax environment some now call "punitive". He built a series of wildly successful businesses despite negotiating with highly empowered unions that had support from the federal government. He managed to navigate a regulatory environment many now describe as "draconian". Somehow, he managed to do all of this, despite living under conditions that many rich people now claim would make their lives impossible.

The attitudinal shift that followed his death in 1971 was absolute. Wealthy people and businessmen derided taxes as mere punishment. Regulations were thought of as insurmountable barriers to profitability. And the government came to be seen, in one famous formulation, as "the problem."

The entire ethos surrounding business, wealth, and accumulation shifted. As the wealthy got more powerful, they used their wealth to pad their lead, pushing even lower taxes, fewer regulations, and fighting tooth and nail against any program that would lend a hand to someone who had not had the same opportunities to thrive in this new environment.

Today we confront the only logical outcome of these shifts: a government, starved of resources that cannot meet the minimum expectations its citizens have for it to protect them in a pandemic, to offer a free decent education to their children, and a safe infrastructure in which to work.

These days we find ourselves saddled with a wealthy class that petulantly views its moral obligations as nuisances, that whines when it is taxed, that hides its wealth offshore to evade taxes and uses every loophole and technicality—of which there are plenty—to get, hold, and hoard sums of money so huge they can never possibly spend them.

The Tax Excessive CEO Pay Act

It's hard to think of a clearer and more egregious example of this attitudinal shift than excessive CEO pay.

Pay for management, in general, has skyrocketed over the last few decades. Where once a CEO was seen as an important part of the business world and was remunerated generously as a result, today's CEO needs to be seen as an admirable, formidable, one-of-a-kind genius who single-handedly carries the company to profitability.

Attitudes toward the workers who actually make those profits possible have shifted accordingly. The lowest-paid jobs, even as we are coming off of a year of calling them "essential," are populated by an ever-refreshing pool of people the C-suite executives view as nameless, faceless drones, whose interests are indistinguishable from one another and whose job precarity is constantly made obvious to them, lest they get any big ideas about organizing to demand better.

I support the *Tax Excessive CEO Pay Act* because it is time CEO's become accountable for their outrageous pay packages and total failure from a moral perspective to deploy profits more equitably among the people who make those profits possible.

In 1965, the average CEO made 21 times the salary of the typical employee at the company, whereas today their pay averages around 320 times.¹ Studies of corporate efficiency, however, have not revealed anything close to a 320 times advance in efficiency, profitability, or research and development. CEOs, in other words, aren't 320 times better than they were in the 1970's.

And yet CEO pay swallows a greater and greater percentage of profits. All while workers have seen only the meagerest advances in their own pay. From 1978 to 2019 CEO pay grew by 1,167%, whereas the typical workers' pay saw a gain in the same amount of time grew just 13.7%.²

It is the supreme irony of excessive CEO pay that it comes not in spite but because of the downward pressure they apply to the wages and working conditions of their front-line workers. Pay has stagnated for workers even as their productivity has reached ever higher levels, as benefits like sick pay and vacation time have dwindled.

The *Tax Excessive CEO Pay Act* will incentivize large corporations, with average annual gross receipts for the 3 preceding years of at least \$100 million, to use some of the money they're lavishing on C-suite executives to pay workers further down the ladder or be saddled with a higher tax bill as a consequence.

Either way, there is a desirable outcome: on the one hand, CEO pay comes down leaving resources available to be paid to other, lower-wage workers, or the pay stays the same and the government is in receipt of much needed revenue. The higher the gap between the CEO and the median worker, the higher the corporate tax penalty.

¹ Mishel and Kandra, CEO compensation surged 14% in 2019 to \$21.3 million, Economic Policy Institute, Aug. 2019

² *ibid*

The for the 99.5% Act

I also support the *For the 99.5% Act*, because unchecked inherited wealth is an insidious way to build dynastic power over time, allows families to hoard an unspendable amount of resources, and moves us further towards aristocracy.

My grandfather paid a much higher effective tax rate than we do now, and yet still managed, after paying off the Estate Tax, to leave significant wealth behind to benefit not only his son, but his four grandchildren and even his 16 great-grandchildren. Did it really need to be more than that? What did we ever do to earn the first dollar and what gives us the right to think that any dollar given to the government is a dollar stolen from us?

Back in 2011, United for a Fair Economy looked at the members of the Forbes 400 list of richest Americans and what they found was alarming. At least 22% of them had inherited up to 1 million. 11.5% of them had inherited between 1 and 50 million dollars, 7% inherited between \$50 million and enough to make the Forbes 400 off inheritance alone, and 21.5% had inherited enough to “earn” a spot on the list just by pure luck of being born to the right family.³ Those are some mighty fancy bootstraps they used to pull themselves up.

Not only do we need NOT to repeal the Estate Tax; we need to beef it up. Read my lips: the *For the 99.5% Act* would only affect 0.5% of estates. It would not force the sale of family farms or break up small businesses. It would, on the other hand, go a long way toward preventing the accumulation of the kind of dynastic wealth that threatens democracy, governance, and human rights everywhere it is found.

Equalizing Capital Gains to Earned Income

The Capital Gains Tax needs to be brought in line with Income Taxes. As things now stand, we reward ownership with favorable tax rates. Ownership. Over work.

There is no reason for taxes to be structured in this way, and a huge amount of runaway hedge funds and massive wealth accumulation can be chalked up to just this one disparity in our tax code.

What’s more, 75% of all capital gains in this country are earned by the richest 1%. More than half go to the top 0.1%, those earning more than 3.8 million dollars a year.⁴

Year after year we’ve been told that if you give the “job creators” favorable tax rates they will invest more money and the job market will grow. Year after year this has not happened. The incredibly generous Trump tax cuts were supposed to bring massive corporate investments in people and jobs were spent mainly on one-time bonuses and just for a fraction of employees.

³ United for a Fair Economy, “Born on Third Base Report”, Sept. 2012

⁴ Tax Policy Center, “Distribution of Long-Term Capital Gains.”, 2019 <https://www.taxpolicycenter.org/model-estimates/distribution-individual-income-tax-long-term-capital-gains-and-qualified-44>

If the tax cut is permanent, aren't corporate savings permanent? Then why didn't corporations offer raises rather than bonuses?

Corporations got 11 times as much in tax cuts as they gave to workers in bonuses and wage hikes. 157 companies received 79.3 billion in total tax cuts and yet only 7.1 billion of that went to workers.⁵

What's more, corporations ended up spending 154 times as much on stock buybacks as they spent on bonuses and wages.⁶

Wealth Tax

We need a wealth tax. Because our tax system is currently focused on income, it misses the reality of the top 0.05% of wealthy people in this country, who have hoarded massive amounts of accumulated wealth. Because of this, families of much more modest means end up feeling the weight of the tax code more. Proposals like the *Ultra-Millionaire tax*, introduced by Senator Warren, would tax accumulated wealth of over \$500 million, and end up affecting under 100,000 households.

This tax, while affecting a relatively small number of very wealthy people who, frankly, won't even notice its impact, would raise \$3 trillion over the next two years. This is money that could go to schools, jobs, and all kinds of work that has languished these last few decades.

Conclusion

The bottom line is that wealthy people need to pay their fair share. They need to stop whining and recognize taxes not as a punishment but as a responsibility. Any mother will tell you the difference is often lost on children. I am sure the men and women who profit so heavily off of the American economy can find a way to understand the distinction.

"Taxes," as Oliver Wendell Holmes famously said, "are what we pay for a civilized society." But what we are talking about is even more than that. Taxes would be the beginning of rebuilding what was once a coherent society, a society lacking in dynastic aspirations, a society more committed to interdependence than self-realization--society, in other words, that could be great.

Thanks once again to Senator Sanders, his staff, and to all of the members of the budget committee for giving me the chance to speak today.

⁵ Americans for Tax Fairness "How Corporations Are Spending Their Trump Tax Cut", <https://americansfortaxfairness.org/key-facts-american-corporations-really-trump-tax-cuts/>

⁶ *ibid*

PREPARED STATEMENT OF MR. ZUCMAN

Gabriel Zucman
Associate Professor of Economics, UC Berkeley

Testimony before the Before the United States Senate Committee on the
Budget

Hearing on “Ending a Rigged Tax Code: The Need to Make the
Wealthiest People and Largest Corporations Pay Their Fair Share of
Taxes”

March 25, 2021

Chairman Sanders, Ranking Member Graham, and members of the
committee:

Thank you for inviting me to testify today on the progressivity of the US
tax system. It is an honor to participate in this hearing.

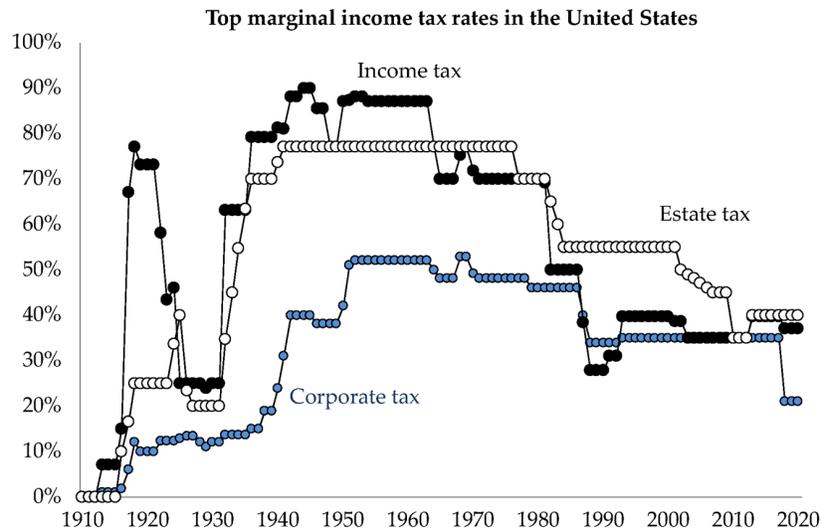
My name is Gabriel Zucman and I am an Associate Professor of
Economics at the University of California, Berkeley. I am one of the co-
directors of the World Inequality Database, and I conduct research on
the interplay between tax policy and inequality.

1. The progressive tradition in US fiscal history

The United States used to have one of the most progressive tax systems
in the world.

From 1930 to 1980, the top marginal federal income tax rate averaged
78%. This top rate reached as much as 91% from 1951 to 1963. At the

same time, corporate profits were taxed at 50%. The largest estates were taxed at rates close to 80%.



Source: E. Saez and G. Zucman, *The Triumph of Injustice: How the Rich Dodge Taxes and How to Make Them Pay*, WW Norton, 2019.

No other country, with the exception of the United Kingdom, ever applied such high marginal tax rates on the wealthy.

Some commentators look at this history and dismiss the idea that the United States ever had a progressive tax system. “Nobody paid those 90% tax rate,” they argue. The tax system was no more progressive during the middle of the twentieth century than it is today, according to this view.

Along with my colleague Emmanuel Saez, we investigated these claims thoroughly.¹ We came to two main conclusions.

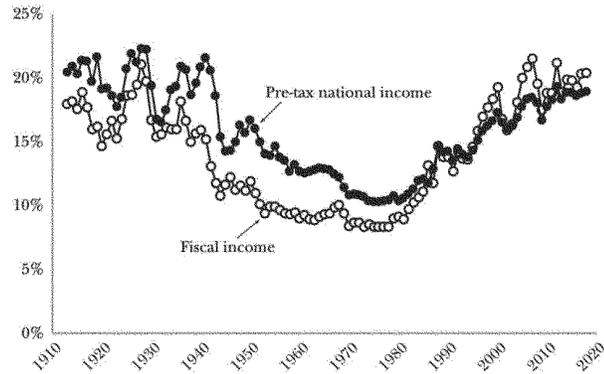
1. First, it is true that few US taxpayers faced the 90% top marginal income tax rates that prevailed at mid-century. But this was a feature of this policy, not a bug! High top marginal tax rates aimed at reducing inequality, not at collecting revenue. These rates applied to extraordinarily high incomes only, the equivalent of more than several million dollars today. Their goal was to discourage anyone from earning such sky-high incomes in the first place. Their goal, in other words, was to reduce the inequality of *pre-tax* income.

And this policy achieved its goal. From the 1940s to the 1970s, inequality collapsed. According to the best available estimates, the share of America's pre-tax national income earned by the top 0.01% declined from more than 4% on the eve of the Great Depression to 1.3% in 1975, its lowest level ever recorded. The same evolution can be observed for other top groups, such as the top 1%.²

¹ See E. Saez and G. Zucman, *The Triumph of Injustice: How the Rich Dodge Taxes and How to Make Them Pay*, WW Norton, 2019; see also E. Saez and G. Zucman, "The Rise of Income and Wealth Inequality: Evidence from Distributional Macroeconomic Accounts," *Journal of Economic Perspectives*, 2020, 34(4), 3–26.

² T. Piketty, E. Saez and G. Zucman, "Distributional National Accounts: Methods and Estimates for the United States," *Quarterly Journal of Economics*, 2018, 133(2), 553–609.

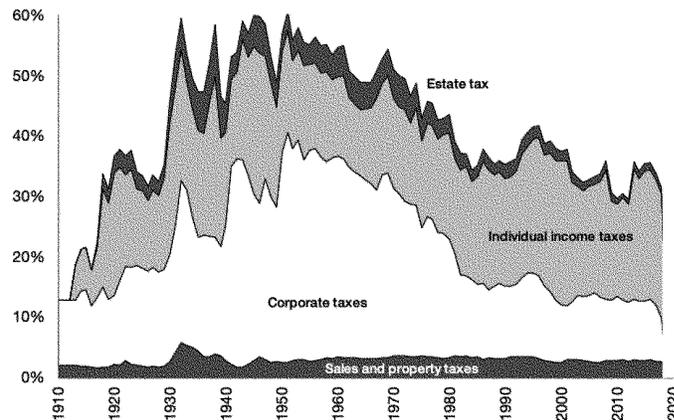
Figure 3
Share of Income Earned by the Top 1 Percent



Note: This figure compares the share of fiscal income earned by the top 1 percent tax units (from Piketty and Saez 2003, updated series including capital gains in income to compute shares but not to define ranks, to smooth the lumpiness of realized capital gains) to the share of pre-tax national income earned by the top 1 percent equal-split adults (from Piketty, Saez, and Zucman 2018, updated September 2020, available on WID.world).

2. Not only did the wealthy see their incomes constrained, but on their reduced income they paid high effective average tax rates. The average tax rate of the top 0.1% highest earners culminated at 60% in the early 1950s. It remained around 55% during President Eisenhower's two terms.

(Average tax rate of the top 0.1% income earners)



Notes: The figure depicts the average tax rate and its composition by type of tax for the top 0.1% income earners since 1910. All federal, state, and local taxes are included. Corporate taxes include business property taxes (while residential property taxes are lumped with sales taxes). The main driver of the top 0.1% tax rate has been the corporate income tax, which was very large from the 1930s to the mid-1970s and has eroded since then. Complete details at taxjusticenow.org.

The US tax system achieved a high degree of progressivity through the combination of high corporate taxes, high top marginal income tax rates, and high top estate tax rates.

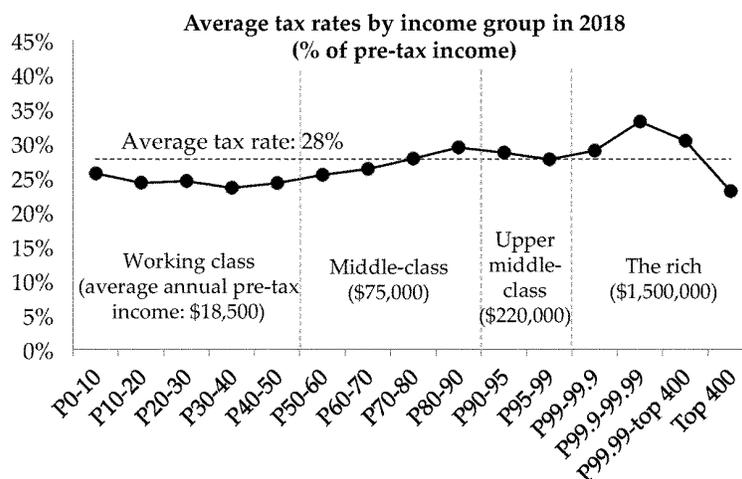
- Corporate profits, the main source of income for the rich, were subject to a high effective corporate tax rate of around 50 percent.
- The very high top marginal individual income tax rates made it impossible for business owners to bypass the corporate tax by using pass-through businesses such as partnerships.
- The wealthy were hit both by the progressive individual income tax on their realized capital income and by a progressive estate tax at the time of death.

The combination of the income tax, the corporate tax, and the estate tax made the tax system extremely progressive and hard to avoid. The US tax system was undeniably progressive in the middle of the 20th century—not only on paper, but also in actual facts.

2. The lack of progressivity of the current US tax system

Today, the situation looks quite different. When taking into account all taxes paid at all levels of government, the US tax system is barely progressive anymore. In fact, it looks like a giant flat tax that becomes regressive at the very top end.

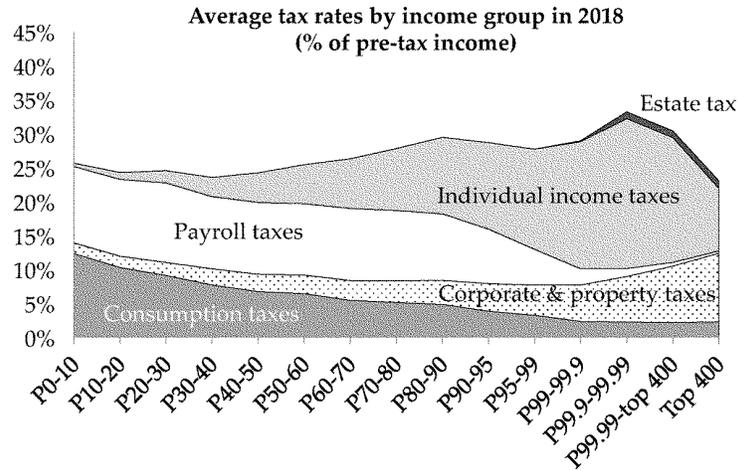
Americans pay on average 28% of their income in taxes: this is official tax to national income ratio of the United States. But now let's compute the average tax rate of the various social groups. The working class—the five bottom deciles of the income distribution—pays around 25% of its income in taxes. The average tax rate then slightly increases for the middle class—the next four deciles—and stabilizes at around 28% for the upper middle class. Taxes rise a bit for the rich but never substantially exceed the average rate of 28%. Finally, they fall to less than 25% for the 400 richest Americans. As a group, and although their individual situations are not all the same, billionaires pay lower average tax rates than middle-class Americans.



Source: E. Saez and G. Zucman, *The Triumph of Injustice: How the Rich Dodge Taxes and How to Make Them Pay*, WW Norton, 2019.

How is this possible?

Working-class Americans pay a significant fraction of their income in payroll taxes and sales taxes. Every worker in the bottom deciles, no matter how small her wage, sees her paycheck immediately reduced by 15.3%: 12.4% for Social Security contributions and 2.9% for Medicare. Consumption taxes absorb more than 10% of income in the bottom deciles compared to barely 1% or 2% at the top, because the poor often consume all their income, while the rich save part of theirs (and the ultra-rich almost all of theirs).



Source: E. Saez and G. Zucman, *The Triumph of Injustice: How the Rich Dodge Taxes and How to Make Them Pay*, WW Norton, 2019.

Billionaires, on the other hand, enjoy two major tax breaks.

First, dividends and capital gains—the two key sources of income for billionaires—are subject to low statutory tax rates: 20% (as opposed to 37% for top wages).

Second—and more importantly—a lot of the income of billionaires is not subject to the personal income tax. To understand why, it is useful to take an example. What's the true economic income of Mark Zuckerberg? He owns about 20% of Facebook, a company that made \$33 billion in profits in 2018. So his income that year was around 20%

of 33 billion, \$6.6 billion. However, Facebook did not pay any dividend, so none of these \$6.6 billion were subject to individual income taxation.

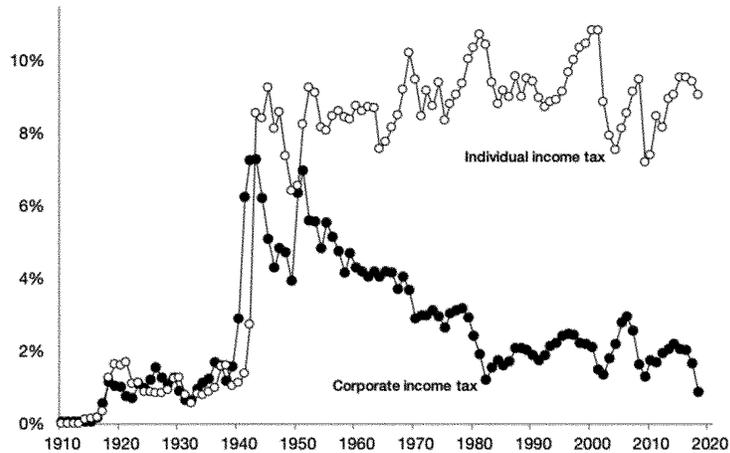
And the CEO of Facebook is not an isolated case: Jeff Bezos, Elon Musk, Larry Page, Sergei Brin, Warren Buffett—altogether, 6 of the 10 wealthiest Americans—are all large shareholders of companies that do not distribute dividends—and thus pay a very low tax rate relative to their true economic income. That’s how middle-class Americans end up paying higher tax rates than billionaires.

3. The rise of offshore tax avoidance

The only sizable tax a number of billionaires pay is the corporate tax they pay through the companies they own. But now a key problem comes into view: the corporate tax has almost disappeared.

In the early 1950s, the federal corporate income tax collected 6% of national income, almost as much as the individual income tax. Today, in the aftermath of the Tax Cuts and Jobs Act, the corporate tax raises only about 1% of US national income. It has been reduced by a factor of 6.

(Federal corporate and individual income tax revenue,
percentage of national income)



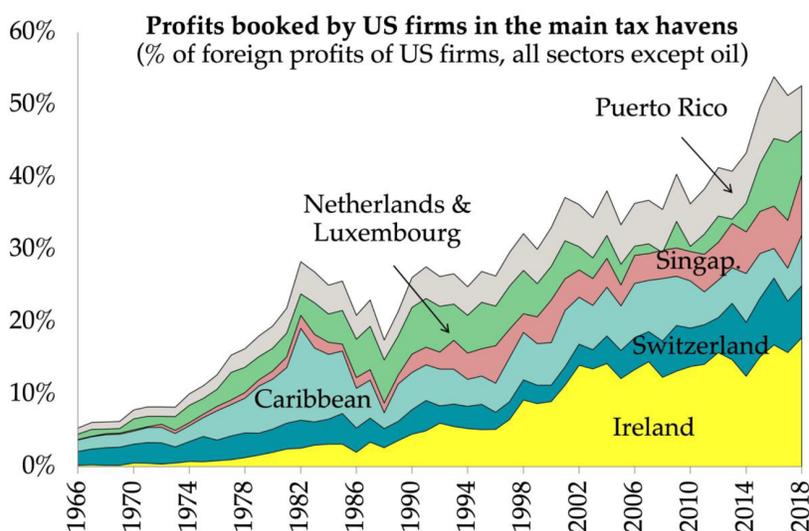
Notes: The figure depicts federal corporate tax revenue and federal individual income tax revenue as a share of national income since 1913. Both the corporate and individual income tax increased sharply during World War II. Individual income tax revenue has stayed about stable (around 10% of national income) after World War II while corporate income tax revenue has eroded. In 2018, federal corporate tax revenue was only about 1% of national income, the lowest since the Great Depression. Complete details at taxjusticenow.org.

In all capitalist societies, the richest people derive most of their income from shares, the ownership of corporations—the true economic and social power. When corporate profits are taxed stiffly, the affluent are made to contribute to the public coffers. In effect, the corporate tax serves as a minimum tax on the affluent.

Today, low corporate taxes mean the ultra-wealthy, whose income mostly derives from owning shares in corporations, now really can get off almost scot-free.

Part of the decline in corporate tax revenues owes to changes in the statutory rate, most importantly the cut in the corporate tax rate from 35% to 21% in the Tax Cuts and Jobs Act of 2017. But another—and even larger—part of the decline owes to the rise of tax avoidance.

In the post-war decades, company executives did not consider it their duty to avoid taxes and did not have much of a tax-planning budget. Today, many of them do. Moreover, a large industry has developed to corporations avoid taxes, in particular by shifting profits to low-tax countries.



Source T. Wright and G. Zucman (2018), "The Exorbitant Tax Privilege", NBER working paper #24983, series updated to 2018.

More than half of the foreign profits of US companies are booked in tax havens today. In 2018, according to the most recent data of the Bureau of Economic Analysis, US multinationals booked more profits in Bermuda and Ireland alone than in the United Kingdom, Japan, France, Germany, and Mexico combined. U.S. multinationals appear to make a particularly extensive use of tax havens in international perspective.³

Wealthy individuals use tax havens too. Globally, about 8% of the world's household financial wealth is held in tax havens.⁴ Not all of this wealth evades taxes. There has been important progress over the last decade in fighting offshore wealth evasion, thanks in particular to the Foreign Account Tax Compliance Act and similar laws abroad. However, financial opacity remains extreme. Tax abuse remains rampant, as recent research using leaked data from offshore financial companies (such as the Panama Papers) has documented.⁵

4. Fighting tax evasion in the 21st century

Tax avoidance and tax evasion are not laws of nature; they are policy choices. Following the footsteps of President Roosevelt, U.S. policymakers in the post-war decades chose to fight avoidance and evasion aggressively—by funding the IRS, by regulating the supply of tax-avoidance services, by patiently explaining why taxes “are the price to pay for a civilized society.

³ T. Tørsløv, L. Wier and G. Zucman (2020), “The Missing Profits of Nations”, NBER working paper #24701.

⁴ See G. Zucman (2013), “The Missing Wealth of Nations: are Europe and the US net Debtors or net Creditors?”, *Quarterly Journal of Economics*, 128(3), 1321-1364. See also G. Zucman, *The Hidden Wealth of Nations: the Scourge of Tax Havens*, University of Chicago Press, 2015, and A. Alstadsæter, N. Johannesen and G. Zucman (2018), “Who Owns the Wealth in Tax Havens? Macro Evidence and Implications for Global Inequality,” *Journal of Public Economics* 162: 89-100.

⁵ See for instance A. Alstadsæter, N. Johannesen and G. Zucman (2019), “Tax Evasion and Inequality”, *American Economic Review*, 109(6): 2073-2103

It is possible to re-connect today with this tradition, and to adapt it to the reality of the 21st century.

The first step towards a fairer tax system involves increasing IRS budget. Appropriations for the IRS fell by about 20 percent (adjusted for inflation) since 2010. The decline in funding levels resulted in a 31 percent decline in the number of full-time employees working in enforcement roles. The examination rate for individual returns fell by about 45 percent between 2010 and 2019 and for businesses with assets equal to or exceeding \$10 million fell by about 72 percent.⁶

One consequence of reduced IRS funding is the persistence of significant rates of tax non-compliance at the top of the income distribution. According to recent estimates, the top 1% highest earners in the United States under-report about 21% of their true income, of which 6 percentage points correspond to sophisticated forms of evasion such as the concealment of assets abroad and tax evasion in complex business structures.⁷

There is an urgent need to increase audit rates and fund more thorough audits for high-income and high-wealth individuals. Among other things, this would make it possible to make additional progress in the fight against offshore tax evasion.

5. A wealth tax: part of the ideal tax system

⁶ See Written testimony of Charles P. Rettig, Commissioner of the Internal Revenue Service, before the House Ways and Means Committee, March 18, 2021, available at <https://waysandmeans.house.gov/sites/democrats.waysandmeans.house.gov/files/documents/Final%20testimony%20HWM%20Oversight%20031821.pdf>

⁷ J. Guyton, P. Langetieg, D. Reck, M. Risch and G. Zucman, "Tax Evasion at the Top of the Income Distribution: Theory and Evidence", NBER working paper #28542, March 2021.

Increasing IRS enforcement activities, although necessary, would not address the regressivity of the US tax system at the top-end. The solution to this issue involves a progressive wealth tax.

Why isn't the income tax enough? Quite simply because among the most advantaged members of society, many possess substantial wealth while having low taxable income. Maybe they own a valuable business that does not make much profit, but which, everybody anticipates, will be immensely profitable in the future. Or, as is more frequently the case, they may structure their already profitable business so that it generates little taxable income. In both cases, these billionaires can today live almost tax-free. A progressive wealth tax is part of an ideal tax system because wealth is an indicator of the ability to pay taxes, above and beyond income.

And a wealth tax can work. In the United States, property rights are well defined; most assets have clear market values; and when market values are missing, they can be estimated.⁸ Before the creation of the federal income tax in 1913, income taxation was decried as impractical and dangerous—a fantasy imported by “European professors.”⁹ Today, the federal income tax is widely recognized as a large success.

6. Transfers

In this testimony I have focused on the progressivity (or lack thereof) of the US tax system. But of course, taxes are only one half of the government equation. With the revenue it collects, the US government funds transfers to families and provides public goods and services. This spending is progressive. The combination of a roughly flat tax system with a progressive transfer system means that the overall tax-and-transfer system is redistributive.

⁸ See E. Saez and G. Zucman (2019), “Progressive Wealth Taxation”, *Brookings Papers on Economic Activity*, Fall 2019, 437–511.

⁹ See E. Saez and G. Zucman, *The Triumph of Injustice...*, op. cit, chapter 2.

However, the redistributivity of the tax-and-transfer system is limited. After taxes and cash transfers, the bottom 50% does not earn more on average than before taxes and transfers. In both cases, the average income of the bottom 50% was around \$18,500 per adult in 2018. The working class does not benefit, on net, from cash redistribution: the cash transfers it receives (including the refundable portion of tax credits) are about as large as the taxes it pays.

With a more progressive tax system, public spending on education, health, and infrastructure could be bolstered. It's through collective spending on education, health, and other public goods that rich countries—such as the United States—have become wealthy, not through low taxes for the ultra-rich. If history is any guide, the prosperous nations of the future will continue to be those that invest in the success of all.

I look forward to your questions. Thank you.

PREPARED STATEMENT OF MS. HANAUER



**Testimony of Amy Hanauer
Executive Director
Institute on Taxation and Economic Policy**

**Before the United States Senate
Committee on the Budget**

March 25, 2021

Chairman Sanders, Ranking Member Graham and members of the Committee, thank you for the opportunity to speak today about how we can raise tax revenue from corporations.

My name is Amy Hanauer and I am the Executive Director of the Institute on Taxation and Economic Policy, a research institute with expertise on many areas of our tax code, including our corporate income tax.

In 2020, while the pandemic killed hundreds of thousands of Americans, Amazon's profits surged to \$20 billion as Americans shifted more of their shopping away from physical stores.

Our corporate income tax applies at a rate of 21 percent to corporate profits, but there are so many special breaks and loopholes that a company like Amazon rarely pays that much. In 2020, Amazon reported that it paid \$1.8 billion in federal corporate income taxes, which is just 9.4 percent of its pre-tax profits that year. This is another way of saying that Amazon paid an effective federal corporate income tax rate of just 9.4 percent in 2020.

In most years it pays even less. The company reported \$44.7 billion in pre-tax profits over the past three years, 2018 through 2020, and it reported that it paid just 4.3 percent of those profits in federal corporate income taxes over those three years. That is an effective federal corporate income tax rate of just 4.3 percent over the past three years, a far cry from the statutory corporate income tax rate of 21 percent.

In 2020, while we watched the unemployment rate rise to a level not seen since the government started collecting data in the 1940s, Netflix's profits surged to \$2.8 billion as Americans who could afford to do so avoided public places and sought entertainment in their homes.



Yet that year, Netflix reported that it paid \$24 million in federal corporate income taxes, which was just 0.9 percent of its pre-tax profits. This is another way of saying Netflix paid an effective tax rate of just 0.9 percent, less than one percent, in 2020.

Over a longer time, the past three years, Netflix reported \$5.3 billion in pre-tax profits, and it paid just 0.4 percent of those profits in federal corporate income taxes. That is an effective federal income tax rate of just 0.4 percent over three years.

Even Zoom, the company providing the platform so many people used for meetings and events over the last year, got in on the tax avoidance. Despite an increase in profits of 4,000 percent (not a typo), the company paid no federal corporate income tax on its 2020 profits.

Zoom, Amazon and Netflix are not alone. The pandemic has been hard on many businesses large and small, and many corporations reported losses in 2020. But even those companies reporting profits, which we would expect to pay the corporate income tax, have avoided the tax. Indeed, even some of those who reported record high profits *because* of the pandemic have avoided the tax. So far, we have identified more than 50 S&P 500 corporations that reported substantial profits in 2020 but also reported paying no federal corporate income taxes that year.

Let me address some confusion about the corporate tax avoidance that we are documenting.

Corporate tax avoidance is something lawmakers have known about and failed to correct.

In fact, lawmakers were quite aware of the crisis of corporate tax-dodging when they drafted a major overhaul of the tax code that was signed into law by former President Trump in 2017. Rather than ending tax avoidance by repealing tax loopholes, lawmakers chose to allow this to continue. Tax avoidance by companies like Amazon, Netflix and Zoom are the direct results of the Trump tax law during the first three years it has been in effect.

When we point out that specific corporations are not paying federal income taxes, representatives of those companies sometimes object that they are following the law. This is an attempt to change the subject. No one is suggesting that large, publicly traded corporations are engaged in clearly illegal activities to evade tax laws. No CEO of a large corporation is going to risk going to prison when Congress has provided so many *legal* ways for corporations to avoid taxes. For example, when a company uses the expensing provision enacted as part of the Trump tax law to deduct the full cost of equipment in the year purchased, that obviously is legal, even if it allows the company to pay nothing at all for several years.

In other words, if Americans are looking for someone to blame for corporate tax dodging, they should mainly look to members of Congress.

This is not to say that all corporate tax avoidance is clearly legal. A great deal of it falls in a legal gray area. Corporations push the envelope and make extremely dubious claims about the nature and locations of their profits and about the tax breaks they are entitled to. Whether a particular practice is legal is an academic point because, in reality, the question will be determined by whoever controls the relevant information and has the resources to make their case, which is usually a large corporation and not the overburdened IRS.

For example, if a company sells the patent for an invention to its offshore subsidiary for what seems like an artificially low price, and then pays royalties to the offshore subsidiary at what seems like an artificially high rate, the effect is to shift profits offshore. But how often can the IRS prove that the company is doing something wrong?

If the patent is for a new invention (which often happens in the world of tech and pharmaceuticals, for example), the IRS may be hard-pressed to find a comparable transaction between unrelated companies that would prove that something is off about this arrangement.

Instead of asking whether the corporation is doing something illegal, we should ask ourselves how Congress can enact a tax law that can be enforced and that does not create these opportunities for tax avoidance. Further on in this document I will explain exactly how Congress can accomplish that.

Corporate tax avoidance is not somehow justified by the economic crisis we are living through today.

The corporate income tax is a tax on corporate profits. It does not affect companies that are not profiting and are therefore struggling to survive. Raising revenue by shutting down special breaks and loopholes in the corporate income tax would not affect businesses that are laid low by the pandemic.

Apologists for corporations argue that if corporations pay low taxes, either because the statutory corporate income tax rate is reduced or because of special breaks and loopholes, this has a positive effect on our economy. They falsely argue that raising corporate tax revenue, even if only by eliminating special breaks and loopholes, would hurt our weak economy.¹

But there is no evidence that low corporate taxes help the overall economy. Proponents of the Trump tax law held out the corporate tax cuts as the key provisions that would spur economic growth. In fact, GDP growth in 2018, the first year the law was in effect, was about 2.9 percent, the same as in 2015. In 2019, the second year the law was in effect, GDP growth was 2.2 percent.² (Of course, GDP growth for 2020 was negative.)

American corporations did not appear to be suffering any effects from our tax system even before the Trump tax law dramatically slashed the corporate tax rate and provided other breaks.

A couple of months before the law was enacted, the tax scholar Kimberly Clausing, who now serves as an official in the Treasury Department's Office of Tax Policy, told Congress that she could not identify any serious problem for American corporations caused by our tax code. She explained that after-tax corporate profits had averaged 9.3 percent over the previous ten years, compared to 6.2 percent GDP growth over the same period, and American firms accounted for 37 percent of profits and 44 percent of market capitalization of the Forbes Global 2000 companies, even though the US accounts for just a fifth of the world's economy.³ American corporations were never overly burdened by our tax system.

Corporate tax avoidance and low corporate taxes does not make America "competitive" in any sense.

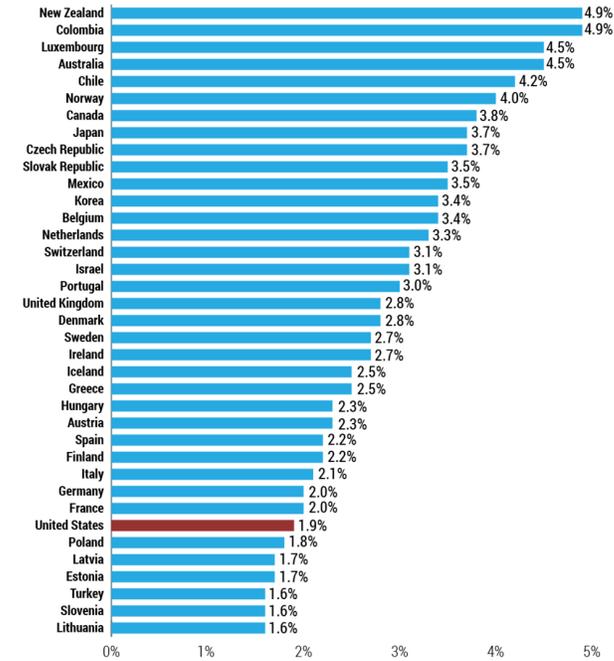
In fact, the corporate tax avoidance allowed by the Trump tax law weakens the competitiveness of American workers by encouraging American corporations to shift assets and jobs offshore.

Under the Trump tax law, an American corporation's offshore profits are not subject to US taxes at all except to the extent that they exceed 10 percent of the company's tangible assets held abroad. So, a company could shift more tangible assets abroad to reduce the amount of its offshore profits that exceeds that threshold and are subject to US taxes. When a company shifts tangible assets abroad, this means things like factories, offices, equipment – and the jobs that go with all of that – are moving abroad.

Sometimes when people talk about whether the US corporate tax is "competitive" or "uncompetitive," they are just talking about whether corporate tax is higher or lower than that of other countries. Our corporate income tax is low compared to other developed countries when measured as a share of our economic output, and this was true even before the Trump tax law was enacted.

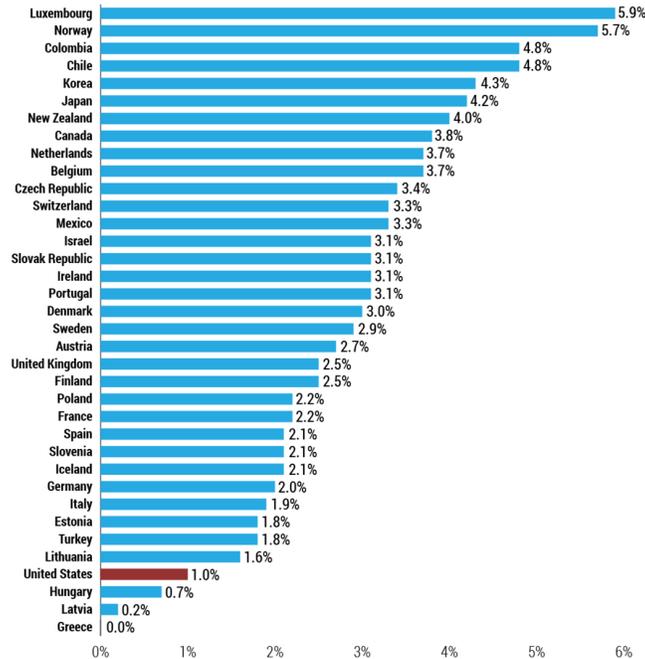
The OECD publishes data annually on 35 or 37 of its member countries, depending on the year and what data is available. In 2016, a year before Congress passed the Trump tax law, the US had the seventh lowest corporate tax measured as a share of GDP (as a share of economic output) at just 1.9 percent. By 2019 the US had fourth lowest corporate tax by this measure, at just 1 percent.

Corporate Taxes in OECD Countries as Share of GDP in 2016



SOURCE: OECD

Corporate Taxes in OECD Countries as Share of GDP in 2019



SOURCE: OECD

Corporate tax avoidance does not help ordinary Americans.

Evidence of the effects of corporate tax cuts indicate that they do not help working people. There is no reason to think that corporate tax avoidance would either.

In addition to slashing the statutory corporate tax rate from 35 percent to 21 percent, the Trump tax law also gave corporations a tax break on their offshore cash holdings, which were estimated at the time to be around \$3 trillion. Officials in the Trump administration claimed that corporate tax breaks would flow immediately to workers in the form of compensation increases that would average \$4,000 to \$9,000 annually.

Nothing like this happened. In fact, the Congressional Research Service (CRS) found that corporations generally spent their tax savings (from both the lower rate and from any offshore profits they repatriated) on share buybacks, which are a way of enriching shareholders.⁴ Share buybacks reached a record-breaking \$1 trillion the year the new law went into effect.

Most economists, including those at the staff of the Joint Committee on Taxation (JCT), believe that most of the corporate income tax is ultimately borne by the owners of corporate stocks and other business assets, as we would expect. Those stocks and assets are owned mostly by the well-off. In other words, the corporate income tax is ultimately borne mostly by the well-off, making it a progressive tax. Conversely, cuts in the corporate income tax and avoidance of the corporate income tax mostly benefit the well-off.

The opposing view, the argument that lower corporate taxes help workers, is based on a speculative theory that lower taxes will result in more investment in American companies, which will increase or enhance equipment and other things that make employees more productive, and this will result in higher wages.

Of course, if any one of these things fails to come true, the whole theory breaks down. After-tax profits of corporations historically have not correlated with investments that enhance productivity, and in any event higher productivity does not always lead to higher wages, particularly in the decades since unionization declined.⁵

And even among economists who believe workers will benefit from a corporate tax cut, most assume that benefit will be small. This is true, for example, of Congress's official revenue estimators at the Joint Committee on Taxation (JCT).

The JCT and the Congressional Budget Office both assume that all the benefits of a corporate tax cut flow to the owners of corporate stocks the first year after it is enacted, but in the long run (which JCT and CBO assume is ten years) 25 percent of the benefits flow to labor.⁶

Even if this is true (which seems doubtful), it would mean the corporate income tax is a progressive tax even in the long run because three-fourths of the tax is borne by the owners of corporate stocks and other business assets.

In addition to being disproportionately wealthy, many of the owners of these corporate stocks are foreign investors, which means some of the benefits do not flow to Americans at all. In 2013, JCT explained that it believed that 10.8 percent of shares of American corporations were owned by foreign investors.⁷ Others find that the foreign-owned fraction is much higher. Steve Rosenthal and Theo Burke at the Tax Policy Center estimate that in 2019 foreign investors owned 40 percent of the shares in American corporations.⁸

The bottom line is that corporate tax cuts and corporate tax avoidance benefit high-income Americans and foreign investors, not working people in the United States.

Why This Matters

Members of the Senate Budget Committee, and members of the Senate and House more broadly, will soon be asked to decide what our nation can afford to do to improve our economy and our health going forward.

Some members of Congress have taken the position that we *can* afford to preserve the Trump tax cuts for corporations and even expand those tax cuts.

The Trump tax law includes a tax break, the provision allowing full expensing of capital spending, that is set to phase out starting after 2022 and expire entirely after 2026. The law also includes tax *increases* that are yet to take effect (amortization of research expenses and tighter limits on deductions for interest expenses). Some lawmakers – including the same lawmakers who drafted this law in the first place – have called for extending the temporary tax break and repealing the tax increases that are soon to take effect.

Some members who hold this position *also* claim that we *cannot* afford to help people directly. For example, some take the position that we cannot afford to make permanent the recent expansion of the Child Tax Credit that puts money directly into the hands of families with children and is projected to reduce child poverty by 45 percent.⁹

If Congress must choose how to allocate resources, it would make more sense to direct those resources toward making permanent the Child Tax Credit, which will clearly reduce poverty (by literally increasing the annual incomes of families with children) instead of directing them to more corporate tax cuts that have speculative benefits for working people that even Congress’s official revenue estimators do not believe in.

To be clear, I am not suggesting that the ability of Congress to spend money or provide benefits to one group or another is always limited by a need to avoid budget deficits. There are many situations where it makes sense for Congress to spend money or provide benefits without offsetting the cost.

My point, rather, is that the process by which Congress enacts legislation may impose constraints that require lawmakers to prioritize. For example, if the next significant piece of legislation is enacted through the reconciliation process, that process may bar increased deficits or limit any increase in the deficit to a specific amount, so that any additional spending or tax-cutting beyond that amount must be somehow offset.

In this environment, it would make no sense to use up whatever fiscal “space” the reconciliation process provides with more corporate tax cuts. Instead, lawmakers should expand that fiscal space, meaning they should increase the amount of resources at their disposal, by raising corporate tax revenue. In the next section of this testimony, I turn to how Congress can do this.

How We Can End Corporate Tax Avoidance and Raise Revenue

Offshore Corporate Tax Avoidance

It is difficult to document how specific corporations shift profits offshore to avoid taxes because companies are not required to provide country-by-country reporting of their profits and taxes publicly. However, aggregate data show us that American corporations overall claim to earn an impossible amount of their profits in countries with very low corporate taxes or no corporate taxes at all, jurisdictions known as offshore tax havens.

For example, the Cayman Islands has no corporate income tax. It has a population of just 63,000 people, but US corporations claimed to have earned \$58.5 billion in profits there in 2017, which was about 10 times the entire gross domestic product (the entire economic output) of that tiny country.¹⁰ This is obviously impossible. Back in 2008, the Government Accountability Office found that nearly 19,000 corporations claimed to be headquartered in a single five-story office building in the Cayman Islands.¹¹

The basic problem is that the offshore profits of American corporations are taxed more lightly than their domestic profits. This was true under the old tax law, and it is true under the Trump tax law, although the details differ. Because corporations pay little in US taxes on their offshore profits, they have an incentive to use accounting gimmicks to make their domestic profits appear to be earned in offshore tax havens. Under the new law they even have incentives to move real operations, and the jobs that go with them, offshore.

The first goal should be to equalize the US tax rates on domestic and foreign profits of our corporations or come as close as possible to equalizing those rates.

This does not mean that offshore profits would be double-taxed. American corporations would be allowed to claim the foreign tax credit (FTC) for any taxes they pay to foreign governments on their offshore profits, just as they do today. The result would be that our corporations pay at least at the US statutory tax rate regardless of where they claim to earn their profits.

If the US statutory tax rate is 21 percent, American corporations would pay that much on all their profits regardless of whether they are earned in the US or abroad. For example, if an American company paid foreign taxes on its foreign profits at a rate of 10 percent, it would claim the FTC which allows it to subtract that 10 percent foreign tax from the 21 percent US tax imposed on those profits. It would pay just 11 percent to the US, which combined with the foreign taxes paid, would come to a rate of 21 percent.

If the company paid foreign taxes at a rate of just 1 percent, it would claim the FTC for that 1 percent and pay the other 20 percent to the US. For this reason, there would be nothing gained from making profits appear to be earned in an offshore tax haven. The total tax rate paid would be 21 percent no matter where the profits are earned.

The rules established under the Trump tax law fail entirely to do this. The current rules do not tax offshore profits at all unless they exceed a 10 percent return on offshore tangible assets. In other words, offshore profits equal to 10 percent of the value of the corporation's tangible assets invested offshore are exempt from US taxes. Tangible

assets are what most people think of as “real” investments, such as machines, factories, and stores.

The rules simply assume that offshore profits exceeding 10 percent of these assets are profits from *other* types of assets (*intangible* assets like patents) that are easier to shift abroad. The rules call these easily shifted profits Global Intangible Low-Taxed Income (GILTI), which may be subject to tax, depending on whether they have been subject to foreign taxes.

Even when offshore profits are identified as GILTI and subject to US taxes, they are effectively taxed at 10.5 percent, which is just half of the 21 percent imposed on domestic corporate profits. In other words, TCJA always rewards corporations that can transform US profits into foreign profits, whether this means shifting profits around on paper or moving actual business operations abroad.

There are legislative proposals that would fix this. The No Tax Breaks for Outsourcing Act recently reintroduced by Senator Sheldon Whitehouse and the Corporate Tax Dodging Prevention Act introduced in previous Congresses by Senator Bernie Sanders, would both address this problem. The two bills are different in their technical details but ultimately both would achieve the goal explained above by ensuring that American corporations pay at least the US statutory tax rate on their profits regardless of whether they claim to earn those profits in the US or abroad.

During his campaign, President Joe Biden offered a proposal that would partly, but not entirely, achieve the same goal. For example, he would eliminate the exemption that applies to some offshore profits, just like the two bills just mentioned, but he would effectively set the tax rate on foreign profits at three-fourths of the rate on domestic profits. (Biden proposes to raise the overall rate on corporate profits to 28 percent but the rate on offshore profits would effectively be 21 percent.) While this does not go as far as the two bills just described, it would raise hundreds of billions of dollars in revenue and make it far less profitable to shift profits abroad.

Depreciation Breaks

Our tax laws generally allow companies to write off their capital investments faster than the assets actually wear out. This “accelerated depreciation” is technically tax deferral, but so long as a company continues to invest, the tax deferral tends to be indefinite. While accelerated depreciation tax breaks have been available for decades, the 2017 tax law provided the most extreme version of accelerated depreciation, allowing companies to immediately write off the entire cost of capital spending. This break, also known as expensing, is scheduled under the 2017 law to be fully in effect through 2022 and then phase out by the end of 2026.

Accelerated depreciation is the reason many companies report paying very little federal corporate income taxes, or none at all, on their profits. In many cases, companies disclose the value of depreciation-related tax breaks, but in other cases, limited financial

reporting makes it hard to calculate exactly how much of the tax breaks we identify are related to depreciation.

Even before the 2017 tax bill introduced full expensing, the tax law allowed companies to take much bigger accelerated depreciation write-offs than is economically justified. This subsidy distorts economic behavior by favoring some industries and some investments over others, wastes huge amounts of resources, and has little or no effect in stimulating investment.¹² A report from the Congressional Research Service, reviewing efforts to quantify the impact of depreciation breaks, found that “the studies concluded that accelerated depreciation, in general, is a relatively ineffective tool for stimulating the economy.”¹³

Combined with rules allowing corporations to deduct interest expenses, accelerated depreciation can result in very low, or even negative, tax rates on profits from particular investments. A corporation can borrow money to purchase equipment, deduct the interest expenses on the debt and quickly deduct the cost of the equipment thanks to accelerated depreciation. The total deductions can then make the investments more profitable after-tax than before-tax.

In theory, the 2017 law took steps to prevent this by placing new limits on interest deductions. Unfortunately, these limits would only reduce a fraction of the deductibility of interest, and in fact lawmakers are currently discussing repealing a provision that is scheduled to make these limits stricter after 2022.¹⁴

Instead of extending or making permanent the expensing provision, Congress should move in the opposite direction and repeal not just the full expensing provision but even some of the permanent accelerated depreciation breaks in the tax code. During his presidential campaign, Senator Bernie Sanders proposed to do this by “transitioning to economic depreciation for all investments.”¹⁵ This means that the cost of purchasing a piece of equipment, for example, would be written off as the equipment wears out and no sooner.

Stock Options

Most big corporations give their executives (and sometimes other employees) options to buy the company's stock at a favorable price in the future. Corporations deduct the value of stock options just as they deduct the value of any compensation to employees, but the tax rules make this particular form of compensation a golden opportunity for tax avoidance. The value of stock options is the difference between the agreed-upon price at which the employee can purchase stock and the price at which the stock is selling on the market. For example, if an employee receives options to purchase a certain amount of stock for \$1 million and will exercise that option at a time when that amount of stock is selling on the market for \$3 million, the value of the options is \$2 million.

The problem is that when a corporation deducts that value for tax purposes, they calculate it in a way that generates a much larger figure than the actual cost to the corporation, which they report to investors.

Accounting rules require a company to, at the time a stock option is granted to an employee, estimate the value of that option on the date it will be exercised, which is difficult to predict. Unlike the accounting rules, the tax rules allow the company to wait until the employee exercises the option, which could be several years later, and claim a tax deduction equal to the value of the stock option at that time, which can be much larger than the value reported to investors.¹⁶

It does not make sense for companies to treat stock options inconsistently for tax purposes versus shareholder-reporting or “book” purposes.¹⁷

This stock option book-tax gap is a regulatory anomaly that should be eliminated. A template for this reform already exists in legislation introduced by former Senators Carl Levin and John McCain in previous Congresses. Levin first introduced the bill as the Ending Double Standards for Stock Options Act in 1997 and reintroduced various versions of the bill in subsequent years, including several cosponsored by the late Senator John McCain.^{18,19}

A New Minimum Corporate Tax

Of the tax breaks already described above, those related to offshore tax avoidance are probably the most important in terms of revenue lost, and they require specific legislation to address them.

Other corporate tax breaks, which we could think of as domestic corporate tax breaks, include accelerated depreciation and the stock options break described above, among others.

Congress should repeal or at least dramatically reform these domestic corporate tax breaks. If lawmakers are unable to come to agreement on that, the next best reform would be to enact a minimum tax that limits the ability of corporations to use these breaks to avoid taxes.

Our federal corporate income tax used to include an alternative minimum tax for corporations, but Congress weakened it severely many years ago before repealing it entirely as part of the 2017 law.

During his campaign, President Biden proposed a much more effective minimum tax for corporations. It would require corporations to pay a minimum tax equal to 15 percent of the profits they report to shareholders and to the public if this is less than what they pay under regular corporate tax rules. This would require profitable companies like Amazon, Netflix and Zoom to pay at least some income taxes no matter how many special breaks or loopholes in the regular tax rules benefit them.

A corporation paying nothing or very little under the regular tax rules would not be able to avoid the minimum tax Biden proposed unless it low-balls the profits that it reports to the public and to potential investors, which companies never want to do because that would make it difficult to attract investment.

In other words, Biden's proposal balances corporations' desire to report low profits for tax purposes against their desire to report high profits to potential investors.

One common criticism of Biden's proposal is that it would limit the effect of tax breaks that Congress enacted to encourage corporations to do things lawmakers believe are beneficial to the economy or to society. This criticism is without merit because most of the "tax incentives" are nothing more than giveaways to corporations that fail to produce such broader benefits for society. For example, as already explained, accelerated depreciation appears to do little more than reward profitable companies for making investments they would have made anyway.

Enhanced Enforcement of Tax Laws by the IRS

While lawmakers may find it difficult to agree on what our tax laws should be, they should at least agree to enforce those tax laws on the books. And yet the IRS is not always able to enforce our tax laws, including corporate tax laws, because of budget cuts and other constraints.

As already explained, some corporate tax avoidance falls into a legal gray area where the outcome will depend on whether Congress gives the IRS the resources to investigate and litigate – which it has not done in the past decade.

In fact, ITEP has documented cases in which corporations announce publicly that they have made claims on their tax returns that are unlikely to withstand scrutiny by tax authorities, and those tax authorities fail to investigate before the statute of limitation runs out.

When publicly traded corporations publish financial disclosures to investors, they are required to list any tax breaks they claimed that the IRS is likely to deny. (The accounting rules call these "unrecognized tax benefits," or UTBs.) Corporations are literally announcing breaks they claim that the IRS will probably find to be illegal. And yet, incredibly, corporations in many cases are allowed to keep these tax breaks, simply because the IRS fails to reach a conclusion before the statute of limitations runs out, which can happen in as little as three years.

We recently looked at corporate annual financial reports for 2019 and found that five companies—Chevron, Dell, Eli Lilly, ExxonMobil, and General Electric—kept \$1 billion in tax breaks that they previously had admitted were unlikely to withstand scrutiny by the IRS or state tax agencies.²⁰

For example, as ExxonMobil's 2019 annual report discloses, the oil giant reduced its (very large) tally of UTBs by \$279 million because the statute of limitations had run out on certain tax savings that it took.

The fact that the IRS is failing to follow up on even the most likely cases of law-breaking – cases in which the corporations themselves announce they are doing something that likely will not pass muster – tells us how weak tax enforcement has become.

This result is unsurprising. A July 2020 report from the Congressional Budget Office found that from 2010 through 2018, lawmakers cut the IRS budget by 20 percent in inflation-adjusted dollars, resulting in a 22 percent staff reduction, including 30 percent of the IRS's enforcement staff.²¹ Natasha Sarin and Larry Summers point out that the cuts are even worse than that. When measured as a share of GDP or tax collections, the IRS has been cut 35 percent over the past decade.²² To undo those funding cuts, they suggest the IRS budget would need to be increased by more than \$100 billion over the next decade.

They conclude that this restoration of funding combined with reforms of how the IRS does business (including technology upgrades, for example) would raise more than \$1 trillion over the next decade.²³ While most of that revenue would be raised from individual taxpayers, some of it would be raised by allowing the IRS to fully investigate obvious signs of corporations pushing beyond the limits of what the law allows.

Two recent bills introduced in Congress provide a path forward. In February, Rep. Ro Khanna introduced the Stop Corporations and Higher Earners from Avoiding Taxes and Enforce Rules Strictly (CHEATERS) Act, while Rep. Peter DeFazio reintroduced legislation of his from the previous Congress, the IRS Enhancement and Tax Gap Reduction Act. Both would increase audits of millionaires and large corporations and increase IRS funding although they differ on the details. Both would be a huge help and would make our tax code fairer not by changing what anyone owes in taxes but merely by ensuring that corporations and the well-off pay what they owe.

A Note on Businesses That Are Not Required to Pay the Corporate Income Tax

This testimony has focused on the federal corporate income tax, and therefore has focused on what the tax code calls C corporations, the entities required to pay that tax. But an equally important conversation is how we treat the businesses we call "pass-throughs" because their profits are passed onto their owners and subject to the personal income tax as part of the owners' personal income. The Trump tax law included an enormous tax break, a 20 percent deduction for pass-through business income, the new section 199A of the tax code. We have estimated that more than 60 percent of the benefits of this deduction flow to the richest one percent of taxpayers.²⁴

The rules determining which taxpayers can claim this deduction are extremely complicated and have birthed a cottage industry of tax accountants and lawyers figuring out how to game them.²⁵ JCT estimates that the deduction costs about \$50 billion a year.²⁶ It is scheduled to expire, along with most of the personal income tax provisions in the Trump tax law, at the end of 2025.

Congress should not extend or make permanent this provision but should instead repeal it. On the campaign trail, President Biden proposed to phase out this deduction for taxpayers with incomes exceeding \$400,000. This should be considered the minimum that lawmakers should do to remove this regressive and inefficient subsidy for well-off business owners from our tax code.

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- ¹ Alex Hendrie, "Biden Corporate Tax Hikes Will Send Jobs Overseas," The Center Square, February 15, 2021. https://www.thecentersquare.com/national/op-ed-biden-corporate-tax-hikes-will-send-jobs-overseas/article_0be4fa3c-6fae-11eb-9092-3b4f757aecc2.html
- ² <https://www.macrotrends.net/countries/USA/united-states/gdp-growth-rate>
- ³ Testimony of Kimberly A. Clausing Before the Senate Committee on Finance, October 3, 2017. <https://www.finance.senate.gov/imo/media/doc/Clausing%20SFC%20Testimony%2010.3.17.pdf>
- ⁴ Jane G. Gravelle and Donald J. Marples, "The Economic Effects of the 2017 Tax Revision: Preliminary Observations," Congressional Research Service, May 22, 2019. https://www.evervcrsreport.com/files/20190522_R45736_8a1214e903ee2b719e00731791d60f26d75d35f4.pdf
- ⁵ Josh Bivens, "Cutting corporate Taxes Will Not Boost American Wages," Economic Policy Institute, October 25, 2017. <https://www.epi.org/publication/cutting-corporate-taxes-will-not-boost-american-wages/>
- ⁶ Joint Committee on Taxation, "Modeling the Distribution of Taxes on Business Income," October 16, 2013, JCX-14-13. <https://www.ict.gov/publications/2013/jcx-14-13/>
- ⁷ Joint Committee on Taxation, "Modeling the Distribution of Taxes on Business Income," October 16, 2013, JCX-14-13. <https://www.ict.gov/publications/2013/jcx-14-13/>
- ⁸ Steve Rosenthal and Theo Burke, "Who's Left to Tax? US Taxation of Corporations and Their Shareholders," Tax Policy Center, October 27, 2020. <https://www.law.nyu.edu/sites/default/files/Who%E2%80%99s%20Left%20to%20Tax%3F%20US%20Taxation%20of%20Corporations%20and%20Their%20Shareholders-%20Rosenthal%20and%20Burke.pdf>
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- ¹⁰ Kimberly A. Clausing, "Five Lessons on Profit Shifting from the US Country by Country Data," Tax Notes Federal. 169(9). 925-940, January 13, 2021. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3736287
- ¹¹ Government Accountability Office, "Cayman Islands: Business and Tax Advantages Attract US Persons and Enforcement Challenges Exist," GAO-08-778, July 24, 2008. <https://www.gao.gov/products/gao-08-778>
- ¹² Steve Wamhoff and Richard Phillips, "The Failure of Expensing and Other Depreciation Tax Breaks," November 19, 2018, Institute on Taxation and Economic Policy. <https://itep.org/the-failure-of-expensing-and-other-depreciation-tax-breaks/>
- ¹³ Gary Guenther, "Section 179 and Bonus Depreciation Expensing Allowances: Current Law, Legislative Proposals in the 112th Congress, and Economic Effects," Congressional Research Service, September 10, 2012.
- ¹⁴ For one thing, TCJA's new limit on interest deductions does not bar companies using full expensing from deducting interest payments altogether. It limits those deductions to 30 percent of adjusted taxable income. Before 2022, the law defines adjusted taxable income as taxable income before interest, taxes, depreciation, and amortization are subtracted. From 2022 on, TCJA defines adjusted taxable income as a smaller number, which is taxable income before interest and taxes are subtracted (after depreciation and amortization are subtracted). This limit does not apply at all to companies with less than \$25 million in gross revenue nor does it apply to some specific types of businesses (farms, real estate, certain types of energy).

¹⁵ <https://berniesanders.com/issues/corporate-accountability-and-democracy/>

¹⁶ Employees exercising stock options must report the difference between the value of the stock and what they pay for it as wages on their personal income tax returns.

¹⁷ For more, see Elise Bean, Matthew Gardner and Steve Wamhoff, "How Congress Can Stop Corporations from Using Stock Options to Dodge Taxes," December 10, 2019, Institute on Taxation and Economic Policy. <https://itep.org/how-congress-can-stop-corporations-from-using-stock-options-to-dodge-taxes/>

¹⁸ See, e.g., Ending Corporate Tax Favors for Stock Options Act, S. 1491 (111th Congress).

¹⁹ A change included in the 2017 law and improved slightly in the American Rescue Plan Act could partly limit the stock options tax break but would not eliminate it. The 2017 law strengthened an existing limit on corporate tax deductions for compensation paid to a company's top employees in excess of \$1 million by removing an exception for so-called "performance-based pay," which included stock options. The limit on deduction more than \$1 million in compensation generally applies to compensation paid to a corporation's CEO, CFO, and other top three most highly compensated employees (expanded to include the other top eight most highly compensated employees starting in 2027 under American Rescue Plan Act). However, stock options paid before the 2017 law took effect are exempt and still benefit from the exception for "performance-based pay." In addition, there are employees of corporations with stock options beyond the CEO, CFO and top three or eight employees, and the limits do not affect stock options except insofar as they account for compensation exceeding \$1 million.

²⁰ Matthew Gardner, "An Underfunded IRS Allows Corporations to Get Away with Probably Illegal Tax Dodges," October 28, 2020, Institute on Taxation and Economic Policy. <https://itep.org/an-underfunded-irs-allows-corporations-to-get-away-with-probably-illegal-tax-dodges/>

²¹ Congressional Budget Office, "Trends in the Internal Revenue Service's Funding and Enforcement," July 8, 2020. <https://www.cbo.gov/publication/56422>

²² Natasha Sarin and Lawrence H. Summers, Understanding the Revenue Potential of Tax Compliance Investment, September 21, 2020. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3695215

²³ Charles O. Rossotti, Natasha Sarin and Lawrence H. Summers, Shrinking the Tax Gap: A Comprehensive Approach, December 15, 2020. <https://www.taxnotes.com/featured-analysis/shrinking-tax-gap-comprehensive-approach/2020/11/25/2d7ht>

²⁴ Institute on Taxation and Economic Policy, The Case For Progressive Revenue Policies, April 12, 2019. <https://itep.org/the-case-for-progressive-revenue-policies/>

²⁵ Martin Sullivan, "Economic Analysis: A Dozen Ways to Increase the TCJA Passthrough Benefits," Tax Notes, April 9, 2018, <https://www.taxnotes.com/tax-notes/partnerships-and-other-passthrough-entities/economic-analysis-dozen-ways-increase-tcja-passthrough-benefits/2018/04/09/27v53>.

²⁶ Joint Committee on Taxation, "Estimates of Federal Tax Expenditures for Fiscal Years 2020-2024," page 28, November 5, 2020, JCX-23-20. <https://www.ict.gov/publications/2020/jcx-23-20/>

PREPARED STATEMENT OF MS. MACGUINEAS



COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET

Testimony of Maya MacGuineas

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Hearing before the Senate Budget Committee:
"Ending a Rigged Tax Code: The Need To Make the Wealthiest People
and Largest Corporations Pay their Fair Share of Taxes"
March 25, 2021

Chairman Sanders, Ranking Member Graham, and Members of the Committee, thank you for inviting me here today to discuss the crucial subject of federal revenue and how we can help shore up our nation's finances.

Let me start by saying, we have engaged in an unprecedented amount of borrowing over the past year, *which is exactly what we should have been doing*. This has been a terrible and traumatic crisis, and while the most recent package was larger and less targeted than we thought was warranted, the overall COVID response has been very successful in fighting the pandemic, alleviating financial hardships, and fostering an economic recovery.

The good news is that we seem to be coming out of the worst part of this public health emergency. With vaccinations on the rise and a good deal of increased savings and pent-up demand – not to mention trillions of stimulus dollars in the pipeline – signs point to what we can all hope will be a very strong recovery.

The bad news is we had a mountain of debt before this crisis hit, and after the sharp downturn and \$6 trillion of relief, we have a much larger mountain now. The national debt eclipsed the size of the economy last year for the only time since just after World War II. We project it could hit a record 108 percent of Gross Domestic Product (GDP) by the end of this year, 113 percent of GDP by 2031, and 207 percent of GDP by 2051.

Along with the high and rising debt, four major trust funds face large imbalances and are projected to be depleted in the next 14 years – the Highway Trust Fund in 2022, the Medicare Hospital Insurance trust fund in 2026, the Social Security Old Age and Survivors Insurance trust fund in 2032, and the Social Security Disability Insurance trust fund in 2035.

On top of the massive borrowing we engaged in to fight the pandemic, there are huge structural imbalances in our budget. They have been there for quite some time, driven by growth in our major spending programs and by revenues and spending levels that are inconsistent with each other. During the three-year period prior to the pandemic – a period of high economic growth when there was little economic justification for such significant borrowing – we irresponsibly passed legislation that



added \$4.7 trillion to the debt, almost evenly divided between tax cuts (\$2.4 trillion) and spending increases (\$2.3 trillion).ⁱ

Currently, our country is on pace to borrow more than \$15 trillion over the next decade. Going forward, spending is projected to grow from its historic average of 20.6 percent of GDP to 23.4 percent by 2031 and 31.8 percent by 2051. Revenue, meanwhile, will rise modestly from about the historic average of 17.3 to 18.4 percent of GDP by 2051.

This debt trajectory leaves us vulnerable on many fronts: it leaves people who depend on these important trust fund programs vulnerable given all the uncertainty; it leaves the economy vulnerable to economic shifts both here and abroad; and it creates a major national security threat as well.

The good news is that the Federal Reserve and other forecasters expect robust GDP and jobs growth this year. Assuming they are right, now is the appropriate time to start paying for new initiatives. Once the economy is even stronger, we should begin phasing in measures to address faltering trust funds and slow the unsustainable growth of our debt.

So I appreciate the topic of the hearing today, because revenues will have to be a significant part of the solution.

We also need to reduce the growth of spending. Changes should be made gradually, but decisions about how to structure them should be made as soon as possible.

The topic of today's hearing is making corporations and the wealthy pay their "fair" share. One of the tricky things in public policy is that "fair" of course is in the eye of the beholder. Some key facts on income and taxation rates:

- The top 1% of earners pay 25% of federal taxes, and they make 16% of the income
- The top 10% of earners pay 52% of federal taxes, and they make 39% of the income
- The top 40% of earners pay 86% of federal taxes, and they make 74% of the incomeⁱⁱ

Corporate income taxes have been on a steady downward trajectory for some time now. They fell from 23 percent of revenue in 1966 to 15 percent in 1978 and then held steady around 10 percent of federal revenues from 1981 until passage of the Tax Cuts and Jobs Act (TCJA) in 2017. Since the TCJA, corporate tax revenue has totaled about 6 percent of federal revenues. That said, some of this drop represents the trend of corporations structuring themselves as passthrough businesses and also reflects inevitable changes in the global economy, as it becomes increasingly difficult to efficiently tax capital.



I personally believe it is the right thing to do to make the tax code more progressive than it already is in light of the disturbing trends in income inequality, wealth inequality, economic mobility, economic security, and economic opportunity. Again, reasonable people will disagree on what the right level of progressivity is in our tax and spending programs, but I favor more progressivity *on both sides of the ledger*.

We also need to consider effects on growth. Demographics are already putting downward pressure on economic growth, which going forward will be about one percentage point lower than its historical average, due in large part to the aging of the population and retirement of the Baby Boomers. Thus, *it will also be particularly important to keep economic growth as a consideration when developing policy options*.

So, while the Committee is right to focus on fairness in tax policy, we should keep a number of factors in mind including:

- Imposing taxes based on ability to pay (progressivity)
- Taxing similar people and activities similarly (horizontal equity)
- Reducing distortions in the tax code (efficiency)
- Allowing taxpayers to understand the rules (simplicity)
- Supporting or not substantially hindering economic activity (growth)
- Discouraging undesirable activities and encouraging desirable ones (externality)

On the individual side, we should start by looking at tax expenditures. This year alone, the United States will forgo \$1.8 trillion of revenue through various credits, deductions, exclusions, and other preferences. Some of these tax breaks are worthwhile, but most are expensive, regressive, and distorting, and they could be repealed or reformed. There could also be changes to estate taxes and how we tax capital.

On the corporate side, the rate reduction to 21 percent far exceeded what anyone expected – including many companies – and we can bring that rate up somewhat, though concerns about our competitiveness in a global marketplace are a real and an important consideration. My preference, for economic reasons, has always been to tax relatively less on the corporate side and more on the individual side, but there is certainly room to increase the corporate rate considerably from where it is now. Further, there are a number of corporate tax breaks that could and should be reformed. To begin, we could expand the cap on state and local tax deductions to businesses, or look at the subsidy that the current tax code provides for debt financing new investments.

One thing we absolutely must avoid is further tax *cuts* for high earners, and this would clearly include agreeing not to repeal the cap on the deduction for state and local taxes, which would provide an average \$40,000 annual tax cut for millionaires.



To think about this, one starting point is the ideas President Biden put forward during the campaign. His tax increases include:

- Raising the corporate tax rate from 21 to 28 percent
- Setting minimum corporate taxes for domestic and foreign income
- Restoring the top individual tax rate from 37 to 39.6 percent
- Taxing capital gains as ordinary income and at death for very high earners
- Limiting various tax breaks for higher earners
- Subjecting wages above \$400,000 to the Social Security payroll tax

We estimate these policies would generate in the neighborhood of \$4 trillion in new revenue.

Fig. 1: President Biden's 2020 Campaign Tax Plan (billions)

Policy	Ten-Year Savings
Increase corporate tax rate from 21% to 28%	\$850 billion
Setting minimum corporate tax rates –15% minimum on book income, increase worldwide minimum rates)	\$800 billion
Repeal TCJA above \$400,000 – restore top rate to 39.6%, restore Pease limitation, phase out pass-through deduction	\$300 billion
Increase capital gains taxes – tax at 39.6% for incomes over \$1 million, repeal step-up basis, limit like-kind exchanges	\$500 billion
Increase the estate tax – restore 2009 parameters	\$250 billion
Cap itemized deductions at 28%, reduce tax gap	\$300 billion
Impose financial fee on large banks	\$100 billion
Eliminate Social Security taxable maximum above \$400,000	\$850 billion
Total, Biden Campaign Tax Increases	\$3.95 trillion

Source: Tax Policy Center and Committee for a Responsible Federal Budget staff estimates.

So how far would that get us?

Barring further policy or economic shifts, it would require roughly \$4 trillion of non-interest savings to **stabilize the debt to 100 percent of GDP by 2031**, which is still a very high level. (The historical average over the past 50 years is 44 percent.) If we were to do that just on the revenue side, it would require enacting *all* of President Biden's proposed tax increases, and it is doubtful we'd have enough to keep the debt stable in future decades. But at least in the near-term, we could get there.

In addition to assuming a very high level of debt, this doesn't include any new spending. Last fall, we estimated President Biden's campaign proposals would have a cost of roughly \$11 trillion. So if you wanted to enact all the new proposals and keep debt to the size of the economy, you would need about \$15 trillion in revenue or offsets.

Though President Biden's proposals already represent a fairly aggressive set of tax increases on the rich and on corporations, you could go even further – by imposing a wealth tax (assuming it is found to be constitutional), adding a financial transaction tax, and boosting the top individual and corporate rates even more (to 50 percent and 35 percent, respectively, for example). Doing so



could perhaps get you another \$4 trillion or \$5 trillion of new revenue, but still leaves you with a \$6 trillion hole.

To pay for the remaining \$6 trillion of the cost we estimated for Biden's campaign agenda, the revenue hike would have to be much higher and more broad-based. For instance, increasing all individual income tax rates by 7 points would get you another \$6 trillion. That would mean raising the bottom rate almost three-quarters, from 10 percent to 17 percent, and bringing the top individual income tax rate to 57 percent. Including payroll and state taxes, that would bring the top rate to well above 70 percent – which is likely about its revenue maximizing level.

A **more expansionary set of policies**, such as Medicare for All, free college, student debt cancellation, broad-based Social Security benefit increases, or the Green New Deal would cost far more. Even if net revenue needs could be kept to [\\$30 trillion](#), you would need to impose either a 32 percent payroll tax, a 25 percentage point increase in *all* income tax rates – including raising the bottom rate to 35 percent and the top rate to percent 62 – institute a 42 percent Value-Added Tax, more than double all individual and corporate income tax rates, or some combination.

So while I think it is fair to argue that those who have done the best in the shifting economy over the past decades should pay the most, we also need to be realistic about how much revenue we will be able to get from high earners alone.

To state the obvious, we need to look at both sides of the ledger and, in all likelihood, broad-based taxes as well.

Going forward, the growth in deficits is driven primarily by growing health and retirement costs and interest, which are responsible for 86 percent of the projected growth in spending over the next decade.

The types of spending reforms we might consider include:

- **Restore fairness on the spending side** – It makes little sense to scrutinize the tax breaks granted to the wealthiest Americans while ignoring what we spend on them. Policymakers should consider further income-relating Medicare premiums, means-testing or flattening Social Security benefits, and other similar types of changes to make these programs more progressive.
- **Lower health care spending** – The United States spends massive amounts on health care and could easily be getting better value for our dollars. We can generate ample savings by paying for quality instead of quantity, reducing excessive provider payments, lowering the cost of prescription drugs, and better aligning incentives throughout the health care system. Many of these ideas have bipartisan support.
- **Secure Social Security** – Social Security is only 14 years from insolvency. A common-sense combination of changes to the payroll tax base or rate, retirement age, benefit



formula, and cost-of-living adjustment should be able to secure it for 75 years while also strengthening retirement security.

- **Extend budget caps** – The discretionary caps in effect since 2012 are set to expire at the end of this year. The caps should be extended at reasonable levels that, unlike the sequester, Congress plans to stick to.
- **Built in Growth** – One of the challenges in our budget is that many spending programs have built in growth so that even without changes, they are growing faster than the economy and squeezing out other parts of the budget. (Revenues also have more modest built in growth.) I have always thought it would be easier if taxes grew faster than the economy and spending more slowly so politicians would have more space to do what their tendency is – to provide tax cuts and more generous spending programs. But short of that, we should fix our major spending programs so they are more structurally sound, like fixing their default indexing so it requires an affirmative decision to grow them faster than the economy and so programs adjust based on demographic and economic changes.ⁱⁱⁱ

Another option that may prove to be low-hanging fruit, relatively speaking, is to ensure people and corporations are paying the taxes they already owe. The current [tax gap](#) is likely larger than \$500 billion per year, and there are many [bipartisan ideas](#) to reduce it. I don't want to overpromise here – this is not a magic panacea. But we should enforce the laws we have in place.

The fiscal hole is so deep that basically all credible options will need to be on the table, and the longer we wait, the longer that list will have to grow. It is already going to be much more difficult than if we had phased in these changes gradually in past years.

To conclude, fiscal responsibility is not about big government or small government—it is about being willing to pay for the priorities you want to spend money on. Shifting costs to the future is at odds with the principle of serving as a good steward for the economy, the nation, and the next generation, even when it is money well spent.

Thank you for hosting this hearing – it is important that we focus on this issue for so many reasons.



¹ Between 2017 and 2019, policymakers approved legislation that is projected to add [\\$4.7 trillion](#) to the debt.

Legislation	2017-2029 Cost
Tax Cuts	\$2.4 trillion
Tax Cuts and Jobs Act of 2017	\$1.8 trillion
Consolidated Appropriations Act, 2020	\$500 billion
January 2018 Continuing Resolution (Delay of ACA taxes)	\$31 billion
Spending Increases	\$2.3 trillion
Bipartisan Budget Act of 2018	\$445 billion
Bipartisan Budget Act of 2019	\$1.7 trillion
Other Legislation	\$135 billion
Total Increase in Debt	\$4.7 trillion

Source: Committee for a Responsible Federal Budget staff calculations based on Congressional Budget Office data. Numbers may not add due to rounding. A small portion of the Bipartisan Budget Act of 2018 that continued expired tax provisions is included in the total for tax cuts.

² Data from the Tax Policy Center. State taxes are less progressive so including taxes at all levels of government would decrease the share paid by high earners. <https://www.taxpolicycenter.org/model-estimates/baseline-distribution-income-and-federal-taxes-february-2020/20-0017-baseline>

³ For instance, Peter Orszag, Robert Rubin, and Joseph Stiglitz recently recommended indexing permanent programs to respond automatically in the face of uncertainty. <https://www.piie.com/publications/policy-briefs/fiscal-resiliency-deeply-uncertain-world-role-semiautonomous-discretion>

PREPARED STATEMENT OF MR. HODGE



Testimony of Scott A. Hodge
President, Tax Foundation

Senate Budget Committee Hearing

“Ending a Rigged Tax Code: The Need to Make the Wealthiest People
and Largest Corporations Pay Their Fair Share of Taxes”

March 26, 2021

Chairman Sanders, Ranking Member Graham, and members of the Committee. Thank you for the opportunity to testify before you today.

There is no objective standard for what defines “fair share”; it is a purely subjective concept. But there are facts, which are objective, and the facts suggest that the U.S. tax and fiscal system is very progressive and very redistributive. These facts are contrary to popular opinion and contrary to the premise of this hearing.

Internal Revenue Service (IRS) data indicates that the wealthy in America are bearing the heaviest share of the income tax burden than in any time in recent memory. On the other hand, more than 53 million low- and middle-income taxpayers pay no income taxes after benefiting from record amounts of tax credits, and six out of 10 households receive more in direct government benefits than they pay in all federal taxes.

Meanwhile, the U.S. tax system is one of the most “business dependent” systems anywhere as American businesses pay or remit 93 percent of the nation’s taxes. Economic studies show that workers bear at least half of the economic burden of corporate taxes through lower wages, with women, the low-skilled, and younger workers impacted the most. And because the corporate income tax is the most harmful tax for economic growth, raising the corporate tax rate would not only slow the economy, it would also make the U.S. an outlier once again against our global trading partners.

Let’s dive into the facts.

The Rich Bear America's Tax Burden

Most Americans would be surprised to learn that a 2008 study by economists at the Organisation for Economic Co-operation and Development (OECD) found that the U.S. had the most progressive income tax system of any industrialized country at the time.¹ Their study showed that the top 10 percent of U.S. taxpayers paid a larger share of the tax burden than their counterparts in other countries and our poorest taxpayers had the lowest income tax burden compared to poor taxpayers in other countries due to refundable tax credits such as the Earned Income Tax Credit and the Child Tax Credit.

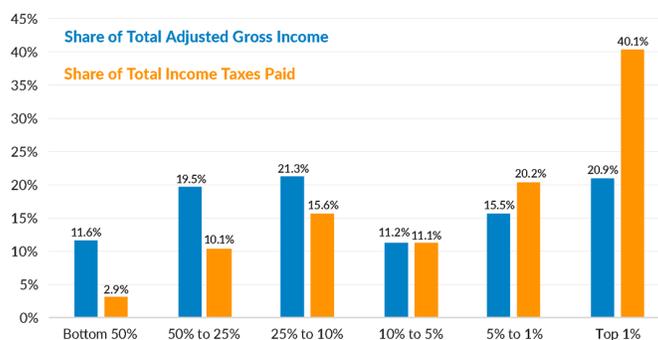
Our income tax code has only gotten more progressive since then because of Washington's continuing effort to help working class taxpayers through the tax code.

According to the latest IRS data for 2018—the year following enactment of the Tax Cuts and Jobs Act (TCJA)—the top 1 percent of taxpayers paid \$616 billion in income taxes. As we can see in Figure 1, that amounts to 40 percent of all income taxes paid, the highest share since 1980, and a larger share of the tax burden than is borne by the bottom 90 percent of taxpayers combined (who represent about 130 million taxpayers).²

FIGURE 1.

Half of Taxpayers Pay 97 Percent of Federal Income Taxes

Share of Adjusted Gross Income and federal income taxes paid by income group in 2018



Source: IRS, Statistics of Income, Individual Income Rates and Tax Shares.

1 Organisation for Economic Co-operation and Development, "Growing Unequal? Income Distribution and Poverty in OECD Countries," Oct. 21, 2008, 104-107, <https://www.doi.org/10.1787/9789264044197-en>.

2 Erica York, "Summary of the Latest Federal Income Tax Data, 2021 Update," Tax Foundation, Feb. 3, 2021, <https://www.taxfoundation.org/federal-income-tax-data-2021/>.

In case you are thinking, “Well, the rich make more, they should pay more,” the top 1 percent of taxpayers account for 20 percent of all income (AGI). So, their 40 percent share of income taxes is twice their share of the nation’s income.

Similarly, in 2018, the top 0.1 percent of taxpayers paid \$311 billion in income taxes. That amounted to 20 percent of all income taxes paid, the highest level since 2001, as far back as the IRS data allows us to measure. The top 0.1 percent of taxpayers in 2018 paid a greater share of the income tax burden than the bottom 75 percent of taxpayers combined.

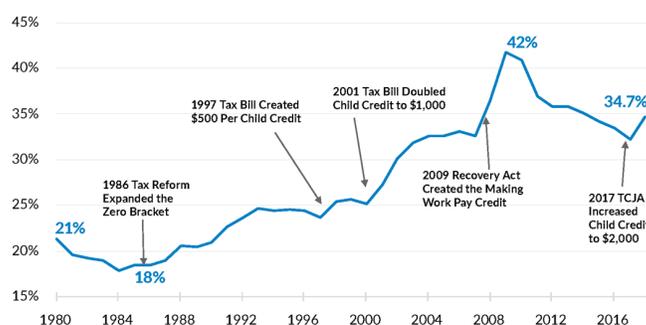
Millions Benefit from Tax Credits and Pay Zero Income Taxes

It is hard to say that the tax code is rigged in favor of the rich when more than 53 million taxpayers, more than one-third of all taxpayers, have no income tax liability because of the numerous credits and deductions that have been created or expanded in recent decades.

As Figure 2 illustrates, the percentage of these filers with no liability began to grow following the Tax Reform Act of 1986 expansion of the zero tax bracket. Since the creation of the Child Tax Credit in 1997 the percentage of income tax filers who have no tax liability increased from 23.6 percent to 34.7 percent in 2018.

FIGURE 2.
The Percentage of Tax Filers Who Owe Zero Income Tax has Climbed Thanks to Successive Increases in Tax Credits

Percentage of Income Tax Returns with No Liability, 1980-2018



Source: IRS.

The percentage of filers with no liability spiked at 42 percent in 2009 with creation of the Making Work Pay tax credit. As the economy recovered from the Great Recession, the percentage of filers with no liability declined to 32 percent in 2017. The percentage has begun to spike again after the TCJA doubled the Child Tax Credit to \$2,000 from \$1,000. This increased the number of non-payers by more than 4 million, from 49.1 million to 53.3 million.

Many of these low-income taxpayers receive refundable tax credits, which means that they get a check back from the IRS even if they have no income tax liability.

The combination of deductions and refundable tax credits means many lower-income households face negative income tax rates. According to Congressional Budget Office (CBO) data for 2017, the lowest quintile faced a negative 10.9 percent income tax rate, and the second quintile faced a negative 1.0 percent income tax rate. We do not have CBO data for 2018, but we know that the Tax Cuts and Jobs Act reduced income taxes across all quintiles on average, so the negative rates for the bottom two quintiles should fall further and the middle quintile could dip into negative as well.

Of course, households face more than just the individual income tax, and many households in the bottom of the income distribution pay more in payroll taxes than in individual income taxes. According to the CBO, households across the income spectrum also bear the burden of corporate income taxes and excise taxes. The net effect is that households in the bottom quintile face just a 1.3 percent average federal tax rate, compared to 31.6 percent for the top 1 percent.

Our Fiscal System Redistributes \$1.7 Trillion from the Rich to Everyone Else

A recent study by the Congressional Budget Office, *The Distribution of Household Income, 2017*,³ provides an insight into the tax code's progressivity and the redistributive effects of federal fiscal policy—both taxes and direct federal benefits. The report provides estimates of how much households in various income groups benefited in 2017 from social insurance programs (such as Social Security and Medicare) as well as means-tested transfer programs (such as Medicaid, SNAP, and Supplemental Security Income), and contrasts these benefits with estimates of how much these households paid in total federal taxes.

One way to understand how much households receive in direct federal benefits compared to how much they pay in total federal taxes is to create a ratio. In other words, we can calculate how much in direct federal benefits do they receive for every \$1 in total federal taxes paid.

As we can see in Table 1 on the following page, in 2017, households in the lowest quintile received \$67.67 in direct federal benefits for every \$1 they paid in federal taxes.⁴ Households in the second quintile received \$4.60 in benefits for every \$1 of taxes they paid, while households in the middle quintile received \$1.60 in total direct benefits for every \$1 of taxes they paid.

By contrast, households in the fourth quintile received \$0.71 in direct federal benefits for every \$1 they paid in taxes while households in the highest quintile received just \$0.15 in direct federal benefits for every \$1 they paid in federal taxes. For households in the top 1 percent, their return on

³ Congressional Budget Office, *The Distribution of Household Income, 2017*, Oct. 2, 2020, <https://www.cbo.gov/publication/56575>.

⁴ Scott A. Hodge, "Latest CBO Report on Incomes and Taxes Shows that the Federal Fiscal System is Very Progressive," Tax Foundation, Jan. 26, 2021, <https://www.taxfoundation.org/biden-fiscal-policy/#:~:text=Conclusion,is%20very%20progressive%20and%20redistributive.>

every \$1 of federal taxes paid was just \$0.02. These figures demonstrate how progressive tax and spending policies have become .

TABLE 1.
Ratio of Direct Benefits Received to Total Federal Taxes Paid

2017 Income Group	Ratio: Direct Benefits Received to Taxes Paid
Lowest Quintile	\$67.67
Second Quintile	\$4.60
Middle Quintile	\$1.60
Fourth Quintile	\$0.71
Highest Quintile	\$0.15
81st to 90th Decile	\$0.36
91st to 95th Decile	\$0.22
96th to 99th Decile	\$0.12
Top 1%	\$0.02

Source: Congressional Budget Office, *The Distribution of Household Income*, 2017, Oct. 2, 2020, www.cbo.gov/publication/56575.

The Numbers Add Up to a Lot of Redistribution

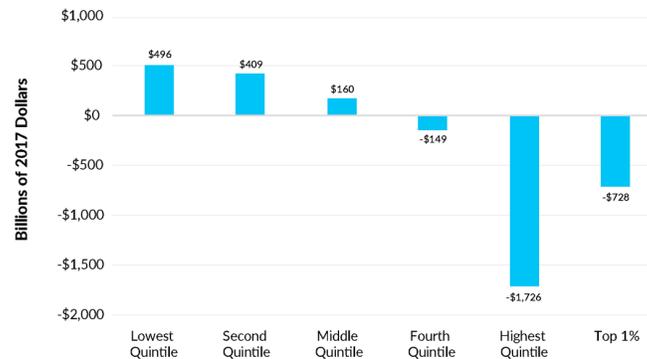
Another way to look at the data is in the aggregate, which allows us to measure how much various income groups receive in direct government benefits relative to how much they pay in total federal taxes. This will give us a sense of how much federal fiscal policy acts to redistribute income from some groups of American households to other groups.

Figure 3 shows that households in the bottom three quintiles collectively receive more than \$1 trillion more in direct government benefits than they paid in all federal taxes in 2017. In other words, 60 percent of American households receive more in benefits than they pay in federal taxes.

By contrast, we can see that households in the top 20 percent of households pay \$1.7 trillion more in taxes than they receive in direct benefits, of which \$728 billion came from households in the top 1 percent.

The CBO data indicates that redistribution reduced the incomes of households in the top 1 percent by more than one-third, while lifting the incomes of households in the lowest quintile by 126 percent, those in the second quintile by 46 percent, and those in the middle quintile by 10 percent. Those are the results that you would expect from a highly progressive fiscal system.

FIGURE 3.
Total Amount of Income Gained or Lost Due to Tax and Direct Spending Benefits by Income Group in 2017



Source: CBO 2020

The Danger of Taxing Wealth—Enriching Foreign Billionaires

Some argue that one way of addressing inequality is taxing wealth on an annual basis. Tax Foundation economists modeled the impact of the wealth taxes proposed by Senators Warren and Sanders during the 2020 presidential campaign. These results will surprise many.

Our Taxes and Growth (TAG 2.0) General Equilibrium Tax Model determined that these wealth taxes would have a relatively modest impact on GDP, wages, and jobs but would have a big impact on who owns U.S. assets. Why is that? It turns out that the model determined that the wealth tax would force the wealthy to sell their assets to pay the tax, often at discount prices. Because the U.S. is an open economy and capital markets are global, the model indicated that foreign investors would purchase those assets, which is why GDP does not fall by much. But what this does mean is that the wealth tax would result in the transfer of ownership of those assets from wealthy Americans to wealthy foreigners.⁵

Thus, the unintended impact of a wealth tax is that it would transfer wealth from U.S. millionaires and billionaires to foreign billionaires and mean that American workers could increasingly be employed by foreign employers. Now owned by foreigners, these assets would be out of reach of the wealth tax.⁶

⁵ Huaqun Li and Karl Smith, "Analysis of Sen. Warren and Sen. Sanders' Wealth Tax Plans," Tax Foundation, Jan. 28, 2020, <https://www.taxfoundation.org/wealth-tax/>.

⁶ Scott A. Hodge, "Warren's Wealth Tax Enriches Foreign Billionaires," *The Wall Street Journal*, Mar. 8, 2021, <https://www.wsj.com/articles/warrens-wealth-tax-enriches-foreign-billionaires-11615227317>.

When You Tax Corporations You Get Less of Them

Now let's look at the corporate side of the tax code.

If the tax code were rigged in favor of corporations, we would have more of them. Today there are about 1.6 million corporations, the fewest number since 1974. C corps reached their zenith in 1986 and have been on the decline ever since. The U.S. now has 1 million fewer corporations today than it did more than three decades ago.

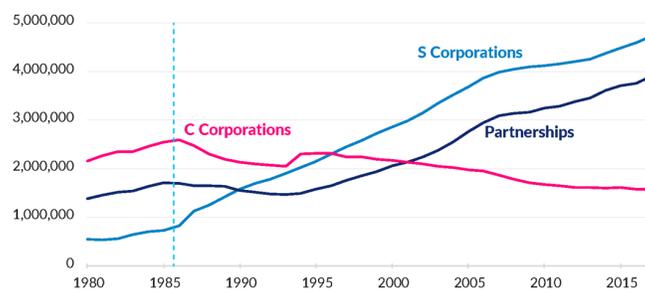
Perhaps one reason for this decline is the fact that the U.S. levied one of the highest corporate rates in the developed world for nearly a quarter-century, from 1993, when the rate was increased to 35 percent, until it was lowered to 21 percent in 2017. Throughout that entire period of having a globally high corporate tax rate, corporate tax collections averaged just 10 percent of federal revenues, or about 1.8 percent of GDP. Perhaps this proves the economic truism that when you tax more of something, you get less of it.

Instead, You Get More Pass Throughs and Perceptions of Rising Inequality

As the number of traditional C corporations has declined, the number of pass-through businesses has skyrocketed. As we can see in Figure 4, since 1986, the number of S corporations grew by more than fivefold, from about 826,000 to over 4.2 million. The number of partnerships did lag for a few years following 1986, but once the LLC form took off, the number climbed to roughly 3.4 million. Figure 4 does not include sole proprietorships, which grew from 12.4 million in 1986 to over 23 million today.⁷

FIGURE 4.
Since 1986, the Number of C Corporations has Declined
While the Number of S Corporations and Partnerships has Grown

Number of Firms by Entity Type, 1980 to 2017



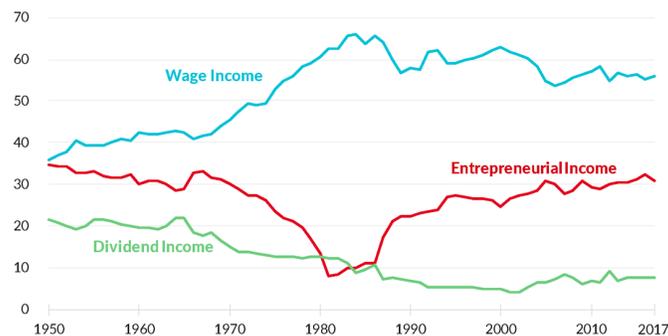
Source: IRS, "Statistics of Income."

⁷ Scott A. Hodge, "The Real Lesson of 70 Percent Tax Rates on Entrepreneurial Income," Tax Foundation, Jan. 29, 2019, 5, <https://www.taxfoundation.org/70-tax-rate-entrepreneurial-income/>.

The shift in business forms since 1986 has meant that more business income is now reported on individual 1040 tax forms than on traditional 1120 corporate forms. The explosion of pass-through business income is most notably seen on the tax returns of high-income taxpayers, which is contributing to the appearance of rising inequality.

In Figure 5 below, we can see the changing composition of income for the top 1 percent of taxpayers from 1950 to 2017. The data is drawn from the website of University of Berkeley economist Emmanuel Saez. Focus on the line tracking the composition of what Saez calls “entrepreneurial income,” or pass-through income, because this line largely traces what he and Gabriel Zucman have identified as the trend in inequality since 1950.

FIGURE 5.
Income Composition for the Top 1% of Taxpayers, 1950 to 2017



Source: <https://eml.berkeley.edu/~saez/TabFig2017prel.xls>

Saez and Zucman have argued that we should return to the high individual tax rates that were levied from 1950 through 1980 because they had the effect of reducing inequality. Inequality began to rise again, they argue, as top marginal tax rates began to fall following the 1981 tax cuts. But, as we can see, the high marginal tax rates prior to 1980 largely drove entrepreneurial business income off the individual income tax forms of the top 1 percent of taxpayers onto corporate returns. Corporate net income rose throughout this period as the wealthy’s “entrepreneurial income” declined. The pattern suggests that the wealthy’s “entrepreneurial income” was being reported on traditional corporate tax forms, not individual tax forms.

There were certainly rich people during those early decades as there are today, but many high earners simply sheltered their income in traditional C corporations, which faced considerably lower tax rates relative to personal income tax rates. This gave the appearance that there were fewer rich people than there actually were. This phenomenon reversed itself during the 1980s when the top individual income tax rate fell below the corporate rate and the restrictions on the structure and participation in partnerships and S corporations eased.

We can see on Figure 5 that the amount and share of pass-through business income on the tax returns of the top 1 percent of taxpayers has soared since the 1980s. Income that historically would have been reported on a corporate 1120 tax form is now being reported on individual 1040 tax forms, contributing to the appearance of rising inequality.

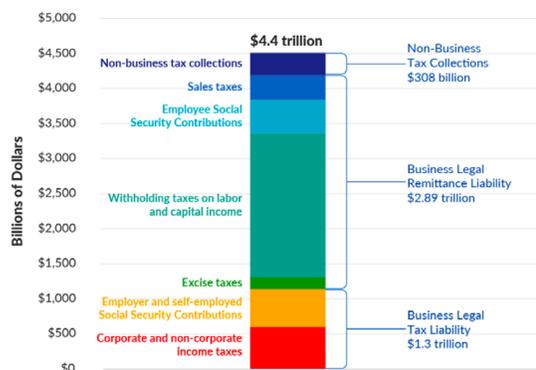
U.S. Tax System Is Most “Business Dependent”

Setting aside the debate over whether a low tax bill is fair, what is missed in such discussions is that American businesses are critical to the tax collection system at every level of government—federal, state, and local. In 2017, OECD economist Anna Milanez measured the amount of taxes that businesses in 24 countries contributed to the overall tax collection system. Her report determined that the U.S. was one of the most “business dependent” tax systems in the industrialized world.⁸

The report found that U.S. businesses either pay or remit more than 93 percent of all the taxes collected by governments in the U.S.⁹ As Figure 6 shows, this includes taxes paid directly by businesses, such as corporate income taxes, property taxes, and excises taxes, as well as the taxes businesses remit on behalf of employees and customers, such as payroll taxes, withholding taxes, and sales taxes.

FIGURE 6.
Businesses Are Central to U.S. Tax Collections

Total Federal, State, Local Tax Collections in 2014 (Billions of Dollars)



Source: Milanez, OECD 2017

8 Anna Milanez, “Legal Tax Liability, Legal Remittance Responsibility and Tax Incidence: Three Dimensions of Business Taxation,” OECD Taxation Working Papers No. 32, Sept. 18, 2017, 32, https://www.oecd-ilibrary.org/taxation/legal-tax-liability-legal-remittance-responsibility-and-tax-incidence_e7ced3ea-en. For more detail on the Milanez study, see Scott A. Hodge, “Contrary to ‘Fair Share’ Claims, Businesses are Central to Tax Collection Systems,” Tax Foundation, May 16, 2018, <https://www.taxfoundation.org/fair-share-businesses-central-to-tax-collections/>.

9 Scott A. Hodge, “U.S. Businesses Pay or Remit 93 Percent of All Taxes Collected in America,” Tax Foundation, May 2, 2019, <https://www.taxfoundation.org/businesses-pay-remit-93-percent-of-taxes-in-america/>.

Without businesses as their taxpayers and tax collectors, or significantly altering the tax system, American governments would not have the resources to provide even the most basic services. Considering the role of businesses in collecting the taxes needed to support the functions of our government, one would be hard-pressed to say that the system is rigged in their favor.

The Corporate Tax Is the Most Harmful for Economic Growth

A seminal study by economists at the OECD ranked the major taxes in terms of their harm to economic growth.¹⁰ Corporate income taxes were found to be the most harmful for growth, followed, in order, by personal income taxes, consumption taxes, and property taxes.

The reason corporate income taxes were determined to be most harmful for growth is because capital is the most mobile factor in the economy and, thus, the most sensitive to high tax rates. People and the things we own are less mobile and, thus, less sensitive to high tax rates. This is not to say that these factors are insensitive to taxation, just less so than taxes on capital.

Tax Foundation economists used our Taxes and Growth (TAG 2.0) General Equilibrium Tax Model to measure the economic impact of raising the corporate tax rate to 28 percent.¹¹ The model determined that such a rate increase would reduce long-run GDP by 0.8 percent, eliminate 159,000 jobs, and reduce wages by 0.7 percent.

TABLE 2.

Economic Effect of Raising the Federal Corporate Income Tax to 25 Percent or 28 Percent

	Raise Corporate Income Tax Rate to 25 Percent	Raise Corporate Income Tax Rate to 28 Percent
GDP	-0.4%	-0.8%
GNP	-0.4%	-0.8%
Capital Stock	-1.1%	-2.1%
Wage Rate	-0.4%	-0.7%
Full-Time Equivalent Jobs	-84,200	-159,000

Source: Tax Foundation General Equilibrium Model, January 2021.

The model also determined that even a less dramatic increase in the corporate rate to 25 percent would still dampen economic growth. It found that a 25 percent rate would reduce GDP by 0.4 percent, lower the capital stock by 1.1 percent, and eliminate over 84,000 jobs.

¹⁰ OECD, *Tax Policy Reform and Economic Growth*, OECD Tax Policy Studies, No. 20, Nov. 3, 2010, <https://www.doi.org/10.1787/9789264091085-en>.

¹¹ Garrett Watson and William McBride, "Evaluating Proposals to Increase the Corporate Tax Rate and Levy a Minimum Tax on Corporate Book Income," Tax Foundation, Feb. 24, 2021, <https://www.taxfoundation.org/biden-corporate-income-tax-rate/>.

Workers (Often Women and Low-Skilled) Bear the Burden of Corporate Taxes

A growing body of academic research is indicating that in our global economy, where capital is mobile, but workers are not, workers are bearing a greater and greater share of the economic burden of corporate taxes.¹² One recent study found that workers bear 51 percent of the economic burden of corporate income taxes through reduced wages, especially for “the low-skilled, women, and young workers.”¹³

The TAG Model’s analysis of raising the corporate tax rate to 28 percent shows that its impact is not isolated to high-income taxpayers, who tend to be the owners of capital. As Table 3 indicates, on a conventional basis, raising the corporate tax rate to 28 percent would reduce the after-tax incomes of the top 1 percent of earners by 1.5 percent in 2022, far higher than any other group. However, because workers bear some portion of the corporate tax, low-income workers would see their after-tax incomes fall by 0.5 percent, while middle-income workers would see their incomes fall by 0.4 percent.

Those effects are in the short run. In the long run, after the model factors in all of the economic effects of the tax increase, it finds that high-income taxpayers would still see the largest reduction in after-tax incomes at 3.2 percent. However, we can also see that over the long run, the bottom 20 percent of earners would watch their incomes fall by 1.5 percent, three times larger than the conventional estimate. Similarly, middle-income earners would see their incomes fall by 1.4 percent over time.

TABLE 3.
Distributional Effect of Raising the Federal Corporate Income Tax Rate to 28 Percent

Income Quintile	Conventional, 2022	Conventional, 2031	Dynamic, Long-Run
0% to 20%	-0.5%	-0.6%	-1.5%
20% to 40%	-0.4%	-0.5%	-1.3%
40% to 60%	-0.4%	-0.5%	-1.4%
60% to 80%	-0.5%	-0.5%	-1.4%
80% to 100%	-0.9%	-1.0%	-2.1%
80% to 90%	-0.5%	-0.6%	-1.4%
90% to 95%	-0.6%	-0.7%	-1.6%
95% to 99%	-0.8%	-0.9%	-1.9%
99% to 100%	-1.5%	-1.8%	-3.2%
TOTAL	-0.7%	-0.8%	-1.8%

Source: Tax Foundation General Equilibrium Model, January 2021.

¹² Stephen J. Entin, “Labor Bears Much of the Cost of the Corporate Tax,” Tax Foundation, Oct. 24, 2017, <https://www.taxfoundation.org/labor-bears-corporate-tax/>. Studies appear to show that labor bears between 50 percent and 100 percent of the burden of the corporate income tax.

¹³ Clemens Fuest, Andreas Peichl, and Sebastian Siegloch, “Do Higher Corporate Taxes Reduce Wages? Micro Evidence from Germany,” *American Economic Review* 108:2 (February 2018): 393–418, <https://www.doi.org/10.1257/aer.20130570>.

Competitiveness Matters

Since the corporate income tax is the most harmful tax for economic growth, it is critically important that the federal corporate tax rate not be increased above its current 21 percent level. While some have criticized the drop from 35 percent as too big of a reduction, the rate cut lowered the U.S. standing from the highest among the 37 OECD nations, to 12th highest when we include the average of state corporate tax rates. This is hardly a “race to the bottom” as some have suggested.

The combined federal-state corporate tax rate currently stands at 25.8 percent, compared to a simple average of OECD countries (excluding the U.S.) of 23.4 percent, and a weighted average of 26.5 percent. In other words, the combined U.S. corporate tax rate is barely average among our global trading partners. Again, hardly a race to the bottom.

However, if the federal rate were to be increased to 28 percent, the combined U.S. rate would jump to 32.3 percent, once again highest among OECD nations. Countries such as France and Sweden, which are in the process of cutting their corporate tax rates, would love for the U.S. to raise its corporate tax rate because it would instantly make them more attractive for investment and jobs. As concerning, China’s rate is 25 percent, so we also risk losing competitiveness with our fiercest economic competitor by raising our corporate tax rate.

While the Tax Cuts and Jobs Act removed our outlier status regarding our corporate tax rate, it gave us a new outlier status with the creation of a complex set of new international tax rules. This is especially true of the minimum tax levied on Global Intangible Low-Tax Income (GILTI), which stands out as unique among other nation’s tax systems.

To be fair, GILTI has seemingly eliminated much of the “nowhere income” that generated libraries of academic studies about corporate tax avoidance. Another new international rule, the Foreign Intangible Domestic Income (FDII), has also incentivized many companies to bring their intellectual property back to the U.S. And we should acknowledge that the new exemption regime, or “territorial” system, has eliminated corporate inversions as U.S. firms can repatriate their foreign earnings without paying an additional toll charge.

While GILTI has eliminated the nowhere foreign income of U.S. multinationals, an arcane provision in GILTI is being criticized for somehow incentivizing companies to invest abroad rather than in the U.S. The GILTI tax base excludes profits that amount to a 10 percent return on tangible foreign assets. This is called the “QBAI” deduction, for Qualified Business Asset Investment.

The original purpose of QBAI was to be a proxy for determining super-normal returns from foreign investments but has become a mirage in the tax code for those who believe it leads to outsourcing. On closer inspection, there is no evidence of this. On the contrary, studies show that the new international tax rules did not reduce the effective tax rate on foreign income for U.S.

multinationals.¹⁴ Indeed, when the Joint Committee on Taxation scored the international provisions of the TCJA, they found them to be a net tax increase of \$112 billion over 10 years. This indicates that the base on international income is much broader than prior to the TCJA.

Conclusion

Digging through the data, it is difficult to find evidence that the U.S. tax code is rigged in favor of the rich and corporations. The wealthy's share of the income tax burden has never been higher, redistribution from them has never been greater, and more than 53 million low- and middle-income Americans pay no income taxes because of the generous credits and deductions benefiting them.

Moreover, the 21 percent U.S. corporate tax rate is now average among our peers, but the number of corporations is at a 50-year low after decades of levying one of the highest corporate tax rates in the developed world. Raising the corporate rate to 28 percent would likely accelerate this trend and spur more companies to either become pass throughs or move their headquarters to friendlier tax climates.

We ought to be worried about the impact of corporate taxes on women, low-skilled workers, and younger workers, since they are the very workers who have been most impacted by the COVID-19 crisis. Raising the corporate tax rate would simply hurt them even more.

Addressing income inequality by expanding tax credits is palliative; it does nothing to raise real incomes and long-term living standards of working people. A better way is to focus on permanent tax policies that promote increased productivity, more jobs, higher real wages, and real economic growth.

Isn't that the kind of inclusive growth that all of us could support?

Thank you for your time and attention.

¹⁴ Scott Dyreng, Fabio B. Gaertner, Jeffrey L. Hoopes, and Mary Vernon, "The Effect of U.S. Tax Reform on the Tax Burdens of U.S. Domestic and Multinational Corporations," June 5, 2020, https://www.papers.ssrn.com/sol3/papers.cfm?abstract_id=3620102.

Responses To Written Questions of Senator Crapo From Gabriel Zucman

Question 1: Professor Zucman, you are employed by the University of California at Berkeley, which holds billions of dollars in endowment funds. Some of those funds have come from donations from people's wealth and estates. Your employer does not use all of its endowment funds to help students or researchers. Rather, it carries some of those funds forward, presumably to help ensure that resources can be made available for future students and researchers. That is, UC-Berkeley builds dynastic wealth.

Families in the United States wish to do the same, yet you seem to deride bequest motives as some undue benefit to the "rich" or "ultra-rich." People wish to accumulate wealth over time, and they choose not to consume all the accumulation in their lifetimes so that future members of their family can benefit. While that seems like altruism to me, it apparently seems like some sort of undeserved dynasty building on the part of some on this panel.

Professor Zucman, since the University of California at Berkeley is building and accumulating dynastic wealth, should Congress increase taxation of university endowments and use the proceeds to spend on what you and others on this panel may view as more worthy social investments?

Answer: The taxation of university endowments deserves to be debated in the context of the broader question of wealth taxation. Should the United States implement a progressive wealth tax, it would be necessary to carefully study the merits and demerits of taxing the wealth of non-profit organizations, including that of private universities.

Question 2: Professor Zucman, you previously faced extensive critiques for the conclusions you and Emmanuel Saez drew on inequality. This, rather infamously, led to an exchange between you and Larry Summers in 2019 where you stated, "Maybe we got our numbers wrong."

In your written testimony for this hearing, you discussed a failure to report income for wealthy individuals and larger corporations, and you "examine" that further in a working paper published earlier this week. Given the extensive critiques and revisions you faced in your previous academic research, how can we trust the conclusions you have drawn are accurate here?

Answer: Economic statistics, such as the concentration of income, are not physical facts like mass or temperature. Instead they are constructions that are necessarily imperfect, due in particular to the limitations of the raw data available. The series on inequality and tax progressivity presented in my testimony are the best available estimates, but I have no doubt that these series will be improved in the future, as new data become available and refined estimation techniques are developed.

Responses To Written Questions of Senator Van Hollen From Gabriel Zucman

Question: Your testimony includes the alarming finding that more than half of all foreign profits reported by U.S. corporations are booked in tax haven countries. You also describe how this kind of tax planning has become an increasingly important business strategy for corporations. But even stockholders do not necessarily know how the corporations they own are utilizing tax havens, because this information is not disclosed.

I am planning to reintroduce the *Disclosure of Tax Havens and Offshoring Act*, which would require big corporations to publicly disclose basic financial information on a country-by-country basis. Would these disclosures help shine a light on the use of corporate tax havens for both stockholders and the public?

Answer: Requiring big corporations to publicly disclose basic financial information on a country-by-country basis would be tremendously useful. We know that overall, US multinational companies book disproportionate earnings in low-tax countries. In 2018, more than 50% of the foreign profits of US firms were booked in tax havens. However, there is almost no public data about which companies are most responsible for this shifting, as corporations are currently not required to publicly disclose their income on a country-by-country basis. *The Disclosure of Tax Havens and Offshoring Act* would remedy this situation and would enable the public and policymakers to better monitor and fight offshore tax abuse.

Responses To Written Questions of Senator Warner From Gabriel Zucman

Question 1: I've long been focused around the challenges of funding for the Internal Revenue Service. From 2010 through 2018, IRS funding was cut by 20% in inflation-adjusted dollars, resulting in the elimination of 22% of its staff. What that's meant is the IRS has chronically been underfunded, understaffed, constrained, and forced to operate with antiquated IT systems. Audit rates for the wealthiest individuals and companies have plummeted. Between 2011 and 2013, the IRS estimates that it failed to collect over \$380 billion in taxes per year, across all tax categories. And based on a National Bureau of Economic Research (NBER) study that extrapolates this number, in 2020 the IRS is estimated to fail to collect over \$630 billion—nearly 15% of total tax liabilities. Over the budget window that translates to \$7.5 trillion. Worse, many economists, including yourself, have come out with estimates that say IRS' calculations of uncollected taxes may be significantly understated.

Can you briefly touch on this study and the implications of your findings that random audits underestimate tax evasion at the top of the income distribution? Does the IRS need more funding to crack down on this evasion?

Answer: According to the recent study you mention (J. Guyton, P. Langetieg, D. Reck, M. Risch, and G. Zucman, "Tax Evasion at the Top of the Income Distribution: Theory and Evidence", NBER working paper #28542, March 2021), the top 1% highest earners under-report more than 20 percent of their income from the Internal Revenue Service, and account for more than a third of all unpaid federal income taxes. Years of IRS funding cuts, combined with the increased sophistication of tax evasion tactics, have made tax evasion easier at the top of the income distribution. To address this issue, the IRS needs more resources from Congress, which would allow the agency to invest in more comprehensive examination strategies, involving audits of individuals, private businesses, and entities such as trusts and charities.

Question 2: We can all agree that prior to the Tax Cuts and Jobs Act (TCJA) of 2017, the international tax code needed significant reforms—we needed to eliminate the deferral regime—and I think taxing the foreign income of companies annually makes sense. However, a lot of TCJA's anti-abuse provisions have been either ineffective or, worse, have further incentivized multinational companies to outsource and shift profits to low-tax countries.

Following the Tax Cuts and Jobs Act of 2017, have we seen a drop in multinational companies booking their profits in tax havens? Did the reform to the international tax code create strong guardrails to prevent tax avoidance?

Answer: According to the most recent available data, in 2018 (the first year after the Tax Cuts and Jobs Act), more than 50% of the foreign profits of US firms were booked in tax havens. This number was essentially stable in 2018 relative to 2017. Thus, there is no indication so far that the Tax Cuts and Jobs Act has caused a reduction in the use of tax havens by US multinationals.

Question 3: One of the big issues we're dealing with is the substantial decrease in corporate tax revenues. I think the TCJA's changes to our corporate taxes missed the mark—and what frustrated me then and still frustrates me today is that this was an area where both sides could have come together. As a share of GDP, corporate tax revenues were just 1.1% in 2019, which is dramatically below historic norms. This is tens of billions of dollars less than we have historically collected, and maybe more. What's also clear is that the U.S. is an outlier. When looking at our major peer countries in the G7, our corporate taxes as a share of GDP is last—and it's not even close. If you broaden the scope to the OECD, we're just as bad—33rd out of 35 in the OECD. Unfortunately, the numbers here just don't add up. We are not on a sustainable path and we need to right-size corporate revenues to ensure the U.S. can continue to make investments in critical areas that will dictate how our economy grows moving forward.

Would you agree that our current corporate tax rate of 21% is unsustainable? How should we be thinking about this notion of competitiveness in a global marketplace when major peer nations are taking in significantly more corporate revenue as a percentage of GDP?

Answer: What makes a nation competitive is the quality of its infrastructure, the training, skills, and productivity of its workforce. All of this requires tax revenues—for education, health care, and public goods and services. Historically, the data show that it's not through low taxes on corporations and the wealthy that today's rich nations have become wealthy, but through public investments in the success of all. (A case in point is the United States, which used to tax corporate profits and top incomes heavily in the post-war decades). Given the massive revenue needs of the United States today—to fund child care, higher education for all, and health care, among other things—the very low corporate income tax rates and corporate income tax revenues are likely to be, if anything, detrimental to the long-run prosperity of the country.

Responses To Written Questions of Chairman Sanders From Amy Hanauer

Question: According to your testimony, ITEP has identified at least 50 profitable corporations that paid no federal income tax last year. Please name those corporations along with the profits they made last year and the amount of income tax refunds they received, if any, from the IRS.

Answer: Thank you for this question. The table below provides a list of 55 profitable Fortune 500 corporations that paid no federal income tax in 2020 along with their pre-tax income, their current tax paid, and their effective tax rate. We put out a report today that includes this data and that also includes data on 26 profitable corporations that have paid zero or less in federal corporate income tax over the three years of the Trump tax regime. You can find that report [here](#).

55 Profitable Fortune 500 Companies That Avoided All Federal Income Taxes in 2020

Company Name	US Pre-Tax Income	Current Federal Income Tax	Effective Tax Rate
Advanced Micro Devices	1,208	-	0.0%
Akamai Technologies	40	(2)	-4.4%
Albemarle	42	(0)	-0.3%
American Electric Power	2,163	(138)	-6.4%
Archer Daniels Midland	438	(164)	-37.4%
Ball	193	(33)	-17.1%
Booz Allen Hamilton Holding	561	(3)	-0.5%
Cabot Oil & Gas	240	(32)	-13.2%
Charter Communications	3,680	(7)	-0.2%
CMS Energy	885	(35)	-4.0%
Community health Systems	323	(1)	-0.3%
Consolidated Edison	1,227	(2)	-0.2%
Danaher	1,583	(321)	-20.3%
Dexcom	265	-	0.0%
Dish Network	2,532	(231)	-9.1%
DTE Energy	1,531	(247)	-16.1%
Duke Energy	826	(281)	-34.0%
Ecolab	95	(50)	-52.6%
Evergy	722	(27)	-3.7%
FedEx	1,218	(230)	-18.9%
FirstEnergy	1,108	(14)	-1.3%
Fiserv	1,100	(25)	-2.3%

55 Profitable Fortune 500 Companies That Avoided All Federal Income Taxes in 2020 (2)

Company Name	US Pre-Tax Income	Current Federal Income Tax	Effective Tax Rate
Hologic	887	(62)	-7.0%
Howmet Aerospace	86	(2)	-2.3%
HP	861	(24)	-2.8%
Interpublic Group	284	(53)	-18.5%
Jacobs Engineering Group	213	(37)	-17.4%
Kansas City Southern	327	(2)	-0.6%
Kinder Morgan	654	(20)	-3.1%
Lincoln National	423	(61)	-14.4%
Michaels	322	(11)	-3.5%
Mohawk Industries	87	(34)	-38.9%
Nike	2,873	(109)	-3.8%
Nucor	1,220	(177)	-14.5%
Owens & Minor	74	(4)	-6.0%
Penske Automotive Group	505	(78)	-15.5%
PPL	878	(9)	-1.0%
Qurate Retail Group	687	(8)	-1.2%
Salesforce.com	2,630	(12)	-0.5%
Sanmina-SCI	95	(1)	-1.0%
Seaboard	136	(50)	-36.8%
Sealed Air	323	(14)	-4.4%
Telephone & Data Systems	284	(175)	-61.6%
Textron	278	(1)	-0.4%
Treehouse Foods	8	(96)	-1167.1%
Tutor Perini	96	(36)	-37.7%
Tyler Technologies	176	(11)	-6.0%
UGI	420	(85)	-20.2%
Unum Group	923	(98)	-10.7%
Verisign	447	(124)	-27.7%
Voya Financial	195	(9)	-4.6%
Westlake Chemical	227	(208)	-91.6%
Williams	278	(29)	-10.4%
Xcel Energy	1,465	(13)	-0.9%
Xilinx	140	(2)	-1.5%
Total, All 55 Companies	40,482	(3,497)	-8.6%

Responses To Written Questions of Senator Van Hollen From Amy Hanauer

Question: Your testimony describes how the 2017 tax law creates new incentives for corporations to move their operations from the United States to a foreign jurisdiction. I am planning to reintroduce the *Disclosure of Tax Havens and Offshoring Act*, which would require big corporations to publicly disclose basic financial information on a country-by-country basis. Would these disclosures help us understand the extent to which a corporation is getting tax breaks to ship jobs overseas?

Answer: Requiring large corporations to publicly disclose basic financial information on a country-by-country basis would be extremely helpful in understanding the extent to which a corporation is getting tax breaks to ship jobs overseas. We have plenty of evidence in the aggregate that American corporations are claiming to the IRS that they earn impossible amounts of profits in tiny tax havens like the Cayman Islands and Bermuda where they have virtually no real business operations. Companies are required to report their profits and taxes paid in each country to the IRS, and the IRS publishes aggregate data. But we cannot identify what particular companies are doing or get a better understanding exactly how profit-shifting techniques are being used and by whom, because the information for each company is not made public.

The Disclosure of Tax Havens and Offshoring Act would fix this by requiring that companies publicly disclose the profits, taxes, employees, and tangible assets of their subsidiaries in each country, making it possible for the public and lawmakers to understand how this is happening.

For example, the Cayman Islands has no corporate income tax. US corporations claimed to have earned \$58.5 billion in profits there in 2017, about 10 times the entire gross domestic product (the entire economic output) of that tiny country of just 63,000 people.ⁱ This is obviously impossible. In 2008, the Government Accountability Office found nearly 19,000 corporations claiming to be headquartered in a single five-story office building in the Cayman Islands.ⁱⁱ

As you know, the basic problem is that the offshore profits of American corporations are taxed more lightly than their domestic profits. This was true under the old tax law, and it is true under the Trump tax law, although the details differ. Because corporations pay little in US taxes on their offshore profits, they have an incentive to use accounting gimmicks to make their domestic profits appear to be earned in offshore tax havens. Under the Trump tax law they even have incentives to move real operations, and the jobs that go with them, offshore.

Your bill requiring corporations to better disclose their activities is an important contribution to public understanding of corporate behavior so we can build a tax code that works for all of us.

ⁱ Kimberly A. Clausing, "Five Lessons on Profit Shifting from the US Country by Country Data," Tax Notes Federal. 169(9). 925 940, January 13, 2021. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3736287

ⁱⁱ Government Accountability Office, "Cayman Islands: Business and Tax Advantages Attract US Persons and Enforcement Challenges Exist," GAO-08-778, July 24, 2008. <https://www.gao.gov/products/gao-08-778>

Responses To Written Questions of Senator Crapo From Maya MacGuineas

Question 1: President Biden and Congressional Democrats have proposed lifting the limitation on the deduction for state and local taxes (SALT). Given the effect of the pandemic on our country and economy, Congress has passed significant relief bills that focus on unemployed Americans and smaller businesses that are struggling. The proposal to lift the SALT cap, on the other hand, would overwhelmingly benefit wealthy households. According to the Joint Committee on Taxation, over half the benefit from repealing the cap would go to taxpayers with incomes over \$1 million, and 94 percent of the benefit would go to taxpayers with incomes over \$200,000.

- 1. What is your view of lifting the SALT cap, and do you think now is the time for a tax break on high-income individuals and households?**

Answer: As [CRFB has said many times](#), lifting the current law cap on the deduction of state and local taxes (SALT) would be wasteful and regressive. Repealing the cap would be a tremendous giveaway to the very wealthy that would worsen our fiscal position. Households earning over \$1 million would receive a tax cut of more than \$40,000 per year from repealing the SALT cap on average, while households making less than \$50,000 would receive almost no benefit. Furthermore, repealing the SALT cap would worsen, not solve, two of the biggest criticisms of the Tax Cuts and Jobs Act – that it reduced revenue and benefitted high earners too much. It would almost quintuple the size of the SALT tax break and add complexity by increasing the number of Americans who itemize deductions.

- 2. Some are trying to use the excuse that repealing the SALT cap is necessary to help out states and localities that have lost revenue during the pandemic. Disregarding the fact that revenue collections in most states and localities have proven to be much more robust than initially claimed and feared, and the fact that Congress has nevertheless provided significant fiscal assistance to states and localities already, do you not agree, in a scenario where states and localities were shown to be in need of additional assistance, that it would be prudent and appropriate to explore ways to accomplish that without also providing a massive tax windfall to the wealthiest Americans?**

Answer: Aiding states through tax cuts for their wealthiest residents is perhaps the worst form of targeting imaginable. Many better ways exist to send additional aid to states, if that were warranted. Raising the SALT cap subsidizes the tax bills of residents in those states. Theoretically making it easier for states to raise their own tax rates is a roundabout way to provide fiscal support, and it makes no sense to target well-off households specifically.

Further, many states that experienced the deepest revenue losses in 2020 – like Alaska and North Dakota – have no or relatively low state income tax levels in the first place and would not benefit tremendously from a repeal of the SALT deduction cap. Instead, states that would benefit most from such a repeal are high-tax jurisdictions like New York and California, which experienced relatively moderate revenue losses in 2020 compared to the year prior.

Question 2:

- **First, can you discuss what CBO means by a “fiscal crisis” and whether we have observed such crises elsewhere in the developed world in the recent past?**

Answer: When the Congressional Budget Office refers to a fiscal crisis, it means that investors lose confidence in a government’s ability to manage its budget, and the government thereby loses the ability to borrow at affordable rates. Fiscal crises often occur during economic downturns, which heightens the difficulty of a country adjusting its fiscal policy. The exact point at which the United States may enter into a fiscal crisis is unknown—the risk is influenced by other factors, including the government’s long-term fiscal outlook, near-term borrowing needs, the health of the economy, and a country’s monetary position. We do not know when or if the United States will enter into a fiscal crisis, but we do know that the country cannot continue to allow its debt to grow unsustainably without suffering [adverse and potentially dangerous consequences](#).

Recent fiscal crises have occurred in Argentina, Ireland, and Greece. Argentina experienced a recession in 2000 and 2001. Investors became increasingly worried about Argentina’s fiscal situation and demanded premiums for holding Argentinian debt. Interest rates quickly increased by more than 5 percentage points. As it became clear that Argentina was unable to afford the additional payments on its debt, interest rates rose further to levels that made the Argentinian government effectively unable to borrow. Soon after, Argentina stopped paying its creditors.

Ireland experienced a fiscal crisis after being inundated with large spending obligations in response to the 2007-08 financial crisis. Ireland’s debt grew rapidly as the country dealt with failures of financial institutions and a steep economic downturn. As a result, investors began to lose confidence in Ireland’s ability to manage its rapidly expanding obligations. In March 2009, investors in 10-year Irish bonds demanded nearly 3 percentage points in higher interest rates. Ireland responded with an aggressive fiscal consolidation program, to which investors responded with renewed confidence that was reflected in lower interest rates on Irish debt and insurance on Irish bonds.

Before the Great Recession, the debt-to-GDP ratio in Greece was 110 percent. As the country entered the recession, interest rates on ten-year Greek bonds increased by 2 percentage points in early 2009. Investor confidence declined throughout 2009, and by January 2010, Greece paid interest rates on ten-year bonds that were 4 percentage points higher than what Germany paid.

- **Second, note that some, including the Treasury Secretary, argue that given the downward trend in interest rates observed over the past couple of decades, and recent low rates on Treasury debt, we can gain comfort in the idea that the U.S. still has ample “fiscal space” to continue with current debt levels or even increase them. They further argue that, given low rates, we have not seen increases in many years in federal interest costs expressed as a share of GDP, which they take to be a good metric for fiscal sustainability and gauging of available fiscal space. Do you agree that, given low rates, the U.S. has ample fiscal space available now? And, if interest rates were to rise and interest rates across the maturity structure on Treasury debt by, say, 100 basis points and those increases were sustained, what would happen to the fiscal position of the U.S.?**

Answer: There is no way of knowing how much fiscal space we have. What should concern all of us is that we seem to be hurtling toward the point where we will find out.

What we do know is that our debt-to-GDP ratio is almost two-and-a-half times the historical average. We are vulnerable to increases in interest rates, changes in foreign demand for our debt, and other future challenges that may hit us.

Interest is now the fastest growing item in the budget. This year it will cost over \$300 billion, or over \$2,400 per household, rising to almost \$850 billion, or almost \$6,300 per household in 2031. We will spend \$5.1 trillion over the next decade on interest.

If interest rates were 1 percentage point higher than projections for this whole fiscal year, interest costs would increase by \$225 billion and total \$530 billion — more than the cost of Medicaid. This is one of the many warning signs that our debt is dangerously high.

Responses To Written Questions of Senator Warner From Maya MacGuineas

Question: Can we afford to ignore the growing problems around the tax gap? Wouldn't strengthening the IRS be one way to raise substantial amounts of revenue and ensure that everyone—including those at the top—are paying their fair share?

Answer: We cannot and should not ignore the tax gap as a potential source of revenue. Taxes that are owed but not paid exceed \$500 billion per year. Congress and the Administration should improve enforcement of the laws that are already on the books. Improving the rule of law should be the lowest hanging fruit for generating revenue, and it should not be a partisan issue at all. Eliminating loopholes and increasing funding for tax enforcement could help close the tax gap. The Congressional Budget Office (CBO) estimates that increasing the budget for Internal Revenue Service (IRS) tax enforcement by \$40 billion over the coming decade would yield more than \$100 billion of additional revenue. Similar proposals in both former President Trump's and former President Obama's budgets would have yielded anywhere from \$39 to \$56 billion of net deficit reduction. Additional measures to clarify tax laws, increase withholding, improve information reporting, and strengthen IRS authority could potentially reduce the tax gap substantially more.

Responses To Written Questions of Chairman Sanders From Scott Hodge

Question: Your website states that 33% of your funding comes from corporate sources. What are some of the major corporate donors to your organization? Do any of these grants require that you advocate for policies that would financially benefit these donors?

Answer: Per Tax Foundation policy, we do not publicly disclose our donors. Our financial documents, including IRS Form 990, are available at taxfoundation.org/financials.

As a nonpartisan and independent education organization, the Tax Foundation prides itself on conducting fact-based research guided by our four principles—simplicity, transparency, neutrality, and stability—which form the basis of sound tax policy. Our donors understand that because we adhere to those principles, our positions on various tax policies may not align with private interests. We have lost contributions over issues such as our opposition to industry-specific tax incentives, patent boxes, and tax holidays, our support for a destination-based cash-flow tax, and our modeling of carbon tax options, just to name a few examples.

Responses To Written Questions of Senator Crapo From Scott Hodge

Question 1: Mr. Hodge, your written testimony identifies that the percentage of tax filers owing zero income taxes at the federal level has climbed from a recent low of around 18 percent in the mid-1980s to almost 35 percent in the past couple of years. Given that, some tax-increase advocates say that other, more regressive, taxes such as sales and payroll taxes should be taken into account. Yet, payroll taxes are used largely to fund very progressive retirement and disability benefits in Social Security, which also must be taken into account.

There are many ways people use tax and transfer data to make various cases. And some recent work by tax-increase advocates involves very questionable methodological and data choices by analysts. Even progressive economist Larry Summers recently called some of the recent tax-increase advocates' work as "substantially inaccurate and misleading."¹ Is it true that there are studies showing relatively large increases in income inequality over the past few decades, while there are also others showing no significant increases?

Answer: Over the past decade, there has been an ongoing debate about how income inequality has changed over the last 50 years. Gabriel Zucman and Emmanuel Saez [have argued](#) that income inequality has increased rapidly since 1980 when looking at pretax income shares and the share of national income going to the top 1 percent of earners.

However, other economists, such as the U.S. Treasury economist Gerald Auten and Joint Committee on Taxation (JCT) economist David Splinter, find that income inequality has [risen much more modestly](#) over that time. Using a broader measure of income that accounts for various technical tax issues, Auten and Splinter conclude that "since the early 1960s, increasing government transfers and tax progressivity resulted in little change in after-tax top income shares."

Recent [research](#) by John Early, former assistant commissioner of the Bureau of Labor Statistics, and former Senator Phil Gramm (R-TX) indicates U.S. household income inequality has *decreased* since 1970, once all government transfers and taxes are taken into account. This shows that the federal fiscal and tax system remains progressive overall.

¹Robert Frank, "Larry Summers Says the Democrats' Wealth Tax Has 'Little Chance'," CNBC, Oct. 21, 2019, <https://www.cnbc.com/2019/10/21/larry-summers-says-the-democrats-wealth-tax-has-little-chance.html>.

Question 2: Mr. Hodge, we see a lot of data and analysis, of variable quality, on the distributions of income and wealth. But those data sets are usually entirely static. Yet people in the low or high income or wealth parts of a distribution today are not necessarily the same as people in those parts in past or future periods. That is, the income and wealth distributions normally portrayed are static; yet, incomes change over time and wealth accrues from a process of accumulation over time. Do you agree that someone who may be in the top, say, ten percent of the income distribution today may never have been in that decile in the past and may not be in that decile in the future?

Answer: Looking at point-in-time snapshots of income and wealth can contribute to a picture of widening inequality, but that picture is incomplete because it does not show how people move in and out of income groups over time. For instance, the income of an average taxpayer rises dramatically as he or she ages and gains education and experience.² A snapshot of income data in one year cannot tell the life cycle story of income, which tends to exhibit an inverted-U-shape pattern, rising with age and then dropping slightly as taxpayers enter retirement. Similarly, data from the Internal Revenue Service (IRS) shows the frequency of taxpayers who make the top 400 individual income tax returns with the highest adjusted gross income from 1992 to 2014.³ Of the 4,584 people who made it into the top 400 at some point over that period, 3,262 qualified for only one year while only 138 qualified for at least a decade. In other words, 71.2 percent of the taxpayers who were in the top 400 made it once and not again. We should not conclude that the top is a monolithic group that is impossible to enter into or exit from or that it is the same people in the same income groups over time.

² Erica York, "Average Income Tends to Rise With Age," Tax Foundation, Mar. 21, 2019, <https://www.taxfoundation.org/average-income-age/>.

³ Robert Bellafiore and Aida Vasquez-Soto, "How Much Turnover Is There Among the Richest Americans?" Tax Foundation, July 8, 2019, <https://www.taxfoundation.org/turnover-among-richest-americans/>

Question 3: Mr. Hodge, many tax-increase advocates call for a significantly higher corporate tax rate, and tax-code changes in provisions related to international taxes that would put American companies at significant competitive disadvantages. Calls for higher taxes on corporations are often couched in desires to have companies pay their “fair share,” with no useful definition being provided about how fairness is defined or how why those advocating higher taxes should be deemed to be arbiters of what is fair and what is not.

Corporations have owners. Owners are called shareholders. And a significant amount of shares are held directly or in pensions, 401(k) accounts, and other vehicles used by Americans to help fund their retirements. Shares held in retirement accounts are not the exclusive domain of the so-called “rich.” Rather, Americans across the income and wealth spectrum hold shares to help fund current or future retirements.

Mr. Hodge, do you agree that higher taxes on corporations can have damaging effects on nest eggs of Americans across the income and wealth spectrum who are in retirement now or saving for future retirement?

Answer: According to [Pew Research Center](#), over half of American families have investments in the stock market at a median holding of about \$40,000. Overall ownership rates have been increasing over recent years, driven primarily by an [increase among families in the lower half of the income distribution](#).

Retirement plans hold nearly 37 percent of all U.S. stock, according to 2015 data.⁴ In 2017, public employee funds held about 41 percent of the top 1,000 retirement fund assets or about \$4.25 trillion and public defined benefit plans held about \$955 billion in domestic equity.⁵

Even in tax-preferred retirement accounts, the corporate income tax reduces the returns on investments. Research suggests that increasing the corporate rate could be [especially harmful to retirement savings](#) as it reduces the value of corporate stock.

Raising the corporate tax would also have broader economic effects that would reduce after-tax incomes. The [Tax Foundation model estimates](#) that raising the corporate income tax rate to 28 percent would reduce GDP by 0.8 percent, the capital stock by 2.1 percent, lower wages by 0.7percent, and eliminate 159,000 jobs.

⁴ Steven M. Rosenthal and Lydia S. Austin, “The Dwindling Taxable Share of U.S. Corporate Stock,” Tax Analysts, May 16, 2016, <http://www.taxhistory.org/www/features.nsf/Articles/ECCBAE00C0F4686785257FB500405811?OpenDocument>.

⁵ Erica York, “The Economics of Stock Buybacks,” Tax Foundation, Sept. 19, 2018, <https://www.taxfoundation.org/economics-stock-buybacks/>.



March 25, 2021

The Honorable Bernie Sanders
Chair
Senate Budget Committee
624 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Lindsay Graham
Ranking Member
Senate Budget Committee
290 Russell Senate Office Building
Washington, DC 20510

Dear Chairman Sanders and Ranking Member Graham:

On behalf of the National Retail Federation (NRF), I write to express our industry's views on the topic of today's hearing, entitled "Ending a Rigged Tax Code: The Need To Make the Wealthiest People and Largest Corporations Pay their Fair Share of Taxes."

NRF is the world's largest retail trade association, representing discount and department stores, home goods and specialty stores, Main Street merchants, grocers, wholesalers, chain restaurants and internet retailers from the United States and more than 45 countries. Retail is the nation's largest private-sector employer, supporting one in four U.S. jobs — 52 million working Americans. Contributing \$3.9 trillion to annual GDP, retail is a daily barometer for the nation's economy.

One subject of today's hearing will be the so-called "Tax Excessive CEO Pay Act," which was introduced last week. This legislation would increase the corporate tax rate based on the "CEO Pay Ratio" employers report to the Securities and Exchange Commission (SEC).

Retailers oppose this legislation for multiple reasons. First, the U.S. corporate tax rate should be based on factors that focus on driving economic growth in the United States, including setting a globally competitive rate and attracting foreign direct investment into the United States. Secondly, the legislation relies on disclosures filed in accordance with the deeply flawed CEO Pay Ratio Rule. The rule, finalized in 2015, presents a highly distorted view of actual compensation rates for American retailers. Far from identifying companies with higher disparities between CEO and worker pay, the ratio, as presently calculated under SEC rules, merely highlights companies with higher proportions of part-time and temporary workers. This distortion is particularly pronounced in the retail industry, which, largely due to highly seasonal nature of

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sales in our industry, employs far more short-term, part-time, and young workers than does general industry.

NRF stands ready to work with Congress on common-sense policies to foster economic growth as the nation recovers from the devastating ramifications of the pandemic, but retailers cannot support the imposition of onerous, burdensome, and job-killing taxes on American employers.

Sincerely,



David French
Senior Vice President
Government Relations

