

**BUILDING ON THE SUCCESS OF TCJA:  
THE 2025 TAX POLICY DEBATE**

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**HEARING**  
BEFORE THE  
**JOINT ECONOMIC COMMITTEE**  
OF THE  
**CONGRESS OF THE UNITED STATES**  
ONE HUNDRED EIGHTEENTH CONGRESS  
SECOND SESSION

NOVEMBER 19, 2024

Printed for the use of the Joint Economic Committee



Available via the World Wide Web: <http://www.govinfo.gov>

U.S. GOVERNMENT PUBLISHING OFFICE

WASHINGTON : 2026

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[Created pursuant to Sec. 5(a) of Public Law 304, 79th Congress]

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# CONTENTS

## OPENING STATEMENTS OF MEMBERS

	Page
Vice Chairman David Schweikert, a Representative from Arizona .....	1
Representative Donald S. Beyer Jr., a Representative from Virginia .....	9

## WITNESSES

The Honorable Kevin Brady, Former Chairman, House Committee on Ways and Means; Former Chairman, Joint Economic Committee, Washington, DC .....	2
Dr. Douglas Holtz-Eakin, President, American Action Forum; Former Director, Congressional Budget Office, Washington, DC .....	3
Ms. Samantha Jacoby, Deputy Director of Federal Tax Policy, Center on Budget and Policy Priorities, Washington, DC .....	5
Mr. John Arensmeyer, Founder and CEO, Small Business Majority, Washington, DC .....	7

## SUBMISSIONS FOR THE RECORD

Prepared statement of Donald S. Beyer Jr., a Representative from Virginia ....	30
Prepared statement of The Honorable Kevin Brady, Former Chairman, House Committee on Ways and Means; Former Chairman, Joint Economic Committee .....	34
Prepared statement of Dr. Douglas Holtz-Eakin, President, American Action Forum; Former Director, Congressional Budget Office .....	40
Prepared statement of Ms. Samantha Jacoby, Deputy Director of Federal Tax Policy, Center on Budget and Policy Priorities .....	47
Prepared statement of Mr. John Arensmeyer, Founder and CEO, Small Business Majority .....	62
Questions for the Record submitted by Senator Amy Klobuchar to Ms. Jacoby, and response .....	68
Questions for the Record submitted by Senator Amy Klobuchar to Mr. Arensmeyer, and response .....	71
Questions for the Record submitted by Senator Welch to Ms. Jacoby, and response .....	75
Submission by Vice Chairman David Schweikert: <a href="https://bf.uchicago.edu/working-paper/2021-115/">https://bf.uchicago.edu/working-paper/2021-115/</a> & <a href="https://oxfordtax.sbs.ox.ac.uk/sitefiles/wp1105.pdf">https://oxfordtax.sbs.ox.ac.uk/sitefiles/wp1105.pdf</a> .....	81
Submission by Rep. Lloyd Smucker: <a href="https://strgnfibcom.blob.core.windows.net/nfibcom/EY-NFIB-Macroeconomic-analysis-of-permanently-extending-the-section-199A-on-small-businesses.pdf">https://strgnfibcom.blob.core.windows.net/nfibcom/EY-NFIB-Macroeconomic-analysis-of-permanently-extending-the-section-199A-on-small-businesses.pdf</a> .....	81
Article submitted by Representative Donald S. Beyer Jr. "Just pure uncertainty". Small businesses are hopeful and fearful ahead of Trump's second term .....	82



## BUILDING ON THE SUCCESS OF TCJA: THE 2025 TAX POLICY DEBATE

TUESDAY, NOVEMBER 19, 2024

UNITED STATES CONGRESS,  
JOINT ECONOMIC COMMITTEE,  
*Washington, DC.*

The committee met, pursuant to call, at 2:29 p.m. in Room 210, Cannon House Office Building, Hon. David Schweikert [vice chairman of the committee] presiding.

Present: Vice Chairman Schweikert, Representatives Arrington, Estes, Smucker, Malliotakis, Beyer, Moore, and Porter. Senators Hassan and Schmitt.

Staff Present: Ron Donado, Colleen J. Healy, Kobe Barthelemy, Shauna Burton, Matthew Cernicky, Jaxson Dealy, Sebi Devlin-Foltz, Jeremy Johnson, Jessica Martinez, Michael Pearson, Alexander Schunk, Douglas Simons, and Garrett Wilbanks.

**Vice Chairman Schweikert.** This hearing will come to order.

I would like to welcome everyone to today's Joint Economic Committee hearing titled, "Building on the Success of TCJA: The 2025 Tax Policy Debate."

Today's hearing will begin with five-minute opening statements from myself, Senator Heinrich—or Congressman Beyer, whoever shows up, and then we will proceed to questions alternating between parties as members arrive. We will have a number of members who are going to be coming and going, because we have sort of sandwiched this into a day of chaos.

I would now like to introduce our two distinguished Republican witnesses. And going a little off script, a person who probably, at least in my time in Congress, had more effect on my life because of his willingness to sometimes listen to the intellectual chaos I was trying to bring to him, and the previous chairman of the Ways and Means Committee, but also someone who also sat on the Joint Economic Committee—for how many years? Quite a while.

And then, of course, Dr. Holtz-Eakin, who has been an incredible asset—I am way off script—to someone like myself when I had ideas, and his willingness to explain to me why it doesn't work has always been very, very helpful to me intellectually, but also the willingness to take us down rabbit holes of trying to be brutally intellectually honest of why some things work and don't work, and their effects into society.

I was going to let Congressman Beyer—why don't we—we are going to play a little bit of a game here, just so I am being respectful. We are going to start with opening statement, our opening

statement. And then, if Mr. Beyer shows up, we will have him introduce the Democrat witnesses. If not, you are stuck with me.

**Vice Chairman Schweikert.** Chairman Brady, five minutes.

**STATEMENT OF THE HON. KEVIN BRADY, FORMER CHAIRMAN, HOUSE COMMITTEE ON WAYS AND MEANS, FORMER CHAIRMAN, JOINT ECONOMIC COMMITTEE, WASHINGTON, D.C.**

**Chairman Brady.** Great, thank you, Vice Chairman Schweikert and distinguished members of the Joint Economic Committee. It is nice to be back, and it is really an honor to participate in this hearing. And I know from sitting on your side how important role JEC plays. This is the counterweight to the President's Council of Economic Advisers, and the role you play on economic policy is really key.

So just so you know, in my post-Congress life, I serve as the strategic advisor to the Alliance for Competitive Taxation Act which was formed to—in 2013 to form—to promote U.S. jobs, investment, sustain rising incomes for American families. They are seeking a globally competitive tax system, one where American companies can compete and win anywhere in the world, including here at home, one that makes the U.S. the premier destination for new investment and innovation in manufacturing, and it promotes economic growth. These are the tax directors from 49 of America's leading businesses that employ more than 3 million workers.

I also serve as a senior consultant with the global law firm Akin, and as a volunteer I am pleased to serve on the board of the American Action Forum, and as well as the Tax Foundation. I am not a registered lobbyist. My views are my own today.

So why do we do tax reform? As you may remember, tax reform became urgent because America's code was horribly outdated, the highest corporate rate nearly in the world, and an international system so competitive and as a relic of the Kennedy Administration. So as a result, for a decade before tax reform, America's economic growth was unusually slow, averaging a mere 1.5 percent a year. Paychecks were essentially flat for a decade, and on average about every other month a new U.S. company was moving its headquarters overseas, often taking its manufacturing, research, investment, and intellectual property with it, which left thousands of Americans in their communities behind, all because we had an obsolete tax code.

Some economists tried to convince America that that was the best we could do, that was the new normal. We knew better. And through policy work over 8 years, over 40 congressional hearings, bipartisan working groups, comprehensive drafts, the House Ways and Means Committee pursued the reform of America's outdated tax code in preparation for a president willing to lead on this challenging issue.

In 2017, if you may remember—and several of you were here—we sought to create a tax code built for growth, growth of jobs, paychecks, and the U.S. economy. We wanted to leapfrog America to the most competitive economy on the planet, positioning us as that premier destination for innovation and investment, and ensure competitiveness both for workers and for our businesses.

The Tax Cut and Jobs Act, led by President—and signed by President Trump achieved its goals. The Trump tax cuts were a boon for American workers. It spurred business investment and innovation, technology, software equipment, and facilities, restored America's corporate international competitiveness. And by dropping the rate from 20—to 21 percent from 35, Congress set off an economic boom. Coupled with a modern international code, the TCJA's rate cuts drew more investment in research and intellectual property back to the United States. It stimulated U.S. investment by an average of 20 percent. R&D increased. Many companies repatriated, brought back their intellectual property to America. More importantly, they developed and kept it here in the first place.

So if you look at within America's companies that compete here and abroad, if you look at jobs, capital expenditures, total sales, and R&D spending, all grew faster in the U.S. than in their overseas markets. In other words, they were investing more in all of that because the tax code allowed it and encouraged it. And that increased activity here at home was worth more than \$11 billion and 1 million jobs.

To make a long story short, the reforms that we made are not permanent. They will take concerted effort by Congress to both retain those pro-growth incentives, but find ways to improve them as well. We knew the moment we signed Tax Cuts and Jobs Act there was plenty of room for improvement. But I think the key thing is locking in the competitiveness and growth, and keeping the rates low in such a way that you drive workers' paychecks up.

And I will tell you, in the three years after TCJA became law, the nine percent average—nine percent, a real wage growth for Americans—is the largest wage growth since we began recording data. At the end of the day, my advice is to not simply extend it or make permanent, but look for ways to build on that growth and prosperity.

Thank you, Mr. Vice Chairman.

[The statement of Mr. Brady appears in the submissions for the Record]

**Vice Chairman Schweikert.** Thank you. Dr. Holtz-Eakin.

**STATEMENT OF DR. DOUGLAS HOLTZ-EAKIN, PRESIDENT, AMERICAN ACTION FORUM, FORMER DIRECTOR, CONGRESSIONAL BUDGET OFFICE**

**Dr. Holtz-Eakin.** Thank you, Mr. Vice Chairman.

Congressman Beyer, members of the committee, it is a pleasure to be here today, and I appreciate the opportunity to weigh in on the important tax policy issues you face in 2025.

To my eye, America has two preeminent economic problems. It has a growth problem, and that growth problem I summarize in my testimony by pointing out that in the 20th century GDP per capita, the accrued measure of the standard of living, income per person, grew at an average annual rate of 2.3 percent. And at that pace the standard of living doubles every 30 years, roughly one working career. In the 21st century that growth rate has slowed to 1.4 percent. And at that pace the standard of living doubles every 51 years. And all of us have seen evidence in polling and other sources of the discontent in America about access to the same opportunities

that someone's parents had. You just don't have the same chances. I think that growth problem is at the root of that discontent, and something that should be a focus of policy for Congress and the Administration.

The Federal Government also has a debt problem. Right now debt is roughly 100 percent of GDP, \$36 trillion, and it is on a trajectory that will send it ever northward, reaching something like 122 percent of GDP in 2034 and continuing north. That is literally unsustainable, and something that Congress must grapple with in its deliberations. So this debate takes place in that context.

The second point that I would like to make is that TCJA has a proven track record of addressing the growth problem. I will echo the things that the chairman said in his opening remarks, but we know that we got an enormous acceleration in investment in the United States, relocation of intellectual property into the United States, choices at headquarters no longer being outside the United States but in the United States. We have not lost a single headquarters since the passage of the 2017 Act. It spurred an enormous increase in economic growth in the U.S.

And the worst thing we could do would be to let it sunset and do a U-turn on a very effective tax reform, and the right thing to do is to build on that tax reform. There are things that one can do better and improve on the quality of the growth incentives. Some simple ones would be to make all equipment investment fully expensed, make all R&D fully expensed.

What you would like to have is a situation where, if you incur a cost to improve the productivity of your operation, you get to fully expense it and then however you improve your productivity is on a level playing field. If you buy some equipment, it is the same as training your workers, it is the same as investing in innovation. You want the tax code out of those kinds of decisions. Those are things that the Congress can do next year that would be big improvements.

But I think the one to really focus on is to focus on pass-through taxation. It is now the case that more than one-half of all business income is taxed on individual income tax returns as pass-through income. For that reason, all of the things typically thought of as individual rate considerations are business tax issues. And getting a combined corporate and pass-through regime that efficiently allocates capital across sectors, distorts economic decisions as little as possible—let people run their businesses for business purposes, that should be a big objective.

And you know, what really stands out to me in the 17 Act is that an Act that produced an enormous amount of simplification also contained the greatest complication, which is the section 199A pass-through regime. I am not here to lobby for a particular outcome. I put one in my written testimony that is so simple it is ridiculous. I am just pointing out that there are lots of ways to do it, and that we can do better on that front, and I would encourage some attention on that.

And the final point I want to make is just where does debt enter in all of this? It is not it is not 2017 anymore. We have a deficit of 6.3 percent of GDP for an economy that is at full employment, not at war. There is no reason for deficits to be this large. They

are an active threat to the capacity of this economy to grow and deliver on the promise of a higher standard of living.

So—and when you think about the TCJA decisions, think growth. But as a starting point, don't make the problem worse. So one way to think about it is you could extend TCJA, and that would keep current policies in place. And anything you did in addition to that, above or below, you should offset. And that would be a current policy baseline with a deficit neutral reform around it. That is—that, to me, would be the minimum that you should aim for.

The gold standard would be to do a deficit-neutral reform from the current law baseline, which would do two things. It would allow you to make some progress on the fiscal problem, which is real and won't be solved with taxes alone, you are going to have to deal with the spending part, but it would also allow you to make the tax policy permanent, and thus much more effective.

So I appreciate the chance to be here today to discuss these issues, and look forward to your questions.

[The statement of Dr. Holtz-Eakin appears in the Submissions for the Record]

**Vice Chairman Schweikert.** Mr. Beyer.

**Representative Beyer.** Mr. Chairman, thank you very much. I would love to introduce Ms. Jacoby, who is the deputy director of Federal tax policy at the Center for Budget and Policy Priorities and a UPenn Law School graduate and MPP at American University.

And we are delighted to have you with us. So the floor is yours.

**STATEMENT OF MS. SAMANTHA JACOBY, DEPUTY DIRECTOR OF FEDERAL TAX POLICY, CENTER ON BUDGET AND POLICY PRIORITIES**

**Ms. Jacoby.** Thank you. Representative Beyer, Vice Chairman Schweikert, and distinguished members of the committee, thanks for the opportunity to testify today. I am Samantha Jacoby, deputy director of Federal tax policy at the Center on Budget and Policy Priorities. Today I will focus on three points.

First, tax cuts in the last 25 years gave large benefits to households in the top 1 percent and corporations. These tax cuts have largely failed to trickle down to workers and families.

Second, these large tax cuts cost significant Federal revenue and added trillions to the national debt, increasing economic risks. Extending the Trump tax cuts that expire next year would further expand benefits for the wealthy, while adding considerably to the deficit. More revenue is needed to make our commitments to seniors, to address future challenges, and to improve our fiscal outlook.

And third, instead of doubling down on failed trickle-down tax cuts, policymakers should prioritize investments like the Child Tax Credit that would yield short and long-term benefits to people, communities, and the economy as a whole.

The 2017 Trump tax cut delivered a \$60,000 annual tax cut to households in the top 1 percent and a \$250,000 annual tax cut to the top one-tenth of 1 percent. This tilt to the top is largely because of a few costly provisions. The dramatic cut in the corporate tax rate down to 21 percent mostly benefits wealthy shareholders. Despite claims from the Trump Administration that it would boost

household incomes by \$4,000, JCT and Federal Reserve economists found that workers in the bottom 90th percentile saw no change in earnings from the corporate rate cut. And who did benefit? Executives and highly-paid firm managers.

Similarly, the special deduction for pass-through businesses, including many real estate funds, financial firms, and oil and gas companies, for example, gives millionaires more than half the benefit at a cost of \$70 billion a year. The pass-through deduction has not boosted wages, investment, or broader economic activity, but it has created opportunities for high-income business owners and their tax advisers to game the deduction through both tax avoidance and illegal tax evasion.

Continuing on this path by extending the expiring Trump tax cuts would be irresponsible. It would deliver a \$48,000 annual tax cut to households in the top 1 percent, but only about \$500 for the average household making less than \$100,000. And imposing broad-based tariffs as an offset would double down on the 2017 law's regressivity, increased taxes—increasing taxes on low and moderate-income families, raising the cost of living for families, and posing significant short and long-term economic risks.

Together, the Bush and Trump tax cuts have eroded our revenue base, undermined our ability to finance high-value investments, and driven up deficits and debt, increasing future economic risks. Without these tax cuts, the deficit would be half its current size and the debt ratio would be much lower. Continued growth in the debt ratio poses potential future risks to the economy and fiscal policy. Interest costs are higher now than in the 1990s, and are expected to keep growing.

Making the Trump tax cuts permanent would cost \$4 trillion over 10 years, and adding further business tax breaks like expensing for equipment and cutting taxes on multinationals' foreign income would add another trillion dollars to the cost. These tax cuts don't pay for themselves. CBO projects that extending the Trump tax cuts would raise debt by more than 30 percent of GDP over the next 30 years.

The country needs more revenue, not less, and those new revenues should focus on those who have gained the most over the last four decades. Since the 1980s incomes among the top 1 percent of households grew 3 times as fast as that of middle-income families. Instead of doubling down on failed trickle-down tax cuts, there are opportunities to make investments that make the economy work for everyone.

Child poverty in the U.S. is higher than in other wealthy countries due to our weaker support for families with kids. Investing in kids through policies like the Child Tax Credit has long-term payoffs for the entire country. Infants and families with lower incomes who receive more support from child-related tax benefits go on to have higher test scores, higher high school graduation rates, and higher earnings into young adulthood. All of that supports a stronger economy.

And policies to support workers can also yield significant benefits to communities and the economy as a whole. Six million workers in low-wage jobs are taxed into poverty every year or deeper into poverty. Expanding the Earned Income Tax Credit for those work-

ers can help them afford rent and the rising cost of other basics, which are essential for maintaining a steady job and participating in the economy.

Thank you again for having me to testify today, and I welcome any questions you have.

[The statement of Ms. Jacoby appears in the Submissions for the Record]

**Representative Beyer.** Thank you, Ms. Jacoby, very much.

Before introducing Mr. Arensmeyer, I would like to note and offer for the record, if there is no objection, an article from Alicia Wallace of CNN submitted by Mr. Arensmeyer.

**Vice Chairman Schweikert.** No, so ordered.

[The information appears in the Submissions for Record]

**Representative Beyer.** Thank you very much. And with that, John Arensmeyer is the founder of Small Business Majority. I met him a couple of decades ago. We have been working for a long time, pulling together the great needs of small business and how government can most effectively react, respond, and lead.

Mr. Arensmeyer, the floor is yours.

#### **STATEMENT OF MR. JOHN ARENSMEYER, FOUNDER AND CEO SMALL BUSINESS MAJORITY**

**Mr. Arensmeyer.** Thank you. Thank you, Representative Beyer, and also Vice Chairman Schweikert, and members of the committee. Thank you for inviting me to speak about the importance of ensuring that we have a tax code that supports a robust, innovative, and inclusive economy anchored by our nation's 34 million small businesses.

We are a national small business organization that empowers America's entrepreneurs to build a thriving and equitable economy. Prior to launching Small Business Majority nearly 20 years ago, I was the founder and CEO of an award winning interactive communications company that I ran for 12 years. At Small Business Majority we engage our network of more than 85,000 small businesses and 1,500 business and community organizations to advocate for public policy solutions and deliver resources to entrepreneurs that promote equitable small business growth.

For two decades we have examined the reality of how taxation affects America's small businesses, and have advocated for tax policies that maximize entrepreneurial growth and level the playing field with large corporations. Our work is bolstered by scientific research into small business needs alongside the voices of America's entrepreneurs.

To be clear, the current tax code is not working for Main Street. Most recent—our most recent national opinion poll of small businesses found that more than three quarters believe that the current tax system favors large corporations over small businesses, that wealthy individuals and large corporations don't pay their fair share of taxes, and that Congress should create a bottom-up, simplified tax system that better delivers for America's entrepreneurs.

Specifically, the expiration of the Tax Cuts and Jobs Act presents a golden opportunity for Congress to reform Section 199A pass-through tax deduction as a way that benefits Main Street. Based on Tax Policy Center data, almost 70 percent of all 199A benefits

flow to the wealthiest 4.5 percent of pass-through business owners. While the richest entities claimed an average deduction of over \$1 million in 2021, those with incomes below \$100,000 took home an average deduction of less than 2,000. And as Ms. Jacoby has pointed out, half of the benefits of 199A go to business owners earning more than \$1 million.

Moreover, the 199A deduction has also widened racial disparities, with Black and Hispanic-owned businesses receiving just seven percent of the benefit. One possible solution that we are advocating is to allow entrepreneurs to deduct the first \$25,000 of business income, something that would benefit the vast majority of Main Street enterprises, an approach that 2.5 times more small business owners support than oppose in our recent poll.

As many of you on both sides of the aisle have said, any tax package must address the growing deficit while ensuring that there is adequate funding for targeted government programs to support our nation's entrepreneurs. Increased revenues can be achieved by the following four ways.

Increasing the corporate tax rate—only 5 percent of small businesses, or C corporations are paying the 21 percent corporate tax rate. Raising the rate to 28 percent, something supported by a majority of business owners in our most recent poll, would generate \$700 billion in revenue over the next 10 years, and better level the playing field between large and small enterprises.

Second, bring the capital gains rate to—more in alignment with ordinary income tax rates, something that is supported two to one by our small business owners in our recent poll.

Three, maintain the current level of IRS funding to maximize revenue and serve small businesses, something that our polling has shown is supported by more than 80 percent of small businesses, and would close the annual tax gap of \$700 billion.

And fourth, closing tax loopholes favoring offshore income, something supported in our polling by three quarters of small business owners.

A few other points that are highlighted in detail in my written testimony.

Small businesses continue to grapple with health care costs that are far greater than anywhere else in the developed world. More than half of the participants in the ACA marketplaces are small business owners, employees, and self-employed Americans. The ACA premium tax credits and the accompanying expanded market eligibility have been a game-changer for entrepreneurs over the past four years. They must be continued after 2025 to avoid an estimated 4 million Americans losing coverage.

Finally, small business owners are already hunkering down to weather the painful impact of a potential trade war, including stocking up on inventory and thinking about moving operations offshore to manufacture for the export market. At the most recent convening of our National Small Business Council, increased tariffs were the single biggest concern. The business owners' comments are in my written testimony.

In summary, 2025 offers a chance to address the shortcomings of the current tax code and lay the foundation for tax policies that better serve small businesses. Thank you.

[The statement of Mr. Arensmeyer appears in the Submissions for the Record]

**Vice Chairman Schweikert.** Thank you. One of the ways we are going to do this is, Mr. Beyer, I am going to have you do an opening statement. Then I am going to turn to Ms. Malliotakis to ask a couple of questions, because she needs to leave in a moment. So I am going to try to balance this so everyone can—

**Representative Beyer.** Would you rather that she went first?

**Vice Chairman Schweikert.** Well, but your opening statements are always very elegant.

**Representative Beyer.** Oh, yes, yes.

**Vice Chairman Schweikert.** Just make it short. [Laughter.]

**Representative Beyer.** Five minutes, right. Well, Chairman Schweikert, thank you very much, and thank all of you for being here today.

Chairman Brady, welcome back. I very much enjoyed my couple of years on Ways and Means with your leadership.

And Doug Holtz-Eakin, you are a regular contributor here. It is good to have you back, and I am thrilled to have my friends, Ms. Jacoby and Mr. Arensmeyer.

As we discuss what direction the tax debate should take next year, we really need to look through the tax record and—because we know we all want growth, we all want this economy to grow as quickly as it can. And we all know that tax policy is a big part of that. And the question is—and the debt is a big part of it too, as Ms. Jacoby mentioned. And so the question is, how do we do this?

Chairman Brady, I very much respect your great pride in the TCJA. I think, love it or hate it, it was the accomplishment of Trump I, and you were the one that led all that. So I hope I don't hurt your feelings when I try to put a perspective on the numbers you ran out there, because, you know, the economy did grow at almost 3 percent in 2018, 2.97 percent. But it grew at 2.95 percent in 2015 under Obama. It grew at 2.47 percent in 2019, the second year, the same as in 2017, the year that Trump inherited from Obama, and the same as in 2014 under Obama. And then it dropped. You don't count 2020 and 2021 with the huge drop and the huge surge, but 2022 back to 1.9; 2023, 2.54.

Job growth, again, if you look at all the last 10 years, basically the same every year, even after TCJA, except that it dropped to three quarters of 1 percent—now two thirds of 1 percent—in 2019, the second full year of TCJA. So in fact, the International Monetary Fund and the Congressional Research Service both found that the law, according to them, had very little to do with the growth. And this growth didn't even come close to paying for the cost of the tax cuts. The Congressional Research Service estimated that we had to see a growth rate of over 9 percent in 2018 to be on track for that goal.

So what did happen? Well, as Ms. Jacoby said very well, most of it went to the richest—80 percent to the richest 10 percent. Billions of dollars in tax giveaways to the big businesses. We just came off an election where at least part of the results were that so many Americans felt left behind, that their incomes have not kept up. My friend, Ian Shepherdson from Pantheon, pointed out

that a blue collar worker in 2023 is not making what he made in 1972 in constant dollars.

So while we want it to happen—and yet we have more than 1,000 billionaires and, you know, lots and lots of people with very high incomes. We have grown our upper middle class dramatically, but we have left an awful lot of people behind. I know the intent of TCJA was to pull them along, but it hasn't worked.

What has worked? Well, the Child Tax Credit, which we are very proud of. It was in the American Rescue Plan. It wasn't the only thing that brought child poverty down because the economic impact payments do, and unemployment benefits. But let's face it, it was 5 percent or 5.x percent, the lowest in American history. And when we got rid of it, it went back up to 12.7—I think it was 13.7 percent last year—we know how to reduce child poverty. We have decided child poverty is a political choice, a public policy choice, and we have made the wrong choice.

One of the big challenges in this last election was housing costs. People across the country, there is too few houses we can't afford to get in, and rents are sky high. You know, the one public policy thing we have brought forward on that is the Low-Income Housing Tax Credit, which we haven't been able to pass yet, despite lots of bipartisan support.

By the way, a shout out to Wyden Smith—our current Republican chair of Ways and Means and Ron Wyden—brought back a limited Child Tax Credit, passed out of our committee 40 to 3, and is stuck in the Senate right now. But, you know, we are coming together around that.

And then there is the national debt. You know, we are all guilty of it being 100 percent right now, but my great fear as we move into this next two years is that we are going to make it worse. Or even worse, we are going to pretend that tariffs are going to pay for the national debt when we know that nobody—no economist actually believes that.

There are a lot more effective ways we could do this if we focus on lifting children out of poverty, people getting a quality education, working on a broken health care system, making all those solutions a reality.

And by the way, I don't want to say blanket everything in TCJA is wrong. I have seen great studies that show the instantaneous deduction depreciation actually did a lot to spur growth. If you are—you know, I was in business for 46 years, and if you can buy the new car wash and write it off the first year you are more likely to buy that new car wash. But I think we need to be really careful as we look at readdressing all the things that expire, that we focus on ways to—running out of time—to make sure that it is lifting up the people that need it the most, rather than the people that need it the least.

[The statement of Representative Beyer appears in the Submissions for the Record]

**Representative Beyer.** And with that I yield back, Mr. Chairman.

**Vice Chairman Schweikert.** Representative Malliotakis.

**Representative Malliotakis.** Thank you, Mr. Chairman.

I want to thank you all for coming today. I think for—I wasn't on the committee in 2017. I am very excited about the opportunity to extend and make better what I thought was a good product. I think, if you look at the results, it did create millions of jobs, it did lift people out of poverty. It did double the Child Tax Credit in the standard deduction, allowing for families to keep more of their money in their pockets. It did lift wages and it did bring unemployment down to record levels, particularly for women and minorities. And I think that is all wonderful, and we should be applauding the success of this.

And I think that there is also—I guess, obviously, what we are looking for here is how do we expand on this? How do we build upon the successes of the TCJA?

I think one of the things that I have observed in speaking with people is—obviously, you want people to invest, you want people to expand their businesses, grow their businesses, create jobs, but they need some type of certainty for that, right? And I think that some of the concerns are that the provisions have expired and, like, the difficulty we are having now renewing some of those provisions like R&D and the bonus depreciation that has begun to sunset.

So Mr. Brady, or Chairman Brady, I would love to ask your opinion on what do you think about maybe longer-term provisions, some type of permanence that could give businesses more certainty so they feel comfortable to expand and invest?

**Chairman Brady.** So Congresswoman, thank you. So the short answer is the greatest growth you get, the greatest certainty to invest in the United States, whether you are bringing investment and manufacturing back or deciding where to do it, is locking in the pro-growth provisions permanently of the tax code you have within the corporate rate, which is one of the reasons I think it drove—like, real wages in 2017, 2018 went up more than \$6,000, the greatest—again, more than the previous 10 years combined. The unemployment rate fell. Child poverty fell significantly, the fastest rate since the 1960s. So making sure you lock in the pro-growth provisions like the corporate rate.

Now, I would continue to lock in those lower marginal rates for families and small businesses, certainly, as they come out of an epic period of inflation. Very key that we keep that going.

I would extend and simplify the small business tax deduction of 20 percent for pass-throughs. They do employ half of all the workers in America. That deduction has been—has supported more than 2.5 million jobs and grown Main Street, I think, beautifully.

So I would also continue—try to make permanent incentives for innovation, for expensing for R&D, the past definition for interest deductibility because they are so important to job opportunities and rising paychecks.

**Representative Malliotakis.** I know President Trump has said he wants to also focus on manufacturing and bringing our domestic supply chain home. And I think, you know, one thing that didn't happen in 2017 was COVID. It came afterwards, and I think it opened up all our eyes on the reliance on foreign countries, particularly communist China, for pharmaceuticals, 80 percent of APIs being manufactured there, medical devices, nanotechnology.

I have legislation that would repatriate a lot of this and incentivize businesses to come back to Puerto Rico, for example, pharmaceutical infrastructure that they had there in the 1990s. What are your recommendations of what we can do there? And should we offer a lower tax rate if a—for repatriating manufacturing here or creating a new facility here that could provide jobs and also address those national security needs?

**Chairman Brady.** Yes, so you—one, you are thinking the right way. And I think, first, you have already taken a big step. The lower corporate rate, the modern international rate, the incentives on innovation, research, manufacturing produced real results. The manufacturing jobs that were created the first two years after tax reform were the highest growth we have seen in a long, long time.

Secondly, I think the deregulation role the President played played another key role for making American companies very—Main Street to the largest—very competitive. Keeping it to here, as well.

I think you can look at—I would not single out certain industries for incentives, but do the broad-based incentives. For example, if you look at businesses, I think one of the reasons our economy has prospered well here over the last four years is the tax code allowed companies to invest in new supply chains. One of the biggest expenses for repatriating is the cost of the building, the cost of equipment in it, the software, the technology that goes with it.

I know you have been thinking about how do we create the incentives to do that. I think create it within the existing provisions and do it broad-based enough that you are not picking one winner over another, but you are doing it broad-based so that we can, again, become medically independent, you know crucial critical minerals, all the things you are thinking about for a stronger economy for the long term.

**Representative Malliotakis.** Thank you very much.

**Vice Chairman Schweikert.** Okay. We are going to go to—

**Representative Porter.** Thank you very much, Vice Chairman Schweikert.

My Republican colleagues have planned today's hearing to talk about how great they think President Trump's 2017 tax law was ahead of many of the provisions expiring next year. I want to focus my time on one piece of the Trump tax law that I strongly opposed, which is the deduction—the cap on the deduction of state and local taxes, which is also known as SALT.

Ms. Jacoby, can you just explain what the SALT deduction is?

**Ms. Jacoby.** Sure, thank you, Representative. Yes, the SALT cap refers to a \$10,000 cap on the amount of state and local taxes that a taxpayer can deduct from their taxes.

**Representative Porter.** And this SALT deduction is not a new concept. It was in our tax code since the inception of the Federal income tax in 1913, and its purpose is to prevent Americans from being double taxed. If you earn \$50,000 and you pay \$5,000 of that in tax to state and local government, you don't have that income available anymore. So it effectively allowed you to be taxed on the remaining 45,000. That is the effect of the deduction.

Why does this deduction—why might this deduction be important to families, California families in particular?

**Ms. Jacoby.** I think that the understanding among many households is that they are not fully able to benefit from all of that tax that they are not able to deduct on their Federal taxes.

**Representative Porter.** Right. So most—many Californians owe more than \$10,000 in state and local taxes. Remember that state and local taxes also includes the property tax that you pay and the state taxes that fund the school systems, that fund public safety. So the cap, the \$10,000 limit on the state and local tax deduction, really punished taxpayers in states with significant tax burdens who fund services, that do help grow our economy, like investments in education and infrastructure.

My office issued a report five years ago showing that nearly half of the constituents in my district used the SALT, the state and local tax deduction, with an average deduction of more than \$22,000 per household. And the Trump tax law cut that deduction in more than half, capping it at \$10,000. And this hurt many middle-class families whose communities are investing in public services.

And we want states and localities to provide services to people. We think they are closer to communities than the Federal Government. And that SALT cap also made it harder for homeowners and would-be first-time homeowners to buy houses because the property tax they will owe would not be fully deductible.

President Trump didn't make his motives unclear here. He stated that the cap on the SALT deduction was intended to punish so-called blue states who did not support him in the 2016 election. This tax law effectively discriminates against taxpayers who earn the exact same income based solely on where they live. I think that is wrong as a matter of Federal policy, and that Congress should not repeat that mistake next year.

There are concerns about whether the state and local tax deduction benefits those at the highest part of the income spectrum. So I have a solution. The very first bill I introduced this Congress was my SALT Act. It would eliminate that state and local tax deduction cap for families that make under \$400,000 in annual income. For filers making 400,000 and above, the SALT cap would start at \$60,000. It would be capped, as Trump did, and would taper as you climb so that people earning—taxpayers earning \$1 million or more couldn't claim the deduction at all. With the revenue raised from that change, my legislation would create enough funding to provide hearing and vision coverage for every Medicare recipient.

This shows we can fund the right priorities when we enact the right tax policy. At a time when the cost of housing is sky high and too many Americans cannot save enough to afford a home, Congress shouldn't make home ownership even more unaffordable for working and middle-class families by extending this harmful SALT cap. We heard from voters across the country that costs are too high. So we need to lower their taxes, their Federal taxes, by restoring the SALT deduction.

The Republican Party controlled the House, the Senate, and the White House when it enacted the Trump tax law that punished Californians. They have a governing trifecta next year, and I urge them to use it to fix the state and local deduction tax cap.

I yield back.

**Vice Chairman Schweikert.** Thank you.

**Senator Schmitt.** Thank you, Mr. Chairman. I think when this was enacted in, you know, in 2017, this was a big move forward, I think, in helping working families and small businesses. I think that the—essentially, unless you are organized as a C-corp, many of these tax cuts would have never helped you unless if you had the, you know, the flow-through, the—you know, the closely helds, the LLCs, the LLPs. They were able to realize, those small businesses that put that money back into their businesses or hire more people, I think that was one of the brilliant moves of the 2017 legislation.

I wasn't here then. I will be here next year to work on some of these things. And I guess my first question for you, Chairman Brady, in addition to thanking you for all the work you did with the congressional baseball team—we stand on the shoulder of giants, shouldered of giants, thank you for that work—but your work as chairman of the Ways and Means Committee and your work on this—if you were—if I were going back home this weekend and somebody asked me, you know, why is this important, why is it important to extend, what are a couple of statistics that you would point to?

**Chairman Brady.** You know, I—Senator, thank you for the kind words, and thank you for your baseball prowess, as well, on the field. I have seen it up front.

So without a question, this tax code, which is now built for growth, had its greatest impact on workers' paychecks, without a question. And that came from the pass-through rate that we lowered for Main Street businesses to try to create parity for the corporations. They are taxed at a large level. We essentially got it closer to even there, and created the investment that our Main Street businesses—the incentives for growth.

But paychecks are a big way—there is no question that growth in the three years after TCJA, the nine percent real wage, people were getting ahead every month. Every month it was outpacing inflation significantly. I think that is the main reason to lock in these low rates, to continue the growth and competitiveness there.

I think we saw child poverty reduced at the fastest rate since the 1960s not by sending them government checks, but by getting their parents ample opportunities for jobs and rising paychecks, and we saw that done in a sustainable way, that you can lock in as well as you as you move forward on extending these.

I think too we live in a world where a lot of our companies have income that is mobile. You want them to choose the United States to invest in that new plant down the road, the new research, the jobs along Main Street. This tax code is built for growth of Main Street in a major way in the U.S., in a major way. Our goal was not to level the playing field; it was to tilt it our direction.

**Senator Schmitt.** Now I will just ask another question, and also for you, Doctor, too.

You mentioned inflation. So I think all the savings—and you had a—you know, people's income, no matter what your race, your gender, line of work, whatever, went up after this, and that was the goal. And I think that happened. And I come from a working-class family in a working-class neighborhood, and people felt that.

And then, of course, you have got the Inflation Reduction Act, you have got the American Recovery Act, 1.4 trillion pumped into the economy. And then, you know, there is energy issues, and all of a sudden everything costs a lot more. So whatever those gains were were certainly eaten into by inflation.

So knowing those set of circumstances, what happened before, the amount of spending that took place after this went into place, what are the best areas to sort of double down on or do more of—or do less of, I guess, if you were to recalibrate this—for expanded growth next year? What would be a couple of things you would identify?

Both of you, please.

**Chairman Brady.** So I would—to echo Doug Holtz-Eakin’s initial points, I would find a way to simplify that small business pass-through tax cut. It does good work. I don’t think the economy captures the growth that comes from that provision. It is meaningful, but I think it is actually bigger than we believe. It is an awfully complicated—on the day it was signed I knew it was too complicated. I think we can make that work much better.

I would continue—you know, tax rates on corporations may or may not be positive or popular, but it drives so much of the paycheck and incentives. Whatever the—if you can lower that rate, whatever it is tied to—R&D it makes better, innovation it makes better, manufacturing—it is sort of that crown jewel that drives growth sort of throughout the economy.

And one of the points, Senator, I would make is we didn’t lower rates for corporations. We lowered it on them to drive the growth and the paycheck increases we wanted. Then corporations paid for more than 80 percent of their own tax cut because they knew, one, we needed to do that to balance the provisions there, but they believed they would have a stronger economy for their workers and their customers, and they do.

**Dr. Holtz-Eakin.** Briefly, I would say the key is to have a fiscally disciplined focus on supply side incentives. Supply side incentives give you growth without the price pressures. An undisciplined approach will scare bond markets, drive up rates, and would be counterproductive when you are trying to improve incentives to invest. So a fiscally disciplined supply-side approach is what you are going to need.

**Senator Schmitt.** Thank you, Mr. Chairman.

**Vice Chairman Schweikert.** Thank you, Senator.

Senator Hassan.

**Senator Hassan.** Thank you very much. I appreciate this hearing, and thanks to you and the chair for holding it.

To our witnesses, thank you all for being here today. I want to start with a question to Mr. Arensmeyer and Ms. Jacoby.

In communities across New Hampshire it is increasingly difficult for workers to find affordable places to live. And I am sure we have all—all of us have constituents who are struggling with this. The housing shortage drives up costs for workers and makes it harder for small businesses to hire the workforce that they need.

So Mr. Arensmeyer, can you talk about the drag that housing shortages are having on the economy, particularly when it comes to small business growth?

**Mr. Arensmeyer.** Well, housing—Senator, housing has not been something we have focused on directly on. Clearly, like other costs in the economy, we focus mostly on costs of supplies and just the inability to potentially raise prices to match the increase in costs.

**Senator Hassan.** Yes.

**Mr. Arensmeyer.** Housing is absolutely, you know, part of that. And certainly, if that—if housing stagnates, there are a lot of small businesses who work in the housing space, construction and otherwise. So there is an indirect effect on a slowing housing market with small businesses.

So yes, like, it is a huge part of our economy and absolutely any drag is going to impact small businesses for sure.

**Senator Hassan.** Well, in my state one of the things it is really impacting is recruitment of employees. We have businesses that can't find employees because employees can't move to New Hampshire. They—even high-income employees can't find a place to live. So it is the number-one priority I hear about from businesses, most of which are small in my state.

Ms. Jacoby, how can the Federal Government better incentivize the development of housing that workers can afford through the tax code in ways that work for smaller states like New Hampshire that may have really rural communities? You know, 100-unit multi-family housing is not going to work in some of my communities.

**Ms. Jacoby.** I thank you for that question, Senator. Yes, I think, you know, others have mentioned increasing housing supply through, you know, proven measures like the Low-Income Housing Tax Credit. That is an important way to increase housing supply and reduce costs.

Another thing that I think often gets left out of the conversation is the importance of rental assistance. Tax incentives for increasing housing supply often leave out the lowest-income workers who cannot even afford housing at sort of mid-level—mid levels. And so increasing the availability of rental assistance through vouchers is also very important.

**Senator Hassan.** Thank you very much.

Dr. Holtz-Eakin, it is nice to see you. I have worked with my colleagues on both sides of the aisle to restore the full and immediate research and development tax deduction, which, as you all know, expired in 2022.

Restoring the full deduction is vital to our national security and our economic development. When American companies invest in R&D to develop new products and technologies, it obviously stimulates our economy, promotes job growth, and helps us outcompete countries like China. The Chinese Government currently provides a 200 percent super deduction for R&D, effectively giving firms an immediate \$2 million deduction for every \$1 million invested in R&D. Meanwhile, American businesses can only immediately deduct \$100,000 for \$1 million in R&D development.

So how does the current R&D deduction impair American businesses' ability to plan and make investments going forward?

**Dr. Holtz-Eakin.** I think there are two main channels. It is a really important question because this is central to our strategic competition with China—

**Senator Hassan.** Yes.

**Dr. Holtz-Eakin** [continuing]. And to America's future in general.

One channel is that—it says if I have a choice between something I can fully deduct and my R&D, I do the other thing. And so you are skewing the composition of business activities away from the innovation we need.

The second is especially important for smaller businesses. The fact that they can't expense it, and they have—and they can only deduct it has huge cash flow implications for the small business guys.

**Senator Hassan.** Right.

**Dr. Holtz-Eakin.** And this was a disaster for them, quite frankly.

**Senator Hassan.** Yes.

**Dr. Holtz-Eakin.** And reversing it, I think, would be very, very important very quickly.

**Senator Hassan.** And obviously—and I think you just mentioned this—very important in our strategy to outcompete China, right?

To Ms. Jacoby, the Child Tax Credit is a critical lifeline for hard-working families. Over the past year members of both parties have expressed strong support for expanding and strengthening the Child Tax Credit. As we look to next year, any tax package should prioritize cutting taxes for hard-working families, which would lower costs and lift children out of poverty. What changes should Congress consider to the Child Tax Credit to reach more hard-working families, including changes that have had bipartisan support?

**Ms. Jacoby.** Yes, thank you. So the most important thing that the Child Tax Credit can do is better reach the 19 million children who are currently left out of the credit—

**Senator Hassan.** Right.

**Ms. Jacoby** [continuing]. Or don't receive the full credit. That change would—and did in 2021—reduce child poverty to historically low levels. So that is the most important change.

But any change to the Child Tax Credit should prioritize those kids. The Wyden Smith bill that my colleagues worked very hard to study and analyze, and—that would have made the Child Tax Credit more available and helped lift 500,000 children out of poverty.

**Senator Hassan.** Yes, well, thank you.

And I will just thank my colleagues in the House for passing the Wyden Smith agreement. We are trying on the Senate side, and look forward to continuing to work with all of you to see what we can get across the finish line. Thank you.

**Vice Chairman Schweikert.** Thank you, Senator. The people's house.

**Senator Hassan.** I love being here. We are doing all sorts of live quorum calls, so I am going to dash. But thank you very much.

**Representative Moore.** Thank you so much.

**Representative Smucker.** Thank you, Mr. Chairman. And I was—I came—first took office in 2017, so I was here during the passage of the Tax Cuts and Jobs Act, and I was really proud of

the impact that had on my constituents who really saw and felt that increase in the average household income.

And, you know, it is remarkable how different they feel now, and I think you saw the results of this election partly due to that after the economic policies of this Administration compared to the first few years of the Trump Administration. So I was very proud of the work we did. And I think the statistic that I am probably most proud of is that we had the lowest poverty rate than at any other time in our history. So we lifted more people out of poverty than any other time.

This is a different time, though, and I want to get back to some of the comments you made, Dr. Holtz-Eakin, and then maybe Chairman Brady, as well.

And by the way, Chairman Brady's leadership is why we got the Tax Cuts and Jobs Act, so I was really proud to serve with you at that time.

But we now have 36 trillion in debt as of today, adding \$2 trillion per year. One of the ways—and my belief is that is one of the greatest threats that we are faced with, where it is a predictable crisis. We are going to have a sovereign debt crisis within the next 10, 20 years, probably, if we don't change the trajectory. One of the ways we get out—not the only way, but it is important to have strong economic growth, back to your point, doubling income every 20 years versus every 20—every 50 years.

And so we have to get the tax code right, and that is why I think, you know—we heard from Mr. Beyer. You know, you believe as well it is important that we put growth policies in place. But I also believe that we can't add to the debt with what we are doing at this particular time. I think it is very, very important.

So how do you square that? Is it possible to do that? Can we extend the provisions of the Tax Cuts and Jobs Act that I think are so important to driving a growing economy, and do that without adding to the debt? I would like to get your thoughts on that.

**Dr. Holtz-Eakin.** So there is a very, I think, confused and confusing public discussion of this.

Simply extending the Tax Cuts and Jobs Act keeps us at the current policy and the current level of deficits and debt and debt growth. So last year we had \$1.8 trillion in deficit, 6.3 percent of GDP. Over a trillion of that was interest. So it should be a warning sign. But to simply continue doing that is—we would have \$2 trillion deficits, and we would be on the trajectory that I outlined at the beginning of my testimony, so that it is not that we are going to cut taxes, we are just going to continue with the current level if we just extend.

You can do better than that. You could close the gap and improve the growth incentives. And as I mentioned, I think the gold standard would be to have a deficit-neutral tax reform that would allow you to do the tax reform that Mr. Brady could design, and which would be permanent because it would not produce deficits, you wouldn't have to sunset it. Permanent incentives are always better than temporary incentives. That is the gold standard. That is where you want to go.

Realistically, to do that you have to bring in the spending side of the Federal budget. There is no way to solve the fiscal problem

without addressing the spending. I can do that at great length, but I don't want to use up all your time. But Social Security and Medicare are over 50 percent of non-interest spending over the next 10 years.

**Representative Smucker.** Yes.

**Dr. Holtz-Eakin.** And they are growing faster—5.5 for Social Security and 7 for Medicare—than any revenue base is going to grow. They are going to grow at about four.

**Representative Smucker.** Yes, and I want to give Chairman Brady just—

**Dr. Holtz-Eakin.** So you—

**Representative Smucker.** We will talk—

**Dr. Holtz-Eakin.** You have to deal with that.

**Representative Smucker.** Yes, we will talk a lot more, I am sure.

**Dr. Holtz-Eakin.** Yes.

**Representative Smucker.** But, like, I 100 percent agree, and I think we have to go to the spending side. Spending at about 26 percent of GDP is at the highest level ever. So we have got to get to it.

But Chairman Brady, I would just like to—I only have another minute, but I would like to get your reaction to that, as well.

**Chairman Brady.** Yes, I think permanence is so important to the tax code for so many reasons. And I know you are going to have a pretty spirited debate about how much of this will be paid for going forward. But all I know is finding pay-fors are hard. If you remember, in 2017 we had \$5.5 trillion of tax cuts. We paid for \$4 trillion of it up front. So 72 percent of those tax cuts were paid for when President Trump signed that bill. Since then we have had significant revenue growth, somewhere between a half a trillion and 1 trillion. So we have raised that cover significantly, as well.

It is terrifically hard to do pay-fors, but it is part of the process of trying to make permanent, you know, the provisions that most lift wages and most give you growth in competition and innovation. Yes, and it is worth pursuing that permanence.

**Representative Smucker.** Thank you, Mr. Chairman. I know I am out of time, but I do want to submit for the record, if I may—I wanted to—my next question was about 199A. I would be very interested in hearing some of the ideas to simplify it. I think it is really important to our Main Street businesses. And I have a study about the economic activity supported by the section 199A deduction I would like to submit for the record.

**Vice Chairman Schweikert.** Without objection.

[Representative Smucker's submission appears in the Submissions for the Record]

**Representative Smucker.** Thank you.

**Vice Chairman Schweikert.** Ms. Moore.

**Representative Moore.** Thank you so much, Mr. Chairman. And, you know, I will just kind of pick up for you, Mr. Smucker, where you left off, if that is okay. I have the exact same question that you have: How did you all square this all?

First, before I do, just let me say to Mr. Brady I really miss you. I have been here for a minute now, but I remember when I first came in naive, wanting to be on the Ways and Means Committee,

and, you know, everybody, particularly Nancy Pelosi, told me what a lunatic I was to even think that. And I actually was so dumb that I think the first person on the Ways and Means Committee I came to see if I could get on the committee was you. I am a Democrat. It just shows you, you know, where desperation will lead you. [Laughter.]

**Chairman Brady.** You have done a great job.

**Representative Moore.** Listen, but I really enjoy the encounters that we have outside of this room, but I—this is really—I really get your point that you were going for growth. But I do recall from Dr. Holtz-Eakin's testimony that he says we got a growth problem and a debt problem.

And you said we had a growth problem because, even though the economy is growing, which is a good thing, it is not growing enough or in the right ways to have people meet their basic needs, you know? And I guess I am sort of setting this up before I ask my question. We got a growth problem and a debt problem.

So question one is, as we think about extending these tax cuts for the sake of growth, you know, do we need to think about ways maybe like the 199 sort of reforms that we need to make since that costs so much money—that would be, like, \$684 billion over 10 years just to not close that gap. But should we do something like that?

Because what I worry about is the notion of if we extend all these tax cuts for 4.6 trillion more dollars to the debt, and then we are—we have a President who has assistants that are talking about cutting 2 trillion of waste and all that, at what point are we going to be cutting into bone and marrow? And I think my colleagues already mentioned Social Security and Medicare. I wasn't going to go that far. I was just going to say, you know, like food stamps and Head Start.

But at what—how do you support raising these taxes, maintaining the corporate tax cuts, spending 4.6 trillion more dollars, how does that square—to borrow Mr. Smucker's jargon—how does that square with us really not sending the economy in a tailspin, considering that people would not, you know, pile on top of that tariffs?

And so just share with me—maybe I will choose Mr. Arensmeyer. I mean, have I—how does this square? I have sort of shared what they said.

**Mr. Arensmeyer.** Well, Congresswoman, I—you all are going to need to decide how much you can continue to increase the deficit with the tax code.

Our position is, yes, we need tax incentives, and 199 is a perfect example. But they need to be designed in a way that is going to bring the maximum impact.

**Representative Moore.** Right.

**Mr. Arensmeyer.** And it is going to level the playing field. And our whole point on 199A is—to use that as an example—is that right now it is very skewed toward the businesses that probably don't need it as much. That—as I said in my testimony, 70 percent of the benefit going to 4.5 percent of the pass-through businesses.

So then we come back and say, okay, you can redesign this bottom up. We are suggesting a \$25,000 deduction bottom up. You can pick a number, but it is obviously not free. But ultimately, what-

ever you decide to do within the framework of a manageable deficit, it should be targeted to where the economic need is the greatest. And our point is that it is the smallest businesses in this country who are generating jobs—

**Representative Moore.** I think so, too. I would love to have asked more questions, but I do think that that is really one of the ways—if we aren't going to pass the whole package, because that—and I also just want to make sure that you don't think that the TCJA has paid for itself as part of this equation.

**Mr. Arensmeyer.** When you—I think the numbers are what they are.

**Representative Moore.** Ms. Jacoby.

**Mr. Arensmeyer.** Okay.

**Ms. Jacoby.** No, definitely not.

**Representative Moore.** Okay. With the indulgence of the chair, I will just finish my sentence.

I just want to thank you all for your testimony, and I just—I do want to look at this, you know, in a very serious way, not in a kind of a partisan way, because I think we have to make some choices about the tax cuts that we continue to provide, because growth is only one aspect of it.

As Dr. Holtz-Eakin said, you got to be concerned about it actually trickling down because this—the wages that have been increased have not come from the TCJA, they have come from states and cities and places where the minimum wage has been raised. Am I right about that, Ms. Jacoby?

**Ms. Jacoby.** There is solid academic research that found that the corporate tax cut specifically did not increase wages for most workers.

**Representative Moore.** Right. And so we got to be more mindful of how we grow our economy so that it benefits everybody and not just the top folks. Thank you so very much.

Thank you, Mr. Chairman, for that indulgence.

**Vice Chairman Schweikert.** Mr. Arrington.

**Representative Arrington.** Thank you, Mr. Chairman, to my friend and fellow Texan and exceptional leader whom we all dearly miss, thank you for being here and for your contributions to our beloved country.

And we have got to get back to those policies that incentivize investment and growth, and unleash prosperity again. And we are in a—quite a predicament. At this stage we are on—to say it is an unsustainable fiscal path as it relates to deficits and debt is the understatement of the hour.

So things have changed, and the fiscal health of the country is in rapid decline. And so we have to face this opportunity for the country clear-eyed, sober-minded, and in a way that I think balances the two key ingredients, which is simply to reduce spending and increase growth.

I think there is some there is myths, and I want you to respond to this, but I think there is a myth by some of my Republican colleagues that we can just grow out of the \$36 trillion, 125 percent debt to GDP hole that we are in that will get only exponentially worse, 22 billion—22 trillion, rather, trillion dollars over the next 10 years. And then it gets just—you know, we would never get

there in the 30 years, which is about 130 trillion. And 95 percent to 98 percent of that are two programs that you mentioned, Mr. Holtz-Eakin, earlier.

So it just—we go off the cliff at some point, whether it is 5 years, 10 years, 15 years. The scary thing is I don't know that we can predict it, and once it happens and it turns on us, I don't think there is a way out of it. So we have to feel that sense of urgency now, and we have to take on this opportunity to rein in spending and put back the incentives that will balance the supply and demand that has been out of whack and has created this record inflation in an economy that is, I think, fragile, quite frankly.

So when I think about one of the fundamental questions will be dynamic scoring, I think that has been underscored, undervalued, underestimated, the yield of growth people coming off of welfare and onto payrolls, people investing, and the revenues coming into the Treasury coffers. But I am not convinced that all tax cuts pay for themselves. I just—I don't believe it. I have never heard any thoughtful person that has been an expert in this area say that it is the case. But we also have trillions of dollars in opportunities for direct spending savings, and we have been talking about them for decades.

What is the right approach, Chairman Brady? And I am going to ask Doug also to opine on this. What is the right approach here? How much credence should we give—CBO has gotten it wrong, JCT has gotten it wrong both on the downside of underestimating it, but—again, I think it is a stretch to get to a place where we just think it is somehow going to pay for every nickel and dime that we, you know, that it would cost in any cost estimate. What are your thoughts on that? Am I wrong or—

**Chairman Brady.** So, Mr. Chairman, one, for as long as I have known you, you wake up every morning worried about the debt and deficits because of the impact on our communities, on our families, on our country as a whole.

I think about 10 years ago this committee held a hearing about the debt ceiling. What is the real debt ceiling? We invited, I think, four or five economists from across a broad spectrum of philosophies, but they agreed—they disagreed on a lot, but they agreed on three things: one, we will know that real debt ceiling when we hit it; two, it is sooner than you think; and three, you don't want to find out.

So my belief has been that you have got to have growth and guardrails around spending. You have got to right-size the Federal Government in its spending habits to get it to a sustainable level so that—it doesn't help last year that our revenue growth was 11 percent, our spending was higher than that. These are huge numbers for growth. Yet we are not able to constrain the spending that deepens the deficit.

No, not all tax cuts pay for themselves. But tax reform can, which is—in 2017 we did a big—took a big step, too, which is eliminating provisions to fund the growth and to fund those rates—not totally, but significantly—that direction.

I know there was—

**Representative Arrington.** Was that number four trillion?

**Chairman Brady.** So 4 trillion and—yes, in—which was 72 percent at the get-go, plus the new revenue. I think corporate revenue this year will be at the highest level percentage of GDP. Some of that is from the reforms we did back in 2017—you did—that are continuing to grow the revenue in a significant way.

But you have got to have the fiscal constraint, whatever that mechanism is, to avoid that debt ceiling crash.

**Representative Arrington.** Thank you.

Can—do you mind if Doug responds?

**Chairman Brady.** I took Doug Holtz-Eakin's time, I apologize.

**Representative Arrington.** Would you mind if Mr. Holtz-Eakin responds?

Thank you, Mr. Chairman.

**Dr. Holtz-Eakin.** So let me repeat some things the chairman said in my own words. I mean, if you want to get the best growth out of the tax policy of 2025, have it be permanent, have it be structured toward increasing the supply of skills and innovations and capital in the economy—in this economy, to tilt the playing field as was done before. And when you get to the hard job of balancing that against the imperative that you take away the debt headwinds to growth, which are real and particularly dangerous if financial markets lose confidence in the United States, you begin by first broadening the base.

The rule of tax reform is broaden the base, lower the rates. In this circumstance you may need to raise some revenue. The broader base is the solution to that. And this will not be as anti-growth as jacking up the corporate rate, which seems to be everyone's reflex. That would be a disastrous mistake, in my view, to first go there. You don't want to jack up rates on small businesses. That is not going to be helpful.

So, you know, that is it. And then you are going to run out of the capacity to do that without solving our fiscal challenges. And you will have to turn to the spending side and develop a strategy to get to the point where our large mandatory spending programs grow at the same pace as the economy, not faster. Once you can do that, you can actually bend the debt to GDP ratio south. If it goes south even infinitesimally, financial markets will be like, okay, they are good. You take off the table the disastrous thing those economists were trying to avoid, and you go about solving the other real problems that the country faces.

But these are the big ones right now, and that is how I think about challenging it.

**Representative Arrington.** I am grateful for your insight. Thank you.

**Vice Chairman Schweikert.** Mr. Beyer, questions.

**Representative Beyer.** Mr. Chairman, thank you very much.

First I want to pile on with my friend, Mr. Arrington, that I too worry a great deal about our rapid fiscal decline—Ms. Jacoby mentioned it, Dr. Holtz-Eakin again—and just point out that just the tax gap alone is estimated between 425 billion on the low side per year and a trillion on the high side. I saw a number coming out of the transition yesterday that put it north of \$800 billion a year, which is one of the reasons why we have fought so hard to put money into the IRS to go get that. It wasn't a matter of pumping

up people with guns to go on small businesses, it was to take—because we know that people that have 1099s and W-2s, 99 percent of them pay it. It is the people that don't that that—we are trying to get there.

And Mr. Holtz-Eakin, Dr. Holtz-Eakin, I want to say when you say “deficit-neutral tax reform,” we are in the minority. We are facing a trifecta. That will be our number-one goal. At least my number-one goal is we redo TCJA through reconciliation, that if it can be deficit-neutral that would be a great step forward.

Chairman Brady, I don't want to put you on the spot too much, but the President-elect on September 17 posted on Truth Social he was going to “get SALT back,” and lower your taxes. Any idea what to expect in these next couple of months?

**Chairman Brady.** You know, on that provision I don't. I know that, you know, he had concerns about it in—during tax reform, coming from New York—obviously, a tax—a state with very high taxes. But as we explained to him when we dug into the SALT tax issue, it is the single biggest subsidy in the individual code, and goes predominantly more than half to families making more than \$1 million.

What was worse was rural communities, subsidized cities, low and modest income, the wealthy, blue—red states, blue states, non-itemizers, itemizers. So we concluded, why doesn't everyone just pay their own state and local taxes? I mean, we choose where we live and work.

**Representative Beyer.** Yes.

**Chairman Brady.** We have a choice in who elects us. Why does my neighbor have any obligation to pay my state and local taxes? Why am I obligated to pay others?

**Representative Beyer.** Okay.

**Chairman Brady.** So what we did was took the average SALT deduction across America, doubled it to create the marriage issue there to help with joint filers, and we used the money to lower tax rates for middle-class families and small businesses.

**Representative Beyer.** Great—

**Chairman Brady.** So I still believe that philosophy and concept is correct. Certainly, the President and some of our Members in Congress in those states where it is a very sensitive political issue—

**Representative Beyer.** Mr. Chairman—

**Mr. Brady** [continuing]. Are obviously going to be—

**Representative Beyer.** Let me move on, because I am running out of time.

Ms. Jacoby, you know, looking at how we are paying for this, I was impressed that Vivek Ramaswamy said we can just take every Federal employee whose Social Security number ends in an even number and fire all of them, and then that cuts you by 50 percent. But that may not be realistic, but they are talking very seriously right now about cutting SNAP programs and the nutrition programs, taking the health care—the Affordable Care Act subsidies. What does that do to growth in our economy when you make families hungry and when you take away health care from people?

**Ms. Jacoby.** Thank you, Representative Beyer.

Yes, I think in my view, using—cutting spending, reducing benefits for low-income households through, you know, reducing their health care, reducing their food assistance, that would be a hugely harmful way to pay for regressive tax cuts. Paying for regressive tax cuts by taking health care, taking food assistance away would cause unimaginable hardship. And taking food assistance away from kids makes it harder for them to pay attention in school, it makes it harder for them to graduate, and that hurts the economy down the line.

**Representative Beyer.** Great, thank you very much.

Mr. Arensmeyer, you have been a champion for small business for a long time. And one of the reasons, I think, in TCJA that the 199As came was because, otherwise, an LLC, a partnership would be paying 37 percent, 39.6 percent versus the corporation's 21 percent. How do we justify getting rid of 199A and taking it back up to close to 40 percent if corporations are at 21?

**Mr. Arensmeyer.** Well, Congressman, our position is not to get rid of 199A, it is to reform it. It is to make sure that the benefits are going to the smallest businesses who need the help the most.

And our whole economy, particularly our small business economy, depends on as much money in the economy, particularly at the community level, as possible. So it is about where do we need the—what is going to do the most good for the economy and what is going to be the fairest way to do it? And right now, with 44 percent getting 70 percent of the benefit, that is not equitable or particularly stimulating to our small business economy.

**Representative Beyer.** Great, thank you.

I yield back, sir.

**Vice Chairman Schweikert.** Thank you, Mr. Beyer. And now for the great joy of holding the gavel, you can all leave. I am—they are mine.

Dr. Holtz-Eakin, somewhere in one of my binders I have a study that actually looked at the corporate tax rate. And within that study it was claiming about 67 percent of that ultimately flowed through to workers.

**Dr. Holtz-Eakin.** Yes.

**Vice Chairman Schweikert.** How can that be true, and then some of the things being said on the other side?

**Dr. Holtz-Eakin.** They can't all be true simultaneously. We know that, as a matter of process of elimination, the corporate—any corporate tax will be paid for by either the workers, the shareholders, or the consumers, because that tax will be passed on in some form. The ultimate burden will be shifted.

There is a lot of empirical research on corporate taxation in general to try to find the incidence without conclusive evidence—I think that is a fair reading of that literature—and there have been some specific studies of the Tax Cuts and Jobs Act, some of which have concluded that it had a big impact on the investments, and that will be passed on in terms of higher productivity to wages. So—

**Vice Chairman Schweikert.** If I remember my—

**Dr. Holtz-Eakin.** So that is where we are.

**Vice Chairman Schweikert.** If I remember my elementary school economics class, wages only go up, functionally, really from

two things: inflation, which means you are just peddling, you know, treading water; or productivity, and productivity is your primary driver of wages. Do you think that is where there is the formularic problem on particularly the way the left likes to calculate this number, is that wage growth is substantially because of investments in capital equipment that—you are not getting that plugged back into the wage growth?

**Dr. Holtz-Eakin.** I think—and the biggest problem with the TCJA studies are the time period is too short. You have this very important reform, a couple of years of clear sailing, a pandemic, and then now we have come out of it, we have got maybe a couple more data points on the basic mechanism of have an investment, have it in the United States, have it generate higher productivity, have that show up in the form of higher wages. That is something that I am quite confident, as time goes on and we look back, we will say that was a good reform.

**Vice Chairman Schweikert.** Would you agree that the expensing and research and development expensing accomplished a substantial portion, if not almost half, of the actual economic expansion?

**Dr. Holtz-Eakin.** Those are very important provisions. And I was disappointed to see them begin to sunset and phase out, because that was, I thought, an unnecessary headwind to growth in the United States. I would have tried to find some way to have those remain full expensing for as long as possible.

**Vice Chairman Schweikert.** Well, it is—and how much of that benefit from—let's just use expensing and purchasing capital equipment, therefore I am more productive, therefore I can pay my workers, you know, higher wages, so you end up in the virtuous [sic] cycle. But is it also the permanency of that cycle?

Because we actually built a—believe it or not, we did it on butcher paper—a horizon chart showing that that is depreciation. It doesn't actually have a cost.

**Dr. Holtz-Eakin.** Right.

**Vice Chairman Schweikert.** It actually makes money. So it is a tax provision that does pay for itself if you build a horizon, because all expensing is is, instead of taking it over seven years, you took it instantly. But it forced you to buy better, faster equipment. But now you have got to buy better, faster equipment again a couple of years later because your competition is doing it, and you build this virtual cycle of getting more and more productive, which means wage growth.

I mean, do I describe it fairly?

**Dr. Holtz-Eakin.** Yes. I think, you know, I like expensing because it makes it easy to level the playing field among all the different ways to make a business more productive. That is great.

The other thing it does is that it insulates you against inflation fears. You get the full cost recovery in the first year. You don't have to count on the depreciation allowances keeping up with inflation somehow, and if they don't you never really get full cost recovery, which is a bad thing for the investment climate. And permanence makes expensing much more valuable because it is just timing. And now you know that the timing will continue. But to turn it on and turn it off and turn it on and turn it off is a real source

of uncertainty to businesses trying to make some sort of a capital plan.

So getting it permanent is even better.

**Vice Chairman Schweikert.** Okay, so it is not only the tax policy, but it is the ability to see my horizon.

**Dr. Holtz-Eakin.** Yes.

**Vice Chairman Schweikert.** Because particularly with some of these pieces of equipment, particularly the complex ones—you want to buy, you know, the next generation of CRISPR, you know, you wait a couple of years for it to show up. Well, what happens if the tax code is expiring in that window?

**Dr. Holtz-Eakin.** Yes. And again, just to reiterate, for small businesses the cash flow aspect of the expensing is really important. If you are a start-up and you are getting to deduct all those, you are less likely to be in a taxable state, your cash flows are being entirely plowed back into growth in the business. That has been a recipe for success for American small businesses for a long time, and this supports that.

**Vice Chairman Schweikert.** Doctor, a conversation—you may not remember—you and I had, heaven, almost a couple of years ago, was actually in regards to stability within the debt markets. How do we do economic expansionary policies, tax code-wise—and you actually did something that set off a series of thoughts with me, and that was you made an argument that it is much more than just tax policy. It will be regulatory. It would be talent-based immigration policy. It would be our willingness to knock down barriers to adopt technology.

You know, the—we—Mr. Beyer—sorry about that—and I have had conversations for a couple of years now of technology that could crash the price of health care because one of the great sins we engage in here is one of two sins. Well, the way we are going to cut spending is we are just going to shift it to you as an individual or your state. That is just a shift. That is a scam, because we can actually see within the calculations if it just raised my state taxes it didn't really help my growth.

But the second thing we can do is the adoption of technology. So health care, one of the great sins—and I believe this is left and right—the ACA was a financing bill, who got subsidized, who didn't. The Republican alternative was a financing bill. Medicare for all is a financing bill. Are we willing to actually have the much more disruptive conversation of what we pay, and how do we use the tax code, but also what comes out of both the budget, Ways and Means to incentivize if there is a better, faster way to make someone well?

If there is a better—you know, the thing I talk about all the time, the breath biopsy you blow into, it tells you you have a certain virus or bacteria, and you allow the technology to bounce off your medical records so you are not allergic to something, and order your antivirals. It is a flu kazoo. We functionally have that as illegal in the way we do policy here, because it would disrupt business models, but it would crash the price of delivering health care.

The only reason I ramble about that is how do we design also a tax code and regulatory code that moves the investments into

productivity and making our lives healthier, faster, cheaper to live in?

And am I rambling, or is there ways you would—if I came to you and Chairman Brady—I am not ignoring you two, I just like them better. Oh, come on. And forgive my asthma, it is—I come to you and say, okay, I got 4.6 trillion, I got to cover over 10. But I need to maximize the morality of growth, having a population. If obesity over the next 10 years will be 9.1 trillion additional health care expenditure—the Joint Economic Committee did a whole report on that last year—it turns out making our brothers and sisters healthier is the single greatest pay-for in society. What do you do, policy-wise?

And that is both for you, Chairman Brady, and Dr. Holtz-Eakin.

No, no, this is actually—remember, the Affordable Care Act is a financing bill.

**Dr. Holtz-Eakin.** This is—

**Vice Chairman Schweikert.** It is not about the price of delivering the service.

**Dr. Holtz-Eakin.** So this is what I would say. I think you have put your finger on a problem in health policy. We have payment silos. We pour money down part A, pour money down part D, part C, part B. We pour money down the Medicaid, the CHIP. And these are payments silos that are actually not tethered in any way to health outcomes. They are just payment silos.

And the health sector in general, all the providers, beneficiary groups, protect those health silos like mad. And if you try to touch them, you know it. They are all in to visit. You can't do that. But as a result, you will never get disruptive change that provides new business models and general improvement in delivery systems and care. Everybody in healthcare is in favor of innovation and change, as long as it doesn't change your payment silo, as long as they don't get touched.

It is not that different than the tax code. I told you to broaden the base. You don't think there are some things in there that people are going to protect like mad? They are their payment silo. And you have to recognize that the process of genuinely innovative, broadly accessible tax reform is knocking down those payment silos and giving everybody the same access to tax treatment. Beneficial tax treatment, everyone should have some access to it. And creating as few silos and targeted things as possible, that is the recipe.

**Vice Chairman Schweikert.** I have the feeling—

**Dr. Holtz-Eakin.** We got a lot.

**Vice Chairman Schweikert.** I have the feeling you and I are going to be having a lot more of this conversation.

Chairman Brady.

**Chairman Brady.** And I was struck by your phrase, “the morality of the tax code,” which I think—the tax code done right is a force for good. And we saw the results from a new, modern tax code.

But I actually was sort of thinking, outside that code, if it were up to me I would make sure there was a work requirement tied to every Federal program that makes sense, because what we have learned through the years is that if you learn a skill, if you get a

job, if you continue in that job, your chances of being in poverty are very low. The chances for real income growth for your family in a model you set for your children just has dramatic benefits, you know, for breaking that cycle of poverty, moving people, getting them—reconnecting them with the workforce in a positive way.

And I think, as we—I always focus on the tax code, but I also believe that the dignity of work has—is remarkable power that our Federal Government should encourage, rather than discourage.

**Vice Chairman Schweikert.** Thank you, Mr. Chairman.

And without objection—I need to dig it out, but there is a University of Chicago Ph.D. who actually did the modeling of the Child Tax Credit, and showed that unless you had a worker education requirement attached to it, then in 10 years that same population was actually poorer, because they didn't move up in their skill set. And it is a very well vetted paper, and it is something we should use as one of our baselines here.

With that, I appreciate you giving us time. We have votes coming up very, very shortly. I would like to thank everyone for being here today. This is an important discussion. I believe we are going to take a week if anyone wants to add some things to the record, and thank you for your time today.

[Whereupon, at 3:59 p.m., the committee was adjourned.]

**Joint Economic Committee  
Congressman Don Beyer  
Opening Remarks for Hearing “Building on the Success of the TCJA: The  
2025 Tax Policy Debate”  
November 19, 2024**

Thank you, Vice Chairman Schweikert. And thank you to your staff for putting together this hearing today.

As we discuss what direction the tax debate should take next year, let’s take a moment to talk through the economic record of the last round of Republican tax policy.

The Republican party line is that Trump’s Tax Cuts and Jobs Act led to an investment and economic boom and that the tax cuts largely paid for themselves. But let’s look at the numbers.

While the economy did grow at 3% in 2018 and 2.6% in 2019, independent studies from places like the International Monetary Fund and the Congressional Research Service found that the law had very little to do with this growth.

And this growth didn’t come close to paying for the cost of the tax cuts. CRS estimated that we would have had to see a growth rate over 9% or so in 2018 to be on track for that goal.

So, if those claims weren’t accurate, what did happen in the economy after the law was passed?

Looking just at the tax cuts for corporations, a recent estimate found that 80% of the benefits went to the richest 10% of the income distribution, resulting in billions of dollars of tax giveaways to big businesses.

Meanwhile, a middle or low-income household will only save a few hundred dollars on their taxes this year because of the law.

In the end, the Trump tax law was just another round of failed trickle-down economics, which is exactly what it sounds like:

A trick.

And now, as this hearing's title makes clear, Republicans want to do it all over again.

Before the end of next year, they have called for nearly \$4 trillion in new tax cuts that a non-partisan analysis found would largely benefit the top 10%.

We need to get our priorities straight.

Instead of providing more tax breaks to the wealthy, Democrats have shown how to invest in our communities to help tackle the real challenges that people face every day.

Instead of cutting taxes at the top and hoping the benefits trickled down, Democrats put working-class families front and center by expanding the Child Tax Credit in 2021, cutting child poverty to a record low of 5.2%.

And while I fought to extend that provision, when the expanded CTC expired at the end of 2021, child poverty rose to 13.7% last year.

The CTC is a proven way to reduce child poverty, but Republicans have repeatedly blocked our efforts to expand it in a way that fully invests in our kids.

We're also facing a nationwide housing shortage.

We must continue to support expanding and improving the Low-Income Housing Tax Credit to build much-needed housing supply.

And while quality health care is out of reach for many people, Democrats expanded premium tax credits that helped millions more low- and middle-income families afford health insurance.

If Congress does not act to extend these credits, 3.8 million Americans will lose their coverage altogether, and millions more will pay higher costs when it expires next year.

Congress should also protect the cost-saving energy tax credits in the Inflation Reduction Act.

These supports are not only bringing down the costs of essentials for both families and society as a whole, but are also investing in climate-friendly, broad-based economic growth.

But still, there are others who oppose all of these investments, pointing to the price tag as the reason why we can't support our communities.

My colleagues on the other side of the aisle love talking about curbing our national debt, but only when Democrats are in power.

Meanwhile, extending Trump's tax cuts would add nearly \$4 trillion to the deficit over the next 10 years, with hundreds of billions more in additional interest costs.

They may try to lower the price tag through across-the-board tariffs that would drive up prices and leave us all worse off.

Or maybe they'll try and pay for it by slashing funding for school meals, first responders, public lands, or food safety.

Either way, there are far more effective ways to spur economic growth.

It's our duty to weigh how changes to the tax code can promote pro-growth investments in children, health care, housing, and clean energy.

Imagine how different our world would look if children were lifted out of poverty, and they could focus on getting a quality education instead of worrying about their next meal.

What if we finally tackled our broken health care system, ensured everyone had access to affordable housing, and tackled climate change by committing to a clean energy future.

We could make each of these solutions a reality if we took each dollar of deficits the Republicans want to enact and instead invested them right back in our communities.

Deficit-busting giveaways to the rich rob us of the opportunity to build a stronger economy.

I'm pleased to join my colleagues to further explore these issues in today's hearing.

*[End]*

## **Joint Economic Committee of Congress**

***Hearing: Examining the 2025 Tax Policy Debate and Tax Cuts & Jobs Act***

Testimony: Former Congressman Kevin Brady  
Chairman, Committee on Ways & Means 2015-2018  
Former Chairman, Joint Economic Committee & Joint Committee on Taxation  
Author, H.R. 1 - Tax Cuts & Jobs Act of 2017

### **Chairman Heinrich, Vice Chair Schweikert, and distinguished Members of the House-Senate Joint Economic Committee:**

It's an honor to participate in this hearing before a committee I am proud to have served on as a member, Vice Chair and Chairman. I know first-hand the important role by law the JEC plays as the congressional counterweight to the President's Council of Economic Advisors.

In my post-Congress life I serve as the strategic advisor to the Alliance for Competitive Taxation (ACT) formed to promote U.S. jobs and investment and sustain rising incomes for American families through the establishment of a globally competitive tax system that promotes America's economic growth.

ACT is comprised of tax directors from 49 leading American businesses representing a broad range of U.S. industries that employ more than 3 million workers who produce goods and services for customers around the world.

I serve as a senior consultant with the global law firm Akin where I work on economic issues such as tax, trade, energy and health care. I also serve in a volunteer role on the non-profit boards of the highly-respected American Action Forum that provides data-driven insight into economic, domestic, and fiscal policy issues “to promote innovative, free-market solutions to build a stronger, more prosperous future” and the Tax Foundation, the world’s leading nonpartisan tax policy nonprofit whose mission is to “improve lives through tax policies that lead to greater economic growth and opportunity.”

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

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

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

Some economists tried to convince America that this was the “new normal” and we could do no better. We knew differently.

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

In 2017 we sought to create a tax code built for growth – the growth of jobs, paychecks and the U.S. economy. We developed a code to leapfrog America to the most competitive economy in the world, to position us as a premium destination for investment and

innovation, and to ensure that America's businesses and workers could compete and win anywhere in the world - especially here at home. And when they succeeded in foreign markets, to enable them to bring their profits home to be invested in the U.S.

The Tax Cuts & Jobs Act, led and signed by President Trump, achieved its goals.

The Trump tax cuts were a boon for American workers. TCJA spurred business investment in innovation, technologies, software, equipment and facilities. It also restored U.S. corporations' international competitiveness by reducing the corporate tax, a stealth levy on workers' wages.

By dropping the rate to 21% from 35%, Congress set off an economic boom. Coupled with a modern international tax code, the TCJA's rate cuts drew more investment, research and intellectual property back to the U.S. Each dollar of corporate-tax reduction has been estimated to increase economic production by 44 cents.

The TCJA stimulated U.S. investment by 20 percent among companies experiencing the average tax change. Research and development increased, and thanks to modernization of the international tax provisions, many companies repatriated their intellectual property to America and developed new IP within the U.S. Payments to U.S. corporations for the use of IP more than doubled from \$190 billion in 2017 to \$386 billion in 2021.

Within America's multinational enterprises, employment, capital expenditures, total sales and R & D spending all grew faster within the United States than the respective levels abroad – leading to increases in the U.S. share of these activities relative to pre-tax reform. That increased share of U.S. activity represents 1 million more employees, \$30 billion more in capital expenditures, \$117 billion more in sales and \$11.9 billion more R & D in the U.S. in 2022 compared to its share in 2017. There have been no major tax-driven corporate “inversions” from America to overseas since the enactment of TCJA, keeping jobs and revenue here in the U.S.

Research by Biden Treasury economists find the dollar value of American purchases of foreign companies increased by 19 percent after TCJA, and foreign acquisition of U.S. firms went down by a whopping 38 per cent.

Led by the corporate rate cut plus the first-of-its-kind foreign minimum tax that raised revenue while also removing the tax barrier to bringing overseas earnings back home, strong incentives for new U.S. investment and innovation, and by allowing businesses to immediately write off the cost of new equipment, machinery and software, the TCJA succeeded in increasing American firms' competitiveness and workers' well-being.

As a result, TCJA reforms have been the wind at American workers' backs for years. The 9 percent increase in inflation-adjusted earnings between Jan. 1, 2018, and Dec. 31, 2020, was the fastest growth since the government began publishing data in 1979. In just 2018 and 2019, real median household income increased by \$6,160 – more than in the previous 10 years combined.

Unemployment rates for African Americans, Hispanics and those with less than a high school education fell to the lowest rates seen since the data series was first reported. From 2017 to 2019 total poverty and child poverty fell at the fastest rates since the 1960's. More than 6 million people were lifted out of poverty, dropping the poverty rate to 10.5 percent, the lowest level in U.S. history.

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

Lawmakers of both parties are at risk of forgetting these economic lessons. President Biden and congressional Democrats are proposing to raise the U.S. corporate tax rate to 28%, which coupled with state taxes would make the U.S. the second-highest among the 38 members of the Organization for Economic Cooperation and Development. Under this scheme, the U.S. corporate tax rate would also significantly exceed China, an adversary bent on dominating U.S. manufacturing and advanced technologies.

The TCJA reforms' accomplishments aren't necessarily permanent. In 2017, because of budgetary constraints, Congress chose to lock-in the pro-growth provisions that generated better paychecks, more jobs and a stronger economy but scheduled the individual provisions likely to attract the most bi-partisan support – such as middle class tax cuts, the new 20% Small Business Deduction for pass-throughs, and the Child Tax Credit expansion - to require an extension by the end of 2025.

Looking to 2025, my advice to Congress is not to simply extend or make permanent the individual tax reforms but look to improve them wherever possible.

That means:

- preventing any increases in the corporate rate that would hurt workers, customers, shareholders and America's competitiveness;
- continuing the lower marginal income tax rates for families and pass-through businesses;
- extending the Section 199A 20 percent Small Business Deduction that supports 2.6 million jobs, raised employee compensation by \$161 billion and added \$325 billion to economic output;
- restoring the expiring tax provisions related to R & D expensing, the less stringent limitation on interest deductibility, and the immediate expensing of equipment and technology;
- continuing incentives for innovation and improvements within the international tax provisions;
- and rejecting the current flawed OECD framework that undermines America's competitiveness, grants foreign countries 'first in line' access to the U.S. tax base, turns important U.S. bipartisan tax provisions into revenue gains for other OECD countries, and usurps the sovereignty of Congress to write U.S. tax laws tailored to U.S. interests.

An extension of the estate tax's current design, which saves families and businesses – many of them minority owned - from having to sell their property or meet a 40% tax when a loved one dies, would also spur growth.

Over the next year, Congress can do more than merely ensure these pro-growth provisions don't expire. It should seize this opportunity to build on the gains in higher paychecks, lower poverty, global competitiveness and economic growth fostered by the 2017 reforms – to preserve the opportunities and competitiveness of America's workers.

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Testimony on:

Building on the Success of the TCJA: The 2025 Tax Policy Debate

Douglas Holtz-Eakin  
President, American Action Forum\*

Joint Economic Committee

November 19, 2024

\*The views expressed here are my own and not those of the American Action Forum. I thank Jordan Haring, Angela Kuck, and Sarah Smith for their assistance.

Chairman Heinrich, Vice Chairman Schweikert, and members of the committee, thank you for the privilege of appearing today to discuss the tax and fiscal policy issues surrounding the sunset of a large portion of the 2017 Tax Cuts and Jobs Act (TCJA) at the end of 2025. I would like to make three main points:

- The United States has two major economic policy challenges: too-slow trend economic growth and a large and unsustainably growing federal debt.
- TCJA has a strong record of success as pro-growth tax policy, but 2025 is an opportunity to continue the process of tax reform, strengthening the growth incentives in the tax code.
- At a minimum, the 2025 legislation should not make the fiscal trajectory worse than under current policy; at best, it could both strengthen growth and lower projected deficits.

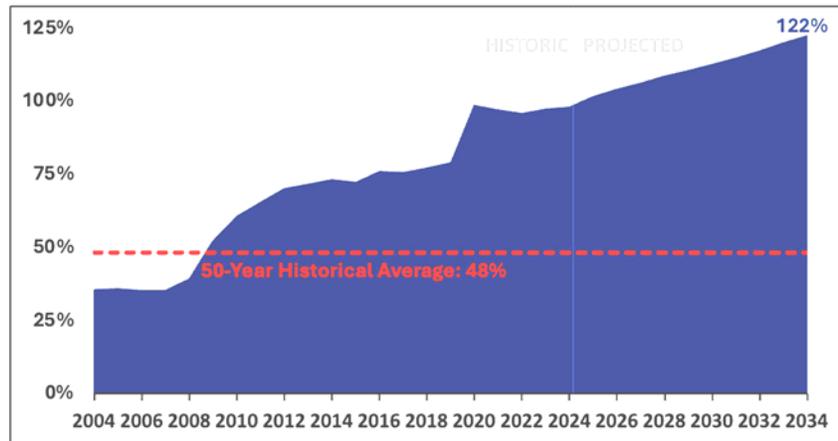
Let me discuss these in turn.

#### The Policy Problems

The U.S. economy has a poor growth record in the 21st century. From 1960 to 2000, per capita gross domestic product (GDP) growth averaged 2.3 percent annually. Since then, it has declined to 1.4 percent. This rough estimate of the standard of living once doubled every 30 years. In the 21st century, it is predicted to take 51 years. There should be a renewed policy focus on raising the trend rate of economic growth.

The federal government has a debt problem. The Congressional Budget Office (CBO) projects that federal debt held by the public will rise from 98 percent of GDP at the end of fiscal year (FY) 2024 to a new record of 106.2 percent of GDP by the end of 2027. It will grow further to 122 percent of GDP by the end of 2034 and continue to rise over the long term. The national debt has grown such that the cost of servicing it was the second-largest government expenditure this past fiscal year. The nation's accumulation of debt has largely been the result of unique crises and a structural deficit. The failure to do the hard work of deficit reduction has put the United States at risk of being unable to meet future fiscal and economic challenges.

Debt Held by the Public Under Current Law (Percent of GDP)



Source: CBO.

#### The Role of the TCJA

The TCJA has a proven record of supporting faster growth. Before 2017, the United States was saddled with the highest corporate-tax rate at 35 percent and clung to a “worldwide” system of taxation, by which U.S. companies were taxed at home and abroad, while competitors began to adopt a single-tax territorial system.

In practice, this meant that if a U.S. company and a German company competed in Sweden, the German one would pay only Swedish tax. Its American competitor would pay both the Swedish tax and the U.S. tax, topping up its bill to 35 percent. But there was a perverse incentive: The company could defer paying the difference if it didn’t repatriate its profit back to the United States. To remain competitive, companies locked trillions of dollars in profits offshore. Worse, if a U.S. firm became involved in a cross-border merger or acquisition, its fiduciary responsibilities would dictate that its headquarters be moved out of the high-tax United States, a transaction known as an inversion.

Workers knew that punishing dynamic well. Thousands of them were left behind as their companies’ leadership, struggling to compete, packed up and moved away. The TCJA sought to arrest this decline by freeing corporations from the obligation to pay U.S. taxes on overseas earnings and by allowing them to write off more of the cost of new equipment, machinery, software, and buildings.

Each of these provisions was intended to increase American firms' competitiveness and increase workers' well-being. They succeeded. The United States suffered the exodus of [33 companies between 2005 and 2015](#). As the Tax Policy Center [reports](#), there have been no major tax-motivated inversions since the TCJA was enacted in 2017.

Along with moving toward a more territorial system, the TCJA's rate cuts drew more investment, research, and intellectual property back to the United States. Each dollar of corporate-tax reduction [has been estimated to increase economic production](#) by 44 cents. The TCJA stimulated [U.S. investment by 20 percent](#) among companies experiencing the average tax change. For workers, the [9 percent increase](#) in inflation-adjusted earnings between Jan. 1, 2018, and Dec. 31, 2020, was the fastest growth since the government began publishing data in 1979.

#### The Role of 2025 Tax Policy

The goal in 2025 should not be to merely renew or extend the TCJA. Rather, 2025 is the opportunity for additional tax reform to enhance the incentives to invest, innovate, and allocate capital efficiently. The general rule for doing so is to make the tax base as broad as possible, while keeping tax rates as low as possible.

There are also some very specific and clear potential improvements. For example, it would be useful to make permanent the expensing of investments and research and development expenditures. TCJA had such a regime in place, but it had to be phased-out due to budgetary considerations. Full expensing would remove a tax consideration from the choice among wages, investment in skills, investment in physical capital, and investment in innovation. This sort of neutrality is the objective of good tax policy.

Another important issue is the relative taxation of the return to capital in the corporate and pass-thru entities (S-corporations, limited liability corporations, partnerships, and so forth.) Since more than half of business income is taxed as pass-thru income, it is a central part of the U.S. approach to taxing business income.

The good news is that the corporation income tax provisions from TCJA are permanent. Thus, while they might be tweaked, they are largely successful and need little attention. Instead, the focus should be on providing comparable tax treatment to pass-thru income so that there is the same effective marginal tax rate on the return to capital invested in the corporate sector and the pass-thru sector.

What would that look like? Suppose a dollar invested in the corporate sector earns a return,  $r$ , which is then taxed at the corporation income tax rate,  $\tau$  (currently 21 percent). The after-tax dollars are then distributed to shareholders as either dividends or capital gains and taxed at the preferential rate,  $\mu$  (currently 20 percent). This is shown on the right side of the table (below).

	Pass-Thru	Corporation
Initial Investment	\$1	\$1
Taxable Return to Capital	$\alpha e$	$r$
Return After Business-level Tax	$\alpha e$	$r(1-\mu)$
Return After Individual-level Tax	$\alpha e(1-\tau)$	$r(1-\mu)(1-\tau)$

Consider, now, a pass-thru entity. Suppose it earns  $e$  on each dollar invested. For purposes of calculating taxes, assign a share of the earnings,  $\alpha$ , as the return to capital investment, which are then taxed at the preferential tax rate just like distributions from corporations. Comparing the computations in the left and right columns the after-tax returns to the \$1 investment are identical when:

$$\alpha e(1-\tau) = r(1-\mu)(1-\tau).$$

Solving implies that the administratively set share ( $\alpha$ ) be set according to:

$$\alpha = (r/e)(1-\mu).$$

Notice, however, that total return ( $e$ ) for the pass-thru is the sum of return to capital ( $r$ ) and return to labor ( $l$ ), so this is just:

$$\alpha = (r/(r+l))(1-\mu).$$

In words, the key parameter,  $\alpha$ , is simply the after-corporate-tax share of capital in income.

To get a feel for magnitudes, use the conventional assumption that the share of capital is 0.3 and the corporate tax rate is 0.21. If so, the key value is  $\alpha = 0.237$ . This approach dramatically simplifies pass-thru taxation. Simply take 23.7 percent of the overall earnings and tax it at the dividends and capital gains rate of 20 percent.

The main advantage to this approach is economic efficiency, with the tax code no longer distorting the choice between corporate and non-corporate investments. The return to pass-thru capital investments is taxed at a single rate, scaled to be comparable to the overall tax on corporate investments. In contrast, the current system provides a 20 percent deduction, which translates into a different tax rate for each tax bracket, with none guaranteed to match the after-tax return from the corporate sector.

The idea sketched above is far from a complete proposal, but it demonstrates that there are alternatives approaches that could be on the table in 2025. Given the economic circumstances – sub-par trend growth and high federal debt – a premium should be placed on efficient, pro-growth tax systems.

### Tax Policy in 2025 and the Debt Challenge

Policymakers must be cognizant of the debt challenge in the tax deliberations next year. Indeed, the overall goal should be to quickly stabilize the debt relative to GDP, and then put the debt/GDP ratio on a negative trajectory. To do so would eliminate fears that the U.S. federal government cannot control its fiscal future and take off the table any possibility of crisis over international reliance on the dollar. (See [here](#) for one approach to this challenge.)

It is equally important, however, for policymakers to recognize that there is no real, permanent solution to the debt threat without serious attention to spending reforms.

Here is the budgetary arithmetic. Over the next 10 years, the CBO baseline indicates that Social Security and Medicare will account for \$36 trillion of the \$71 trillion of non-interest spending – more than 50 percent from those two programs alone. So, the notion that that one cannot touch those two key pieces of the social safety net and make real progress on the deficits and debt is numerically baseless.

Moreover, these programs grow very rapidly. CBO anticipates that Social Security spending will grow at an average annual rate of 5.5 percent, while Medicare will average 7.0 percent. In contrast, revenue typically grows at the rate of the nominal economy. If the United States averages 2.0 percent real growth and inflation hits the 2.0 percent target, then revenue will grow at 4.0 percent per year. (The actual growth in the CBO baseline is 4.3 percent.)

There's the problem: Social Security spending is projected to grow at 5.5 percent and Medicare spending at 7.0 percent versus revenue at 4.0 percent.

In short, the demands of the largest federal spending programs are outstripping the resources to fund them by a greater margin every year. Now, it would be possible to close the gap with a large tax increase (putting at risk the goal of better growth), but having done so, what would happen? The two largest entitlement programs would continue to grow at 5.5 and 7.0 percent and revenue would still grow at 4.0 percent. The gap would widen each year, and the deficits and debt would re-appear and increase. Again, there is no solution to the federal debt challenge without serious spending reforms.

What, then, should be the budgetary framework for the 2025 debate? At the very minimum, the legislation should not worsen the fiscal outlook. This amounts to using a current-policy baseline and making sure that the legislation is revenue neutral. As a practical matter, it means that any deviation from a straight-up extension of the TCJA must be paid for.

At the other end of the spectrum, the gold standard for a bill would be a pro-growth reform that is deficit neutral relative to a current-law baseline. This is the gold standard for two reasons. First, it provides the greatest progress toward the fiscal goals. Also, if the reform is undertaken using reconciliation procedures (as it appears it will be), then the deficit neutrality would mean that the tax reforms could be permanent, and thus more effective.

Thank you and I look forward to your questions.



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November 19, 2024

## **Tax Policy to Support Shared Prosperity and Economic Opportunity**

**Testimony of Samantha Jacoby, Deputy Director of Federal Tax Policy, Center  
on Budget and Policy Priorities, Before the Joint Economic Committee**

Chair Heinrich, Vice Chair Schweikert, members of the Committee, thank you for the opportunity to testify before you this morning at this important hearing. I am Samantha Jacoby, Deputy Director of Federal Tax Policy at the Center on Budget and Policy Priorities, a nonpartisan research and policy institute in Washington, D.C.

In my testimony, I will make three main points:

- First, tax cuts enacted in the last 25 years — namely, the tax cuts enacted in 2001 and 2003 under President Bush (most of which were made permanent in 2012) and those enacted in 2017 under President Trump — gave windfall tax cuts to households in the top 1 percent and large corporations. In particular, the 2017 tax cuts have failed to produce the economic benefits that proponents promised. Research shows that most workers saw “no change in earnings” from the corporate tax rate cut, while top executive salaries increased sharply. Similarly, rigorous research concluded that the tax law’s 20 percent pass-through deduction, which was skewed in favor of wealthy business owners, has largely failed to trickle down to workers.
- Second, these large tax cuts have eroded our revenue base, undermined our ability to finance high-value investments, and driven up deficits and debt, increasing future economic risks. Extending the 2017 tax law’s expiring individual income and estate tax cuts, which disproportionately benefit high-income households, would cost around \$4 trillion over ten years (2026-2035), further raising the debt ratio. Additional revenue efforts are needed and should focus on those who have gained the most over the last four decades.
- Third, the United States underinvests in people, communities, and the building blocks of the economy in ways that shortchange opportunity, exacerbate inequality, widen racial and ethnic inequities, and limit the nation’s potential. Instead of doubling down on the failed trickle-down path of the Bush and Trump tax cuts, policymakers should prioritize investments that would yield significant short- and long-term benefits to people, communities, and the economy as a whole.

### Trickle-Down Tax Cuts Failed to Deliver Promised Economic Benefits

The tax cuts enacted under President George W. Bush and President Trump disproportionately flowed to households at the top and cost significant federal revenues, adding trillions to the national debt since their enactment.<sup>1</sup> Extending the 2017 tax law's expiring provisions would provide further windfall benefits to high-income households. By shrinking revenues, these tax cuts limit policymakers' ability and willingness to make public investments that pay off in tangible and important ways for individuals, families, communities, and the country as a whole.

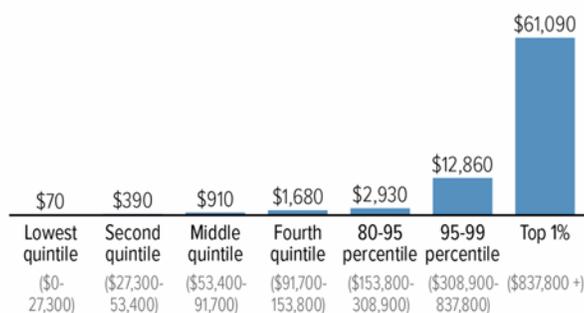
#### 2017 Trump Tax Law Was Skewed to the Top

Like the Bush tax cuts that came before it,<sup>2</sup> the tax cuts enacted in 2017 under President Trump benefited high-income households far more than households with low and moderate incomes. The 2017 tax law will boost the after-tax incomes of households in the top 1 percent by 2.9 percent in 2025, roughly three times the 0.9 percent gain for households in the bottom 60 percent, according to Tax Policy Center estimates.<sup>3</sup> The tax cuts that year will average \$61,090 for the top 1 percent — and \$252,300 for the top one-tenth of 1 percent. (See Figure 1.) The 2017 tax law also widens racial disparities in after-tax income.<sup>4</sup>

FIGURE 1

#### Households With Incomes in Top 1 Percent Benefit Most From 2017 Trump Tax Law

Average federal tax change, 2025



Source: Table 2, Distributional Analysis of the Conference Agreement for the Tax Cuts and Jobs Act, Tax Policy Center

The 2017 law's tilt to the top reflects several costly provisions that primarily benefit the most well-off:

- **Large, permanent corporate tax cuts.** The centerpiece of the 2017 tax law was a deep, permanent cut in the corporate tax rate — from 35 percent to 21 percent — and a shift toward a territorial tax system, which exempts certain foreign income of multinational corporations from U.S. tax.
- **20 percent deduction for pass-through income.** The law adopted a new 20 percent deduction for certain income that owners of pass-through businesses (partnerships, S corporations, and sole proprietorships) report on their individual tax returns, which previously was generally taxed at the same rates as wage and salary income. Over half of its benefits will go to households with more than \$1 million in income in 2024, according to JCT.<sup>5</sup> (See Figure 2.)
- **Cutting individual income tax rates for those at the top.** The law cut the top individual income tax rate from 39.6 percent to 37 percent for married couples with over \$600,000 in taxable income. The law also dramatically weakened the alternative minimum tax (AMT), which was designed to ensure that higher-income people who take large amounts of deductions and other tax breaks pay at least a minimum level of tax.<sup>6</sup>
- **Doubling the estate tax exemption.** The law doubled the amount that the wealthiest households can pass on tax free to their heirs, from \$11 million per couple to \$22 million (indexed for inflation).

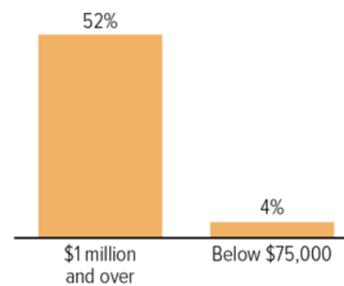
The law's expiring provisions include some provisions affecting families with low and moderate incomes, but often in offsetting ways. For example, the law lowered statutory tax rates at all income levels, nearly doubled the size of the standard deduction from \$13,000 to \$24,000 for a married couple in 2018, and doubled the size of the Child Tax Credit for many families.<sup>7</sup> Yet other provisions *raised* taxes on families, such as the elimination of personal exemptions and a new, permanent adjustment for calculating key tax parameters using a slower inflation rate.<sup>8</sup> The end result of these offsetting changes is only modest tax cuts overall for most families, which pale in comparison to the law's large net tax cuts for the wealthy.

Extending the expiring individual income tax and estate tax provisions would benefit high-income households far more than other income groups. Extending the individual income tax and estate tax provisions would boost after-tax incomes for the top 1 percent more than twice as much as for the bottom 60 percent as a percentage of their incomes.<sup>9</sup> In dollar terms, this is a \$48,000 annual tax cut

FIGURE 2

### Pass-Through Deduction Heavily Tilted Toward Wealthy

Share of tax benefit by household income, 2024



Note: Household Income is expressed in 2017 dollars.

Source: Joint Committee on Taxation

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for households in the top 1 percent but only about \$500 for those in the bottom 60 percent of households, on average.<sup>10</sup> The expiring tax cuts for high-income households — i.e., those making over roughly \$400,000 — account for over 40 percent of the cost of extending all of the expiring 2017 tax cuts.<sup>11</sup> These benefits would be *on top* of the very large benefits wealthy households receive from the law’s permanent corporate tax cuts, which are even more heavily tilted toward wealthy people than the expiring individual tax cuts.<sup>12</sup>

### Floated Tariffs Would Hit Bottom Half of Earners, Harm the Economy

Moreover, imposing broad-based tariffs as an offset would double down on the 2017 law’s regressivity: that is, regressive tax cuts paid for (fully or partially) with highly regressive tax increases that increase burdens on families with low and moderate incomes and pose significant economic risks. For example, President-elect Trump has proposed a broad-based tariff of 10 or 20 percent on most or all imports, with a 60 percent tariff on imports from China.<sup>13</sup> Economists Kimberly Clausing and Mary Lovely estimate that such tariffs would reduce after-tax incomes for households in the bottom 50 percent of the income distribution by 3.5 percent, costing a typical household \$1,700 per year.<sup>14</sup> Broad-based tariffs would also create large economic risks from higher prices of imported goods; Clausing and Lovely estimate that these costs could reach 2 percent of GDP.<sup>15</sup> Tariffs also typically provoke retaliation or even trade wars, which can harm domestic businesses.

### Trump 2017 Law Failed to Deliver on Its Promises

During the 2017 debate, Trump Administration officials and prominent proponents of the corporate tax cut proposal claimed it would yield broadly shared benefits by boosting economic growth. President Trump’s Council of Economic Advisers claimed the rate cut would “very conservatively” lead to a \$4,000 boost in household income.<sup>16</sup> But research to date has failed to find evidence that the gains from the rate cut trickled down to most workers. For example, a 2019 Congressional Research Service report on the law’s economic impact concluded, “There is no indication of a surge in wages in 2018 either compared to history or relative to GDP growth.”<sup>17</sup> Similarly, a 2021 Brookings Institution report noted that “The Trump administration claimed that the [2017 law] would provide significant benefits to workers,” but Brookings found “no evidence that any wage response close to these claims occurred in 2018 and 2019.”<sup>18</sup>

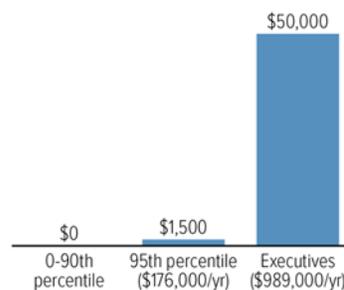
A study by economists from the Joint Committee on Taxation (JCT) and the Federal Reserve Board found that workers below the 90<sup>th</sup> percentile of their firm’s income scale — a group whose incomes were below roughly \$114,000 in 2016 — saw “no change in earnings” from the rate cut.<sup>19</sup> Earnings did, however, increase for workers in the top 10 percent and “increase[d] particularly sharply for firm managers and executives.”<sup>20</sup> (See Figure 3.)

Another new study by a team of economists from Harvard, Princeton, the University of Chicago, and

FIGURE 3

### 2017 Corporate Rate Cut Didn’t Boost Most Workers’ Earnings

Change in earnings



Note: Reported gains and salaries are averages for the listed percentiles of the within-firm income distributions in the Kennedy et al. study.

Source: Kennedy et al. 2023

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the Treasury Department estimates that the corporate tax cuts — including the cut in the corporate tax rate, full expensing for capital investments, and international tax changes — led to nearly dollar-for-dollar revenue losses, even after accounting for increases in economic activity due to those cuts, contrary to proponents' promises that the cuts would pay for themselves.<sup>21</sup> The study does not examine how the corporate rate cut affected earnings for workers with low and moderate incomes. It forecasts that in the long run, the corporate tax cuts could on average increase wages by about \$750 per worker, an “order of magnitude below” proponents' predictions;<sup>22</sup> the paper by Kennedy, et al, finds that wage and salary gains accrued only for workers in the top 10 percent of their firm's earnings distribution.

The special 20 percent deduction for pass-through business income is also heavily skewed in favor of high-income people because they receive most pass-through income,<sup>23</sup> they get a much larger share of their income from pass-throughs compared to other income groups,<sup>24</sup> and they receive the largest tax break per dollar of income deducted (because they are in the top income tax brackets). As a result, in 2022 the average pass-through deduction across all taxpayers who claimed the deduction was roughly \$10,000, but it was over \$1.3 million for the roughly 25,000 taxpayers with incomes above \$10 million who claimed the deduction.<sup>25</sup>

Proponents argued the pass-through deduction would boost investment and create jobs.<sup>26</sup> Then-Treasury Secretary Steven Mnuchin, for example, argued the deduction would “be good for the economy; good for growth.”<sup>27</sup> But researchers have found no evidence that it provided any significant boost in economic activity and little evidence that it increased investment or broadly benefited non-owner workers.<sup>28</sup> Instead, it has encouraged more tax gaming, encouraging owners to reclassify their income as pass-through income that qualifies for the deduction.<sup>29</sup>

The failure of the regressive Trump tax provisions to trickle down to the vast majority of workers should not be surprising given the track record of past trickle-down tax cuts. For example, studies of an even deeper tax cut for pass-through businesses in Kansas — a full exemption from state taxation for pass-through income — found that “the reform failed to generate real economic responses.”<sup>30</sup>

More broadly, in a review of the research on business taxes and labor markets, Stanford University economist Juan Carlos Suarez Serrato concluded, “The empirical evidence, in the end, does not support the belief that broad-based tax cuts consistently deliver on the promise of wage growth.”<sup>31</sup>

### **Decades of Tax Cuts Have Eroded the Nation's Revenue Base**

Tax cuts enacted during the Bush and Trump administrations have substantially increased the nation's deficits and debt, increasing economic risks. Policymakers can best manage these risks by raising sufficient revenue both to improve our long-term fiscal outlook and to finance high-value investments that will improve well-being and broaden prosperity.

#### **Tax Cuts Have Weakened Revenues, Increasing Deficits and Debt**

The 2001 and 2003 Bush tax cuts, which reduced individual income tax rates, taxes on capital gains and dividends, and the tax on estates, cost between 1.5 and 2 percent of GDP in 2010.<sup>32</sup> The

2017 law took revenues even lower: CBO estimated in 2018 that the 2017 Trump tax cut will cost \$1.9 trillion over ten years, on top of the cost of the Bush tax cuts also in place.<sup>33</sup>

In the three years immediately preceding the first Bush tax cuts, revenues averaged 19.5 percent of GDP, compared to 16.3 percent in the years immediately following the Trump tax cuts, with revenues expected to rise to an annual average of 16.9 percent of GDP from 2018 through 2026 (excluding 2020 and 2021, whose data are skewed by the pandemic), according to CBO. (See Figure 4.) The revenue difference is stark: revenues in 2023, for example, would have been roughly \$830 billion higher if they had totaled 19.5 percent of GDP as in the years before the Bush tax cuts.

If the Bush tax cuts and their extensions and the 2017 Trump tax cuts had not been enacted, the deficit would be *less than half* its current size, and the debt ratio (the level of net debt relative to the size of the economy<sup>34</sup>) would be considerably lower as well: 56 percent of GDP in 2024, compared to the actual 91 percent.<sup>35</sup> (See Figure 5.)

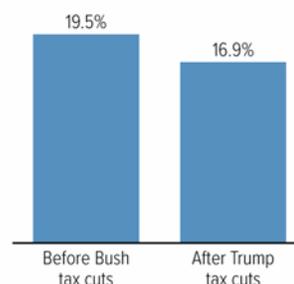
Continued growth in the federal debt ratio poses potential future risks to the economy and fiscal policy. Interest costs as a percent of the economy are higher than they have been since the 1990s and are expected to keep growing. On our current trajectory, both the nation's debt and the cost of servicing it are projected to rise relative to the size of the economy.

The Bush and Trump tax cuts were irresponsible, given our substantial underinvestment in high-value areas, the retirement of baby boomers, rising health care costs, and potential national security threats. And making the 2017 law's individual income and estate tax provisions permanent would cost about \$4 trillion from 2026 to 2035, or roughly \$350 billion a year beginning in 2027.<sup>36</sup> Making other parts of the law permanent, including extending the "expensing" tax break for business investments or reversing certain business tax increases that were included in the law, which some policymakers have called for, would add around \$1 trillion to this cost.<sup>37</sup> This would be a costly mistake.

FIGURE 4

### Bush and Trump Tax Cuts Severely Eroded Revenue Base

Revenue as a percentage of GDP



Note: "Before Bush Tax Cuts" is an average of 1998-2000 and "After Trump Tax Cuts" is an average of nonpandemic years 2018-2026.

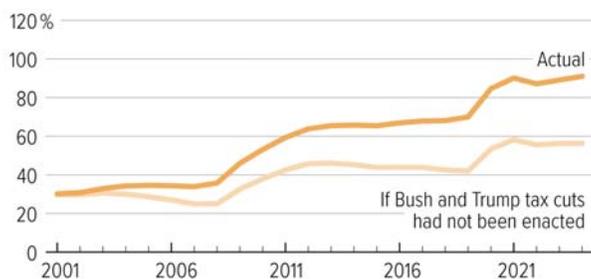
Sources: CBPP calculations using data from the Bureau of Economic Analysis and Treasury Department

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FIGURE 5

### The Debt Is Higher Due to the Bush and Trump Tax Cuts

Debt as a percentage of GDP



Note: Debt refers to "net debt," which is the government's total debt net of its financial assets.  
Source: CBPP analysis of data from CBO and JCT

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#### We Need More Revenues

Some policymakers have used the increase in debt as an excuse to push for deep and harmful budget cuts. But whereas the effects of higher debt levels are uncertain, the effects of such spending cuts would be both clear and damaging. They include higher poverty and the attendant long-term impacts on children and the economy, more people without access to health coverage, and less investment in public infrastructure and medical research (which would also hurt economic growth). Also, in a future recession or disaster, debt concerns could dissuade policymakers from responding with robust measures to bolster the economy and mitigate harm; this failure could prolong the downturn and slow the recovery — and, ironically, harm long-term economic growth.

Instead, additional revenue raising efforts are needed. These revenue increases should be progressive, which is particularly appropriate given that the nation's income in recent decades has grown increasingly unequal. Typical middle-income families with children had almost 50 percent more income after taxes in 2019 than such families had in 1984, after adjusting for inflation. But among the top 1 percent of households, their already disproportionate incomes grew three times as fast over that period: almost 150 percent. Indeed, by 2019, the top 1 percent had annual incomes averaging \$1.7 million, almost 20 times that of typical middle-income families with children.<sup>38</sup> Revenue raising efforts should therefore focus on those who have gained the most over the last four decades, while new investments should focus on solving national problems and expanding opportunity.

#### High-Value Investments That Improve Well-Being and Broaden Opportunity

Instead of doubling down on the flawed trickle-down path of the Bush and Trump tax cuts, there are opportunities to work toward a tax code that raises more needed revenues and supports

investments that make the economy work for everyone. Underinvesting in people, communities, and the building blocks of the U.S. economy increases poverty and hardship, worsens racial and ethnic inequities, shortchanges opportunity, and restrains economic growth.

For example, child poverty is higher in the U.S. than in other similarly wealthy countries due to our weaker support for families with children. Temporary policies enacted during the COVID-19 pandemic produced a historic decline in child poverty and narrowed inequities in poverty rates by race and ethnicity, but those gains disappeared when the measures expired. Investing in children has long-term payoffs for the entire country, and that means our underinvestment is harming the nation's potential.

Investments in this and other areas — including investments to bring down the high cost of housing and child care for families, address climate change, expand access to higher education, improve our infrastructure, and support research and technological advances — can yield significant short- and long-term benefits to people, communities, and the economy as a whole.

#### **Child Tax Credit**

An estimated 19 million children in the lowest-income families — or more than 1 in 4 children under age 17 — are ineligible for the full Child Tax Credit under the current credit design. In 2021, the now-expired American Rescue Plan's Child Tax Credit expansion delivered more resources to families with the lowest incomes, especially those with young kids. The Rescue Plan made the full credit available to children in families with low incomes and increased the maximum amount of the credit to \$3,600 for children aged 5 and younger and \$3,000 for children aged 6 to 17, among other changes.

With the temporary expansion, child poverty plummeted; the credit expansion reduced the number of children living below the poverty line by more than a third.<sup>39</sup> While all racial and ethnic groups saw large reductions in poverty, the percentage point reduction in child poverty was largest for Black, Latino, and Native American children. When pandemic assistance ended and the expanded credit expired, the number of children experiencing poverty rose substantially, demonstrating that child poverty is created — and can be alleviated — through policy choices. (See Figure 6.)

In addition to short-run relief from hardship, income support to families with low incomes can bring long-run gains in children's health, education, and earnings, a mounting body of research finds. For instance, a 2022 study found that infants in families who receive more support from child-related tax benefits go on to have higher test scores, high school graduation rates, and earnings into young adulthood.<sup>40</sup> Based on prior literature, the authors also note that even temporary aid to low-income families can help them avoid extreme levels of "short-term stress with long-term ramifications" from threats such as eviction and food insecurity.<sup>41</sup> Other studies of childhood income assistance have similarly found short- and long-term gains for infant health, elementary school performance, positive social behavior, and, years later, greater school completion, improved health status in young adulthood, and higher earnings.<sup>42</sup>

FIGURE 6

### End of Pandemic Assistance Largely Reversed Recent Progress in Reducing Child Poverty

Child poverty rates using the Supplemental Poverty Measure (SPM) and 2023 thresholds adjusted for inflation



Note: Groups are in order by 2023 poverty rates. Children are identified as Latino/Hispanic (of any race); Black alone, not Latino; American Indian and Alaska Native (AIAN) alone or in combination with other races, regardless of Latino ethnicity; Asian alone, and white alone, not Latino.

Source: CBPP analysis of U.S. Census Bureau's Current Population Survey

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Policymakers in both parties have shown strong interest in the Child Tax Credit over the last year. Bipartisan tax legislation negotiated by House Ways and Means Chair Jason Smith and Senate Finance Committee Chair Ron Wyden included a modest, but important, expansion and passed the House with a large majority in January 2024. That proposal would have benefited millions of children whose parents or other caregivers do important work for low pay — including 400,000 cashiers, 340,000 maids and housekeeping cleaners, 340,000 personal care and home health aides, 280,000 janitors and building cleaners, 250,000 nursing assistants, and 240,000 waiters and waitresses.<sup>43</sup> About 16 million children would have benefited from the proposal in the first year, and it would have lifted some 500,000 children above the poverty line when fully in effect.<sup>44</sup>

Expanding the Child Tax Credit for children in families with low incomes is a proven solution for lifting millions of children above the poverty line and helping to ensure that all children have the resources they need to thrive.

#### Workers and Their Families

Millions of people who work in jobs essential for society to function receive little pay and limited or no benefits while often facing uncertain hours and scheduling. Many have trouble affording the basics; they often struggle to afford rent and child care, and lack paid sick or family leave and access to affordable health coverage. Investments in these areas can yield significant short- and long-term benefits to people, communities, and the economy as a whole. Areas in need of additional investment include, for example:

- **EITC for workers not raising children in their homes.** While a powerful wage booster that benefits millions of families with children each year, the federal Earned Income Tax Credit

(EITC) provides extremely limited support to adults aged 25-64 who work low-paying jobs and are not raising children in their household. This year, 6 million workers whose income is either below or just above the poverty line are made poor or even poorer, largely because their EITC is not even enough to offset payroll taxes for Social Security and Medicare as well as any federal income tax liability. These 6 million people provide important services, including as home health aides for elderly people, child care providers, food servers, and cashiers.

The 2021 Rescue Plan temporarily made key expansions in the EITC for adults not raising children in their home, addressing several major flaws in the credit. Specifically, it raised the maximum EITC to roughly \$1,500, as well as raising the income limit from about \$16,000 to \$21,000 for single filers and from about \$22,000 to \$27,000 for married filers. It also made individuals aged 19 to 24 and 65 and older newly eligible for the credit. Through these changes, the Rescue Plan's "childless EITC" expansion nearly eliminated the policy failure of people being taxed into, or deeper into, poverty.

- **Paid leave.** The United States is alone among wealthy countries in lacking a national paid leave program, relying instead on a patchwork of federal, state, and local policies. The vast majority of employers do not voluntarily offer paid family and medical leave.<sup>45</sup> Paid medical and caregiving leave lets workers care for themselves and loved ones when ill or injured and reduces financial insecurity and stress during those times. Paid leave also benefits businesses by improving worker retention and productivity and boosting labor force participation.<sup>46</sup>
- **Unemployment insurance.** The U.S. lacks not only a comprehensive paid leave program but also an adequate unemployment insurance (UI) system. The current UI system, a federal-state partnership, fails to provide any help to most unemployed workers, often provides benefits that are too low to ensure households can make ends meet when a worker does qualify, and, in some states, fails to provide enough weeks of help to allow workers to find new employment that best matches their skills. For example, the share of unemployed workers receiving any UI benefits has fallen in recent decades from roughly 50 percent to under 30 percent in 2023.

During the pandemic, the U.S. expanded eligibility and increased benefit levels, providing critical financial protection to workers who lost their jobs. While there were implementation issues and criminal targeting of inadequate systems, expanded jobless benefits kept millions of households afloat. But those expansions ended, and workers who lose their jobs today once again face a severely inadequate UI system.

#### **Investments to Address Climate Risks**

The clean energy and clean vehicle sector is a rapidly growing global industry, with 30 percent of global energy being produced from clean, renewable energy sources in 2023.<sup>47</sup> As global energy markets continue this shift toward low- or no-carbon sources, policymakers should take proactive steps to ensure the United States benefits from new sources of jobs and investment instead of ceding ground to global competitors. In 2022, the Inflation Reduction Act (IRA) took an important step forward, creating the largest clean energy investment in U.S. history. More than 70 percent of the IRA's climate investments are in the form of tax credits available through at least 2032. These credits build on the success of long-standing clean energy credits that have spurred tremendous growth in the U.S. renewable energy industry.<sup>48</sup> The IRA expanded the credits to include new and innovative energy generation technologies and advanced manufacturing facilities and made the

credits available to more types of entities, including state and local governments and public utilities, which previously could not directly benefit from clean energy tax credits.

For example, the IRA added new section 48C in the tax code, which allows the Treasury Department, in consultation with the Department of Energy, to award \$10 billion in tax credits for advanced energy projects approaching commercial viability. Tax credit recipients under section 48C include, for example, a manufacturing facility in Chester, Virginia, that will produce electrolyzers, which are critical for producing clean hydrogen; an electric vehicle component production facility in Richmond Hill, Georgia; and an advanced transmission conductor production facility in Williamsport, Pennsylvania.<sup>49</sup>

In the two years following the enactment of the IRA, companies announced \$265 billion in new clean energy facilities across the country,<sup>50</sup> bringing jobs and economic opportunities to areas receiving clean energy investments, especially if local hiring and training are a focus of the project. The IRA advances fair pay and worker development, respectively, by requiring projects to pay prevailing wages and to use a registered apprenticeship program for project construction.<sup>51</sup> Research suggests that jobs in the solar and wind industries, for example, pay about 21 percent more than average wages and can often be obtained without a college degree.<sup>52</sup>

Early data suggest that the IRA is helping to bring economic opportunities to areas of the country facing underinvestment and hardship. Three-quarters of private sector clean energy investments since the IRA's passage have been made in areas with household incomes below area medians, and clean energy investment has doubled in disadvantaged areas traditionally associated with the fossil fuel sector (known as "energy communities"), which are predominantly rural communities.<sup>53</sup>

Going forward, these credits should be protected to avoid damaging nascent industries by injecting market uncertainty and to ensure economic benefits continue to flow to communities that would benefit most from new investment and opportunity.

<sup>1</sup> The Center for American Progress estimates that the Bush and Trump tax cuts combined will have added \$10 trillion to the federal debt by the end of 2023, taking into account both the revenue lost and the associated debt service costs since their enactment. See Bobby Kogan, "Tax Cuts Are Primarily Responsible for the Increasing Debt Ratio," Center for American Progress, March 27, 2023, <https://www.americanprogress.org/article/tax-cuts-are-primarily-responsible-for-the-increasing-debt-ratio/>.

<sup>2</sup> TPC estimated that in 2010, the year the Bush tax cuts were fully phased in, they raised the after-tax incomes of the top 1 percent of households by 6.6 percent, compared to 2.6 percent for the middle 20 percent of households. The bottom 20 percent of households received the smallest cuts, with their after-tax incomes increasing by just 0.5 percent. TPC, "T10-0232 – Current Law; Baseline: Pre-EGTRRA Law; Distribution by Cash Income Percentile, 2010," September 15, 2010, <https://taxpolicycenter.org/sites/default/files/legacy/numbers/content/PDF/T10-0232.pdf>.

<sup>3</sup> 2025 is when the law is fully phased in and is before many provisions in the law are scheduled to expire. Tax Policy Center, "T17-0314 - Conference Agreement: The Tax Cuts and Jobs Act; Baseline: Current Law; Distribution of Federal Tax Changes by Expanded Cash Income Percentile, 2025," December 18, 2017, <https://www.taxpolicycenter.org/model-estimates/conference-agreement-tax-cuts-and-jobs-act-dec-2017/t17-0314-conference-agreement>.

<sup>4</sup> Due to racial barriers to economic opportunity, households of color are overrepresented at the bottom of the income distribution while non-Hispanic white households are heavily overrepresented at the top. The 2017 tax law's core provisions tilt heavily toward households at the top of the income distribution: white households in the highest-earning

1 percent receive 23.7 percent of the law's total tax cuts, far more than the 13.8 percentage share that the bottom 60 percent of households of all races receive. Chye-Ching Huang and Roderick Taylor, "How the Federal Tax Code Can Better Advance Racial Equity," CBPP, July 25, 2019, <https://www.cbpp.org/research/federal-tax/how-the-federal-tax-code-can-better-advance-racial-equity>.

<sup>5</sup> Household income is expressed in 2017 dollars. Joint Committee on Taxation, "Tables Related to the Federal Tax System as in Effect 2017 through 2026," JCX-32r-18, April 24, 2018, <https://www.jct.gov/publications/2018/jcx-32r-18/>.

<sup>6</sup> The law also added a \$10,000 cap on the deduction for state and local taxes (SALT). This has an offsetting effect for some taxpayers when combined with the law's changes to the alternative minimum tax (AMT). See Kimberly A. Clausing and Natasha Sarin, "The Coming Fiscal Cliff: A Blueprint for Tax Reform in 2025," the Hamilton Project, September 2023, [https://www.hamiltonproject.org/wp-content/uploads/2023/09/20230927\\_THP\\_SarinClausing\\_FullPaper\\_Tax.pdf](https://www.hamiltonproject.org/wp-content/uploads/2023/09/20230927_THP_SarinClausing_FullPaper_Tax.pdf).

<sup>7</sup> The law doubled the Child Tax Credit's maximum value from \$1,000 to \$2,000 per child but denied millions of children in families with low and moderate incomes the full increase. In tax year 2022, roughly 19 million children get less than the full \$2,000 Child Tax Credit or no credit at all because their families' incomes are too low. Tax Policy Center, "T22-0123 – Distribution of Tax Units and Qualifying Children by Amount of Child Tax Credit (CTC), 2022," October 18, 2022, <https://www.taxpolicycenter.org/model-estimates/children-and-other-dependents-receipt-child-tax-credit-and-other-dependent-tax>. Further, the law was estimated in 2017 to have ended the Child Tax Credit for about 1 million children who weren't eligible for a Social Security number because of their immigration status but might have been claimed as tax dependents using an Individual Tax Identification Number. CBPP, "2017 Tax Law's Child Credit: A Token or Less-Than-Full Increase for 26 Million Kids in Working Families," August 27, 2018, <https://www.cbpp.org/research/federal-tax/2017-tax-laws-child-credit-a-token-or-less-than-full-increase-for-26-million>.

<sup>8</sup> The 2017 law permanently switched from the Consumer Price Index for all urban consumers (CPI-U) to the "chained" CPI to adjust tax brackets and certain provisions for inflation each year. The chained CPI generally rises more slowly over time than traditional the CPI-U. This slower growth erodes the value of certain provisions, such as the Earned Income Tax Credit, and is expected to push more taxpayers into higher tax brackets over time.

<sup>9</sup> TPC, "T22-0144 – Make the Individual Income Tax and Estate Tax Provisions in the 2017 Tax Act Permanent, by ECI Percentiles, 2026," November 30, 2022, <https://www.taxpolicycenter.org/model-estimates/make-individual-income-tax-and-estate-tax-provisions-2017-tax-act-permanent-1>.

<sup>10</sup> *Ibid.*

<sup>11</sup> *Ibid.*

<sup>12</sup> CBO, "The Distribution of Household Income, 2018," August 4, 2021, <https://www.cbo.gov/publication/57061>.

<sup>13</sup> Ana Swanson, "Higher Prices, Trade Wars and More: What to Know About Trump's Tariffs," New York Times, November 7, 2024, <https://www.nytimes.com/2024/11/07/business/economy/trump-tariffs-trade-what-to-know.html>.

<sup>14</sup> Kimberly A. Clausing and Mary E. Lovely, "Why Trump's Tariff Proposals Would Harm Working Americans," Peterson Institute for International Economics, May 2024, <https://www.piie.com/sites/default/files/2024-05/pb24-1.pdf>.

<sup>15</sup> *Ibid.*

<sup>16</sup> Council of Economic Advisers, "Corporate Tax Reform and Wages: Theory and Evidence," October 2017, <https://trumpwhitehouse.archives.gov/sites/whitehouse.gov/files/documents/Tax%20Reform%20and%20Wages.pdf>.

<sup>17</sup> Jane G. Gravelle and Donald J. Marples, "The Economic Effects of the 2017 Tax Revision: Preliminary Observations," Congressional Research Service, updated June 7, 2019, <https://crsreports.congress.gov/product/pdf/R/R45736>.

<sup>18</sup> William Gale and Claire Haldeman, "The Tax Cuts and Jobs Act: Searching for supply-side effects," Brookings Institution, July 2021, [https://www.brookings.edu/wp-content/uploads/2021/07/20210628\\_TPC\\_GaleHaldeman\\_TCJASupplySideEffectsReport\\_FINAL.pdf](https://www.brookings.edu/wp-content/uploads/2021/07/20210628_TPC_GaleHaldeman_TCJASupplySideEffectsReport_FINAL.pdf).

<sup>19</sup> Patrick J. Kennedy *et al.*, “The Efficiency-Equity Tradeoff of the Corporate Income Tax: Evidence from the Tax Cuts and Jobs Act,” November 14, 2023, [https://patrick-kennedy.github.io/files/TCJA\\_KDLM\\_2023.pdf](https://patrick-kennedy.github.io/files/TCJA_KDLM_2023.pdf). The \$114,000 threshold for the 90<sup>th</sup> percentile of the within-firm earnings distribution appears in an earlier version of the paper, dated December 9, 2022 (Table 5, Panel A).

<sup>20</sup> *Ibid.* Some workers own stock and thus receive a share of the benefits going to firm owners, but even taking that into account, only 20 percent of the *overall* gains from the rate cut flow to the bottom 90 percent of workers. Workers with low or moderate incomes and wealth see very little of those already modest gains, because stock ownership is heavily concentrated at the top.

<sup>21</sup> Gabriel Chodorow-Reich *et al.*, “Tax Policy and Investment in a Global Economy,” NBER Working Paper, March 2024, <https://www.nber.org/papers/w32180>. The authors show that even when corporate tax cuts increase economic activity, there are countervailing, dynamic revenue impacts. On the one hand, more economic activity could expand the tax base and therefore increase tax collections; on the other, increased investment leads firms to take more depreciation deductions, which decreases tax collections. This study concludes that these two forces nearly offset in the near term, such that “the total revenue effect closely mirrors the mechanical corporate effect.” In the long run, the paper projects that dynamic effects could “close roughly 20 percent of the mechanical revenue decline.” For claims that the 2017 tax law would pay for itself, see, e.g., Kate Davidson, “Treasury Secretary Steven Mnuchin: GOP Tax Plan Would More Than Offset Its Cost,” Wall Street Journal, September 28, 2017, <https://www.wsj.com/articles/treasury-secretary-steven-mnuchin-gop-tax-plan-would-more-than-offset-its-cost-1506626980>.

<sup>22</sup> Jim Tankersley, “Trump’s Tax Cut Fueled Investment but Did Not Pay for Itself, Study Finds,” New York Times, March 4, 2024, <https://www.nytimes.com/2024/03/04/us/politics/trump-corporate-tax-cut.html>.

<sup>23</sup> For example, around 70 percent of the income of partnerships, a common pass-through structure, flows to the top 1 percent of households. Michael Cooper *et al.*, “Business in the United States: Who Owns It, and How Much Tax Do They Pay?” Tax Policy and the Economy, Vol. 30, No. 1, 2016, <https://www.journals.uchicago.edu/doi/full/10.1086/685594>.

<sup>24</sup> CBO, “The Distribution of Household Income, 2021,” September 11, 2024, <https://www.cbo.gov/publication/60341>.

<sup>25</sup> IRS Statistics of Income, “Individual Returns with Business Attributes: Selected Income Items, Adjustments, Credits, and Taxes, by Size of Adjusted Gross Income, Tax Year 2022,” <https://www.irs.gov/statistics/soi-tax-stats-individual-income-tax-returns-with-small-business-income-and-losses>.

<sup>26</sup> Steven Mufson, “Sen. Johnson Is a ‘No’ on the Tax Bill. He Says it Hurts Businesses (Like His Own),” Washington Post, November 16, 2017, [https://www.washingtonpost.com/business/economy/sen-johnson-is-a-no-on-the-tax-bill-he-says-it-hurts-businesses-like-his-own/2017/11/16/c47b2a56-ca54-11e7-b0c-f7689a9f2d84e\\_story.html](https://www.washingtonpost.com/business/economy/sen-johnson-is-a-no-on-the-tax-bill-he-says-it-hurts-businesses-like-his-own/2017/11/16/c47b2a56-ca54-11e7-b0c-f7689a9f2d84e_story.html).

<sup>27</sup> Matthew J. Belvedere, “Mnuchin: GOP Tax Reform Would Give Small Business Owners the Lowest Rates ‘Since the 1930s,’” CNBC, November 17, 2017, <https://www.cnbc.com/2017/11/17/mnuchin-gop-tax-plan-gives-small-business-lowest-rates-since-1930s.html>.

<sup>28</sup> Lucas Goodman *et al.*, “How Do Business Owners Respond to a Tax Cut? Examining the 199A Deduction for Pass-through Firms,” NBER Working Paper 28680, January 2024, [https://www.nber.org/system/files/working\\_papers/w28680/w28680.pdf](https://www.nber.org/system/files/working_papers/w28680/w28680.pdf).

<sup>29</sup> Chuck Marr and Samantha Jacoby, “The Pass-Through Deduction Is Tilted Heavily to the Wealthy, Is Costly, and Should Expire as Scheduled,” CBPP, June 8, 2023, <https://www.cbpp.org/research/federal-tax/the-pass-through-deduction-is-tilted-heavily-to-the-wealthy-is-costly-and/>.

<sup>30</sup> Jason DeBacker *et al.*, “The Impact of State Taxes on Pass-Through Businesses: Evidence from the 2012 Kansas Income Tax Reform,” September 29, 2017, [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2958353](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2958353). See also Michael Mazerov, “Kansas Provides Compelling Evidence of Failure of ‘Supply-Side’ Tax Cuts,” CBPP, January 22, 2018, <https://www.cbpp.org/research/kansas-provides-compelling-evidence-of-failure-of-supply-side-tax-cuts>.

<sup>31</sup> Juan Carlos Suarez Serrato, “Targeting business tax incentives to realize U.S. wage growth,” Washington Center for Equitable Growth, January 14, 2021, <https://equitablegrowth.org/targeting-business-tax-incentives-to-realize-u-s-wage-growth/>.

<sup>32</sup> This figure is based on a compilation of CBO cost estimates that includes both the revenue and outlay effects of all major tax legislation enacted during the George W. Bush Administration. Based on analysis in Kathy Ruffing and Joel Friedman, “Economic Downturn and Legacy of Bush Policies Continue to Drive Large Deficits,” CBPP, updated February 28, 2013, <https://www.cbpp.org/research/economic-downturn-and-legacy-of-bush-policies-continue-to-drive-large-deficits>. For a detailed description of methodology used in this analysis, see box, “What Did Bush-Era Tax Cuts Cost through 2011?” in Kathy Ruffing and James R. Horney, “Downturn and Legacy of Bush Policies Drive Large Current Deficits,” CBPP, updated October 10, 2012, <https://www.cbpp.org/research/downturn-and-legacy-of-bush-policies-drive-large-current-deficits>.

<sup>33</sup> CBO, “The Budget and Economic Outlook: 2018 to 2028.”

<sup>34</sup> “Net debt” is the government’s total debt net of its financial assets, such as cash, gold, Treasury securities held by U.S. government agencies, and the value of student loans held by the government. Net debt is a better measure of the federal government’s financial position at any point in time than gross debt or debt held by the public because it includes all the financial assets and liabilities of the government. And because it does, it is the only measure of debt that equals the sum of annual deficits (and surpluses) while excluding financial transactions to the extent they do not affect deficits.

<sup>35</sup> The Bush tax cuts and their extensions included revenue losses caused by limiting the amount that the AMT would recapture from better-off tax filers. Because the AMT was not indexed for inflation in 2000, just before enactment of the Bush tax cuts, the AMT would have recaptured growing amounts of revenue as the years passed. As a result, legislation to limit the reach of the AMT became increasingly costly as the years passed, relative to 2000 AMT law. Those very costly effects were part of the Bush tax cuts and its extensions and so were part of all scores of that legislation by the Congressional Budget Office and Joint Committee on Taxation. In this analysis, however, smaller revenue losses are attributed to the AMT provisions of those tax cuts, measuring those revenue losses relative to a hypothetical AMT that had been indexed for inflation (rather than the actual, unindexed AMT), so estimates of the costs of the Bush tax cuts are more conservative.

<sup>36</sup> CBPP calculations based on CBO, “Budgetary Outcomes Under Alternative Assumptions About Spending and Revenues,” May 8, 2024, <https://www.cbo.gov/publication/60114>.

<sup>37</sup> CBO, Budget and Economic Data, *op. cit.*; Chuck Marr and Samantha Jacoby, “Corporate Lobby’s New Math Doesn’t Add Up for Kids,” CBPP, December 8, 2022, <https://www.cbpp.org/research/federal-tax/corporate-lobbys-new-math-doesnt-add-up-for-kids>; Committee for a Responsible Federal Budget, “TCJA Extension Could Add \$4 to \$5 Trillion to Deficits,” June 13, 2024, <https://www.crfb.org/blogs/tcja-extension-could-add-4-5-trillion-deficits>. Provisions in 2017 law made some corporate tax provisions less generous over time. These include provisions affecting limits on interest deductibility, investment expensing, research and development expensing/amortization, and tax rates affecting low-taxed foreign income of U.S. multinational corporations and certain income from exports.

<sup>38</sup> CBPP analysis of CBO’s distribution of household income for households with children, at Congressional Budget Office, “The Distribution of Household Income in 2020,” November 14, 2023, <https://www.cbo.gov/publication/59509>. We use CBO’s data through 2019 (2020, the latest year with available data, is distorted by COVID effects). Amounts are after taxes, exclude medical benefits, include other means-tested government transfers, and are adjusted for inflation to 2019 dollars. Incomes are ranked by post-tax, post-transfer incomes.

<sup>39</sup> Kalee Burns and Liana E. Fox, “The Impact of the 2021 Expanded Child Tax Credit on Child Poverty,” U.S. Census Bureau, 2022, <https://www.census.gov/content/dam/Census/library/working-papers/2022/demo/sehds-wp2022-24.pdf>.

<sup>40</sup> Andrew Barr, Jonathan Eggleston, and Alexander A. Smith, “Investing in Infants: the Lasting Effects of Cash Transfers to New Families,” *Quarterly Journal of Economics*, Vol. 137, No. 4, April 20, 2022, <https://doi.org/10.1093/qje/qjac023>.

<sup>41</sup> *Ibid.*

<sup>42</sup> Martha Bailey *et al.*, “Is the Social Safety Net a Long-Term Investment? Large-Scale Evidence from the Food Stamps Program,” Goldman School of Public Policy, April 2020, <https://gspp.berkeley.edu/assets/uploads/research/pdf/w26942.pdf>; National Academies of Sciences, Engineering, and Medicine, *A Roadmap to Reducing Child Poverty*, National Academies Press, 2019, <https://www.nap.edu/catalog/25246/a-roadmap-to-reducing-child-poverty>. Greg Duncan, Pamela Morris, and

Chris Rodrigues, "Does Money Really Matter? Estimating Impacts of Family Income on Young Children's Achievement with Data from Random-Assignment Experiments," *Developmental Psychology*, Vol. 47, No. 5, 2011; Chloe N. East, "The Effect of Food Stamps on Children's Health: Evidence from Immigrants' Changing Eligibility," *Journal of Human Resources*, September 5, 2018; earlier version at [http://www.chloeneast.com/uploads/8/9/9/7/8997263/east\\_jmp.pdf](http://www.chloeneast.com/uploads/8/9/9/7/8997263/east_jmp.pdf)

<sup>43</sup> George Fenton, "Bipartisan Child Tax Credit Expansion Would Benefit Millions of Workers in Low-Paid Occupations," CBPP, February 20, 2024, <https://www.cbpp.org/blog/bipartisan-child-tax-credit-expansion-would-benefit-millions-of-workers-in-low-paid>.

<sup>44</sup> Kris Cox *et al.*, "About 16 Million Children in Low-Income Families Would Gain in First Year of Bipartisan Child Tax Credit Expansion," CBPP, January 22, 2024, <https://www.cbpp.org/research/federal-tax/about-16-million-children-in-low-income-families-would-gain-in-first-year-of>.

<sup>45</sup> Kathleen Romig and Kathleen Bryant, "A National Paid Leave Program Would Help Workers, Families," CBPP, April 27, 2021, <https://www.cbpp.org/research/economy/a-national-paid-leave-program-would-help-workers-families>.

<sup>46</sup> *Ibid.*

<sup>47</sup> Ember Energy, "Global Electricity Review 2024," May 8, 2024, <https://ember-energy.org/latest-insights/global-electricity-review-2024/>.

<sup>48</sup> "How Tax Credits are Driving Clean Energy Growth Two Years into Inflation Reduction Act," U.S. Department of Energy, August 16, 2024, <https://www.energy.gov/policy/articles/how-tax-credits-are-driving-clean-energy-growth-two-years-inflation-reduction-act>; Trieu Mai *et al.*, "Impacts of Federal Tax Credit Extensions on Renewable Deployment and Power Sector Emissions," National Renewable Energy Laboratory, 2016, <https://research-hub.nrel.gov/en/publications/impacts-of-federal-tax-credit-extensions-on-renewable-deployment>.

<sup>49</sup> Department of Energy, "Biden-Harris Administration Announces First Projects Receiving Clean Energy Manufacturing Investments in America's Industrial and Energy Communities," April 19, 2024, <https://www.energy.gov/articles/biden-harris-administration-announces-first-projects-receiving-clean-energy-manufacturing>.

<sup>50</sup> The White House, "Fact Sheet: Two Years In, the Inflation Reduction Act is Lowering Costs for Millions of Americans, Tackling the Climate Crisis, and Creating Jobs," August 16, 2024, <https://www.whitehouse.gov/briefing-room/statements-releases/2024/08/16/fact-sheet-two-years-in-the-inflation-reduction-act-is-lowering-costs-for-millions-of-americans-tackling-the-climate-crisis-and-creating-jobs/>.

<sup>51</sup> Small-scale clean energy projects (i.e., those under 1 megawatt in size) are exempt from these requirements.

<sup>52</sup> E. Mark Curtis and Ioana Marinescu, "Green Energy Jobs in the US: What Are They, and Where Are They?" Washington Center for Equitable Growth, November 8, 2022, <https://equitablegrowth.org/working-papers/green-energy-jobs-in-the-us-what-are-they-and-where-are-they/>.

<sup>53</sup> The White House, *op. cit.*



WRITTEN TESTIMONY BEFORE THE JOINT ECONOMIC COMMITTEE

**Building on the Success of TCJA: The 2025 Tax Policy Debate**

November 19, 2024

**John Arensmeyer, Founder and CEO  
Small Business Majority**

Chairman Heinrich, Vice Chairman Schweikert, and members of the Joint Economic Committee:

Thank you for inviting me to speak about the importance of ensuring that we have a tax code that supports a robust, innovative and inclusive economy anchored by our nation's 34 million small businesses.

I am the founder and CEO of Small Business Majority, a national small business organization that empowers America's diverse entrepreneurs to build a thriving and equitable economy. Prior to launching Small Business Majority nearly 20 years ago, I was the founder and CEO of an award-winning interactive communications company, which I ran for 12 years. I am particularly qualified to speak to the impact of our tax code on America's Main Street small enterprises, and to recommend changes that would help ensure the success of our nation's smallest firms.

At Small Business Majority, we engage our network of more than 85,000 small businesses and 1,500 business and community organizations to advocate for public policy solutions and deliver resources to entrepreneurs that promote equitable small business growth. As a leading representative of America's primary job creators, I am here to testify about the opportunity that lies ahead in next year's tax debate to enact meaningful tax reform that can have a direct benefit for our nation's smallest, most under-resourced businesses that continue to be left behind.

America's small business owners want a level playing field on which to do business. To create a level playing field, policymakers must ensure that all stakeholders in our economy are working in good faith to meet tax obligations necessary to fund investments in our country.

For two decades, we have examined the reality of how taxation affects America's small businesses and have advocated for tax policies that maximize entrepreneurial growth. Our work includes scientific research into small business needs bolstered by the stories of America's small business owners.

**The current tax code is not working for "Main Street" America; small businesses support bottom-up reforms to level the playing field.**

Congress has a historic opportunity to better support small businesses and entrepreneurship through the upcoming expiration of many of the Tax Cuts and Jobs Act (TCJA)'s provisions. However, rushing a partisan solution through in the first 100 days would be inconsistent with considering alternative proposals that could make a real difference for Main Street. While there are a host of current provisions within the tax code that purport to support small businesses, they are too often structured without the smallest businesses in mind.

Eighty-two percent of small business owners agree that the current tax system favors large corporations over small businesses according to a national opinion poll conducted by Small Business Majority in August 2024. The same poll found that 75% believe that wealthy individuals and large corporations don't pay their fair share of taxes. Overall, small businesses feel disadvantaged by tax loopholes that disproportionately advantage larger and wealthier businesses.<sup>1</sup>

<sup>1</sup> "Opinion Poll: Small Businesses Support Bottom-Up Tax Reforms." Small Business Majority. August 28, 2024.  
<https://smallbusinessmajority.org/our-research/taxes-budget-economy/opinion-poll-small-businesses-support-bottom-tax-reforms>

Small businesses clearly need tax reforms from Congress that would create a bottom-up, simplified, tax system that better delivers for Main Street. Our opinion polling finds that an overwhelming 76% of respondents say that more tax incentives for small businesses should be provided. These sentiments underscore the fact that today's tax code is in fact not benefiting small businesses despite certain narratives to the contrary.

**The expiration of the Tax Cuts and Jobs Act presents an opportunity for Congress to reform the Section 199A pass-through tax deduction in a way that benefits the vast majority of true Main Street small businesses.**

The leading example of how the TCJA has failed to help the smallest businesses is the Section 199A provision which allows pass-through entities to deduct up to 20% of their eligible, pass-through Qualified Business Income (QBI) from their federal taxes. Given that 95% of small businesses are classified as pass-through entities, which include sole proprietorships, partnerships, LLCs, and S-Corporations, TCJA proponents claimed that this would provide relief to Main Street businesses.<sup>2</sup> However, based on 2022 Tax Policy Center data, 69.2% of all pass-through deduction benefits flowed to the wealthiest 4.5% of small business owners.<sup>3</sup> While the richest pass-through entities claimed an average deduction of over \$1 million in 2021, claimants with adjusted gross incomes (AGI) below \$100,000 took home an average deduction of just \$1,997.<sup>4</sup> Indeed, the financial benefits for a pass-through entity earning a profit of more than \$500,000 are 20 times higher than the benefits for a business making \$75,000.

The distribution of the pass-through benefit has also widened racial disparities, with a staggering 90% of the benefit being claimed by white entities while Black and Hispanic entities received just 7% of the benefit from the pass-through deduction.<sup>5</sup> Given that the rate of new business ownership for Black and Hispanic individuals is growing at an unprecedented pace, this disparity further indicates that millions of small businesses aren't receiving the tax relief necessary to support the sustainability of their operations. If the goal is to provide the maximum benefit for the smallest businesses, we owe it to Main Street to ensure an optimal tax incentive that works to expand access to the American Dream.

To ensure our tax code reflects the needs of America's smallest businesses that keep our economy running, Small Business Majority has long advocated for replacing or reforming the 199A deduction to function in a way that delivers bottom-up benefits. For example, small businesses could deduct their first \$25,000 of QBI, thus benefiting very small businesses rather than continuing to deliver inequitably distributed top-down tax breaks that only help a select few. Under this proposal, the smallest businesses, specifically the vast majority with a net income of less than \$125,000 per year, would benefit.<sup>6</sup> This deduction should be accompanied by a phase-out for business owners with more than \$400,000 in income to ensure it benefits the entities most in need. Notably, small businesses see this proposal as a viable path forward. Our polling found that 2.5 times more pass-through small business owners support vs. oppose such a change (53-22%).<sup>7</sup>

<sup>2</sup> "9 facts about pass-through businesses." Brookings Institution. May 15, 2017. <https://www.brookings.edu/articles/9-facts-about-pass-through-businesses>

<sup>3</sup> "Sources of flow-through business income by statutory marginal tax rate; current law, 2022." Tax Policy Center. March 1, 2023. <https://www.taxpolicycenter.org/model-estimates/distribution-business-income-february-2023/t23-0028-sources-flow-through-business>

<sup>4</sup> "The 2017 Tax Bill's Pass-Through Deduction Largely Favors the Wealthy and Encourages Gaming of the Tax Code," Center for American Progress, 2024. <https://www.americanprogress.org/article/the-2017-tax-bills-pass-through-deduction-largely-favors-the-wealthy-and-encourages-gaming-of-the-tax-code/>

<sup>5</sup> Ibid.

<sup>6</sup> "The average small business profit is less than \$71,000 annually. "How Much Do Small Business Owners Make? The Answer May Surprise You" Patriot Software. August 13, 2024. <https://www.patriotsoftware.com/blog/accounting/how-much-do-small-business-owners-make-average-income>

<sup>7</sup> "Opinion Poll: Small Businesses Support Bottom-Up Tax Reforms." Small Business Majority. August 28, 2024. <https://smallbusinessmajority.org/our-research/taxes-budget-economy/opinion-poll-small-businesses-support-bottom-tax-reforms>

### Revenue raisers supported by small businesses to offset investments in Main Street

For Congress to effectively support our nation's small businesses, especially the microbusinesses that are rooted in local communities, it must allocate sufficient funding and resources to the agencies and programs that offer the training, technical assistance, and financing that is essential for entrepreneurial and business growth across the country. This cannot be achieved without implementing some form of the revenue raising provisions outlined above, which guarantee that the wealthiest corporations and individuals contribute fairly to the tax system, relieving small businesses of the disproportionate burden they currently bear.

- **Increase the corporate tax rate:** The TCJA gave large C-corporations another unnecessary tax cut when it permanently lowered the domestic corporate tax rate from 35% to 21% - lower than the rate paid by many pass-through small businesses. This further reduced the tax liability of our nation's largest businesses. Since only 5% of small businesses are organized as C-corporations, this tax cut has had minimal positive impact on small businesses. Our recent poll found that a majority of small business owners support increasing the corporate tax rate to 28% to generate revenue.<sup>8</sup>
- **Bring the capital gains tax rate more in alignment with ordinary income tax rates:** An additional revenue raising proposal targeted at ensuring wealthy individuals pay their fair share includes bringing the capital gains tax rates more in line with ordinary income tax rates. In our recent poll, by a two-one margin, this reform is supported by small business owners for individuals with more than \$1 million in income (53% in favor vs. 27% opposed).<sup>9</sup>
- **Maintain the current level of the IRS funding to access revenue and serve small businesses:** As our tax code has become increasingly exploited by individuals and corporations that game the system to avoid paying their fair share in taxes, a trend that has been compounded by the enactment of the TCJA, it is paramount that the Internal Revenue Service (IRS) be equipped with the adequate funding and resources necessary to close the annual tax gap of roughly \$700 billion.<sup>10</sup> When asked if they would support continued additional funding for the IRS, our research found that more than half of small business owners support additional funding to ensure the agency can fulfill its essential functions. A vast majority think that the IRS needs more funding to properly improve customer service (85%), audit large corporations (82%) and provide tax filing assistance (81%). Additionally, entrepreneurs strongly believe that the IRS needs more funding to audit wealthy taxpayers (79%), audit individuals (67%) and audit small businesses and self-employed individuals (67%).<sup>11</sup> We urge Congress to reject any further proposed cuts to the IRS and continue to provide additional funding which will empower the agency to recover lost revenue to pay for the tax cuts we propose in this document.
- **Closing offshore tax loopholes:** According to the Joint Committee on Taxation, the TCJA's provision taxing foreign profits of U.S. multinationals at a lower rate than the rate that applies to domestic profits will cost more than \$200 billion in revenue through 2027.<sup>12</sup> This system has allowed a few multinational corporations to continue funneling their profits to the lowest-taxation foreign jurisdictions. Small business owners strongly support closing offshore tax loopholes. In fact, 77% of small business owners agree that large corporations unfairly leverage their foreign

<sup>8</sup> "Congress Should Revisit 2017 Tax Law's Trillion-Dollar Corporate Rate Cut in 2025." Center for Budget and Policy Priorities. March 21, 2024. <https://www.cbpp.org/research/federal-tax/congress-should-revisit-2017-tax-laws-trillion-dollar-corporate-rate-cut-in-2025>

<sup>9</sup> "Survey Toplines - Opinion Poll: Small Businesses Support Bottom-Up Tax Reforms." Small Business Majority. August 28, 2024. <https://smallbusinessmajority.org/sites/default/files/research-reports/2024-august-tax-survey-toplines.pdf>

<sup>10</sup> "IRS updates tax gap projections for 2020, 2021; projected annual gap rises to \$688 billion." Internal Revenue Service. October 12, 2023. <https://www.irs.gov/newsroom/irs-updates-tax-gap-projections-for-2020-2021-projected-annual-gap-rises-to-688-billion>

<sup>11</sup> "Opinion Poll: Small Businesses Support Bottom-Up Tax Reforms." Small Business Majority. August 28, 2024. <https://smallbusinessmajority.org/our-research/taxes-budget-economy/opinion-poll-small-businesses-support-bottom-tax-reforms>

<sup>12</sup> "CBO Estimates TCJA Extensions Could Cost Up to \$2.7 Trillion." Committee for a Responsible Federal Budget. June 28, 2022. <https://www.crfb.org/blogs/cbo-estimates-tcja-extensions-could-cost-27-trillion>

presence to reduce their U.S. tax liability.<sup>13</sup> To ensure large, multinational corporations pay the same tax rate on profits earned abroad as they do in the U.S., we urge Congress to enact the No Tax Breaks for Outsourcing Act, which would be a significant first step in bringing much needed parity to the tax code. Small Business Majority's national polling found that 71% of small business owners support setting a minimum tax rate of 21% on corporate offshore profits.<sup>14</sup>

#### **Beyond the TCJA: Maintaining subsidies to ensure small business access to quality affordable healthcare**

If Congress is serious about supporting small businesses through the tax code, lawmakers must also consider how existing tax credits and deductions, not included in the TCJA, can be extended to enhance the economic well-being of America's entrepreneurs.

The Premium Tax Credit (PTC), which was established through the enactment of the Affordable Care Act (ACA), helps eligible individuals and families cover the cost of premiums for health insurance purchased through ACA marketplaces. In 2021, the American Rescue Plan Act (ARPA) increased the amount of these tax credits for those who were already eligible while also expanding eligibility for the 2021-2022 tax years to individuals with income levels above 400% of the federal poverty line, an income level into which many small business owners fall. The Inflation Reduction Act (IRA) later extended the temporary exception through the 2025 tax year.

The enhanced PTC has cut premium payments by an estimated 44% (\$705 annually) and expanded access to the create and healthcare coverage overall.<sup>15</sup> With more than half of all ACA marketplace enrollees being either small business owners, self-employed individuals, or small business employees, and given that small business owners and self-employed individuals are three times more likely to rely on the ACA marketplace for coverage, these improvements have been a gamechanger for the small business ecosystem.<sup>16,17</sup>

To ensure millions of Americans, including small business owners, entrepreneurs and their employees, can continue to access lower premium costs through the ACA, Small Business Majority urges Congress to make the tax credit enhancements included in the IRA permanent before they expire in 2025. If Congress fails to act, nearly 4 million Americans will become uninsured, and the average premium payment will increase by a staggering 93% from \$672 per year to \$1,296 per year in 2026.<sup>18</sup> The permanency of the premium assistance will continue to keep health insurance premium costs affordable and expand access to coverage through the ACA Marketplace for entrepreneurs, providing them with the increased capacity to grow and expand their enterprises.

#### **Tariffs and trade: The impact on a U.S. - China trade war on Main Street**

Looking ahead to 2025, small business owners are already hunkering down to weather the almost painful impact of another potential trade war. For many business owners on Main Street, importing goods or parts from China is a common component of their supply chain. Therefore, it should come as no surprise that many businesses, from retailers to coffee shop owners, are expecting the proposed 60% tariffs on

<sup>13</sup> "Survey Toplines - Opinion Poll: Small Businesses Support Bottom-Up Tax Reforms." Small Business Majority. August 28, 2024. <https://smallbusinessmajority.org/sites/default/files/research-reports/2024-august-tax-survey-toplines.pdf>

<sup>14</sup> "Survey: Small businesses support tax reforms to pay for robust infrastructure investments." Small Business Majority. June 8, 2021. <https://smallbusinessmajority.org/our-research/infrastructure/survey-small-businesses-support-tax-reforms-pay-robust-infrastructure-investments>

<sup>15</sup> "Inflation Reduction Act Health Insurance Subsidies: What is Their Impact and What Would Happen if They Expire?" KFF. July 26, 2024. <https://www.kff.org/affordable-care-act/issue-brief/inflation-reduction-act-health-insurance-subsidies-what-is-their-impact-and-what-would-happen-if-they-expire/>

<sup>16</sup> "Small businesses see significant gains from the ACA." Small Business Majority. October 16, 2018. <https://smallbusinessmajority.org/our-research/healthcare/small-businesses-see-significant-gains-aca>

<sup>17</sup> "Affordable Care Act Marketplace Coverage for the Self-Employed and Small Business Owners." U.S. Department of the Treasury. September 2024. <https://home.treasury.gov/system/files/131/ACA-Mkt-Coverage-Self-Employed-Small-Business-Owners09232024.pdf>

<sup>18</sup> "Inflation Reduction Act Health Insurance Subsidies: What is Their Impact and What Would Happen if They Expire?" KFF. July 26, 2024. <https://www.kff.org/affordable-care-act/issue-brief/inflation-reduction-act-health-insurance-subsidies-what-is-their-impact-and-what-would-happen-if-they-expire/>

Chinese imports to be detrimental. According to the National Retail Federation, American businesses, including those that are small, must shoulder the burden of tariffs.<sup>19</sup> So far, the very same tariffs (section 301) imposed by the Trump administration in 2019 have cost Americans, including small business owners, a staggering \$129 billion. The incoming Trump administration has proposed also levying a universal 10% tariff across all imports, which would only harm the American economy as data consistently show that trade wars have raised prices and reduced growth.<sup>20</sup>

When unilateral and retaliatory tariffs are implemented, the cost of goods and services will increase across the board. That is why businesses in our network have opposed tariffs, as we document below, but the sentiments remain consistent across industries represented: thoughtless and exorbitant tariffs will hurt America's smallest businesses the most. These quotes represent the thoughts and beliefs of members of our National Small Business Council, representing various industries across the U.S.

- Mike Roach, owner of Paloma Clothing in Portland, Oregon, opposes the prospect of higher tariffs on imports, stating that, "Our clothing store for women, Paloma Clothing, hopes to turn 50 next year. Our two top selling lines of clothing are made in China. The 60% proposed tariffs would make these lines unsellable and there are no comparable lines made in the U.S. or even in other countries at this time. The damage to our sales and to our long-time vendors would dramatically impact our business' ability to function long before those lines could pivot to other countries or the U.S. There are thousands of locally owned clothing stores in the country that are still trying to recover from the covid collapse of our industry. These tariffs could be the nail in the coffin for many of us."
- Mike Brey, owner of Hobby Works in Laurel, Maryland, opposes the prospect of new tariffs, which would have a far-reaching negative impact on small businesses nationwide. Mike shared "We [Hobby Works] used to import accessory carrying bags of our own design through our WingTote subsidiary. Because it was a very heavy duty, but niche product, there was simply no way to manufacture this product in the U.S. We could only manufacture this product by piggybacking on other manufacturers' factory runs. Falling into the sewn sporting goods or luggage categories, they already carried a 17.9% tariff pre-pandemic. During the first Trump Administration an additional 25% tariff was added (not an increase of 25% as was widely reported) for a total tariff of 42.9%. There was simply no way to avoid passing virtually all of this cost on to the consumer because margins are already too narrow. Most toy, hobby, and game shops have net operating margins in the 5-10% range, which leaves very little room for retailers to absorb additional costs, so they get passed on to the consumer very quickly. The proposed tariffs would also have a negative impact on my cashflow, forcing me to raise the cost of goods just to stock my shelves. So, the negative effect of imposing tariffs is twofold: regressive tax on the consumer in the form of increased costs, PLUS delayed cash flow on the part of the retailer, manufacturer, etc. Those negative effects ripple all throughout the supply chain."
- Clifton Broumand, Owner of Man and Machine in Landover, Maryland, strongly opposes the proposed tariffs, and is already considering moving his production out of the U.S. in response. Clifton shared, "If the new administration wants to damage export manufacturing and really kill domestic manufacturers, pass a bill similar to the Tarriff Act of 1930. We all want to strengthen our manufacturing base, but it's hard to understand how raising taxes through tariff increases aligns with the Republican value of lower taxes and lower costs for all Americans. If these tariffs go into place, I will have to move my production to Vietnam to compete with the Chinese in my export business. How does this help my employees? How does this help small businesses in our country?"
- Nikki Bravo, owner of Momentum Coffee in Chicago, Illinois shared "At Momentum Coffee, we're all about supporting our community and encouraging people to shop local. However, higher

<sup>19</sup> "The Impact of Tariffs on Small Business" National Retail Federation. 2024. <https://nrf.com/hill/policy-issues/impact-tariffs-small-business>

<sup>20</sup> Trade Misery Impact Index. Americans for Free Trade. 2024. <https://americansforfreetrade.com/tariff-misery-impact/>

tariffs can make it tough because some of our supplies come from overseas. We have a real concern since we're a coffee shop, there's only so much we can pass on to our customers without affecting the neighborhoods we seek to serve and our mission to make quality coffee accessible. With a 60% tariff, it's hard to balance these added costs. Small margins made smaller can have some unintended consequences, especially for businesses like ours that are deeply tied to our communities. We know we'll need to explore options to offset the impact, but at this time, we're not certain what those options will look like."

While ensuring global competitiveness is a key issue for many small business owners, levying excessive tariffs on goods that small businesses depend on will not favor the smaller players in our economy. Instead, Congress should look to raise revenue in other ways that small business owners support, including revisiting the corporate rate, closing offshore loopholes, and bolstering tax enforcement across the board.

**2025 offers a chance to address the shortcomings of the tax code and lay the foundation for a tax policy agenda that better serves small businesses**

Small businesses need a simplified and streamlined tax system that will level the playing field with large corporations. The TCJA was a false hope for our nation's smallest businesses that need the most relief, as it has failed to deliver for Main Street and instead has magnified the inequities in our tax code by slashing tax rates for wealthy corporations, expanding loopholes and further incentivizing corporations to move their profits offshore—leaving small businesses to bear the brunt of the tax burden head on.

The proposals outlined in my testimony reflect the opportunity for Congress to support Main Street entrepreneurs and put money back into their pockets. These priorities are shared by the diverse small business community that fuels economic innovation, local job growth, and the larger economy.

We hope the conversation today sheds light on some of the equitable solutions to achieving these goals to uplift our nation's smallest but most innovative job creators and economic contributors.

Thank you for your time and I look forward to taking your questions.

Sincerely,



John Arensmeyer  
Founder & CEO  
Small Business Majority

**“Building on the Success of TCJA: The 2025 Tax Policy Debate”**  
 November 19, 2024  
 Questions for the Record

**Questions from Senator Amy Klobuchar**

**Questions for Samantha Jacoby**

1. **One of the key criticisms of the 2017 tax law is that it favored corporations and the wealthy over working families and communities. In contrast, the bipartisan Wyden-Smith tax bill paired business tax provisions with expanded family tax credits and tax provisions to increase housing supply.**
  - **What evidence shows that balancing tax benefits for businesses with investments in families and communities fosters stronger economic growth?**
  - **How could this approach help address inequities from prior tax policies?**

Tax cuts enacted in the last 25 years — namely, the tax cuts enacted in 2001 and 2003 under President Bush (most of which were made permanent in 2012) and those enacted in 2017 under President Trump — disproportionately flowed to households at the top and cost significant federal revenues, adding trillions to the national debt since their enactment.<sup>1</sup> Instead of doubling down on the flawed trickle-down path of the Bush and Trump tax cuts, there are opportunities to work toward a tax code that raises more needed revenues and supports investments that make the economy work for everyone.

The House-passed bipartisan legislation negotiated by House Ways and Means Chair Jason Smith and Senate Finance Committee Chair Ron Wyden offers an alternative path. That proposal paired improvements to the Child Tax Credit and housing investments on one hand with corporate and small business tax provisions on the other, with each costing a similar amount.<sup>2</sup> Moreover, the package was fully offset by making certain changes to the administration and enforcement of the Employee Retention Credit, a credit enacted as a COVID relief measure in 2020 that has reportedly faced significant abuse.<sup>3</sup>

Though the Wyden-Smith bill’s proposed changes are relatively modest in size, they are well-targeted and designed to have the greatest impact for children in families with low incomes.

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<sup>1</sup> Samantha Jacoby, Testimony before the Joint Economic Committee, November 19, 2024, [https://www.jec.senate.gov/public/\\_cache/files/5dcd6da3-ca55-4857-b975-601a98d7c38d/samantha-jacoby-testimony.pdf](https://www.jec.senate.gov/public/_cache/files/5dcd6da3-ca55-4857-b975-601a98d7c38d/samantha-jacoby-testimony.pdf).

<sup>2</sup> Kris Cox *et al.*, “About 16 Million Children in Low-Income Families Would Gain in First Year of Bipartisan Child Tax Credit Expansion,” CBPP, January 22, 2024, <https://www.cbpp.org/research/federal-tax/about-16-million-children-in-low-income-families-would-gain-in-first-year-of>.

<sup>3</sup> IRS News Release, “To protect taxpayers from scams, IRS orders immediate stop to new Employee Retention Credit processing amid surge of questionable claims; concerns from tax pros,” September 14, 2023, <https://www.irs.gov/newsroom/to-protect-taxpayers-from-scams-irs-orders-immediate-stop-to-new-employee-retention-credit-processing-amid-surge-of-questionable-claims-concerns-from-tax-pros>.

The bill's key improvements to the Child Tax Credit include:

- Moving to a “per-child” phase-in to ensure low-income families receive the same credit for each of their children, as higher-income families already do;
- Increasing and then effectively ending in tax year 2025 the lower maximum credit amount (known as the “refundability cap”) that limits the credit only for families with low incomes;
- Allowing families to use their earnings from either the current tax year or the year before when calculating the Child Tax Credit to help protect them from a drop in their credit if their earnings declined — because they lost a job, faced health or caregiving needs, or welcomed a new child, for example; and
- Indexing the maximum amount of the Child Tax Credit, which is currently set at \$2,000.

Underinvesting in people, communities, and the building blocks of the U.S. economy increases poverty and hardship, worsens racial and ethnic inequities, shortchanges opportunity, and restrains economic growth. For example, child poverty is higher in the U.S. than in other similarly wealthy countries due to our weaker support for families with children. Investing in children has long-term payoffs for the entire country, and that means our underinvestment is harming the nation's potential.

In addition to short-run relief from hardship, income support can bring long-run gains in children's health, education, and earnings, a mounting body of research finds. For instance, a 2022 study, titled “Investing in Infants: the Lasting Effects of Cash Transfers to New Families,” finds that infants in families who receive more support from child-related tax benefits go on to have higher math and reading test scores, high school graduation rates, and earnings into young adulthood.<sup>4</sup> Based on prior literature, the authors also note that even temporary aid to low-income families can help them avoid extreme levels of “short-term stress with long-term ramifications” from threats such as eviction and food insecurity.<sup>5</sup>

Other studies of childhood income assistance have similarly found short- and long-term gains for infant health, elementary school performance, positive social behavior, and, years later, greater school completion, improved health status in young adulthood, and higher earnings.<sup>6</sup>

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<sup>4</sup> Andrew Barr, Jonathan Eggleston, and Alexander A. Smith, “Investing in Infants: the Lasting Effects of Cash Transfers to New Families,” *Quarterly Journal of Economics*, Vol. 137, No. 4, April 20, 2022, <https://doi.org/10.1093/qje/qjac023>.

<sup>5</sup> *Ibid.*

<sup>6</sup> Martha Bailey *et al.*, “Is the Social Safety Net a Long-Term Investment? Large-Scale Evidence from the Food Stamps Program,” Goldman School of Public Policy, April 2020, <https://gspp.berkeley.edu/assets/uploads/research/pdf/w26942.pdf>; National Academies of Sciences, Engineering, and Medicine, *A Roadmap to Reducing Child Poverty*, National Academies Press, 2019, <https://www.nap.edu/catalog/25246/a-roadmap-to-reducing-child-poverty>. Greg Duncan, Pamela Morris, and Chris Rodrigues, “Does Money Really Matter? Estimating Impacts of Family Income on Young Children's Achievement with Data from Random-Assignment Experiments,” *Developmental Psychology*, Vol. 47, No. 5, 2011; Chloe N. East, “The Effect of Food Stamps on Children's Health: Evidence from Immigrants' Changing Eligibility,” *Journal of Human Resources*, September 5, 2018; earlier version at [http://www.chloeneast.com/uploads/8/9/9/7/8997263/east\\_jmp.pdf](http://www.chloeneast.com/uploads/8/9/9/7/8997263/east_jmp.pdf).

Investments in this and other areas — including investments to bring down the high cost of housing and child care for families, address climate change, expand access to higher education, improve our infrastructure, and support research and technological advances — can yield significant short- and long-term benefits to people, communities, and the economy as a whole.

## Joint Economic Committee

## “Building on the Success of TCJA: The 2025 Tax Policy Debate”

November 19th, 2024

Questions for the Record

**Senator Amy Klobuchar**Questions for Mr. John Arensmeyer, Founder and CEO, Small Business Majority

1. Workforce challenges, including access to affordable childcare, often hinder small business growth.
  - What impact do investments in children through the tax code—such as the Child Tax Credit or the Child and Dependent Care Tax Credit—have on small businesses?
    - Investments in children and families through tax credits like the Child Tax Credit and Child and Dependent Care Tax Credit play an integral role in supporting the economic wellbeing of small business owners and their employees. The skyrocketing cost of childcare has had grave impacts on the small business community and our research found that nearly 60% of small business owners agree that a lack of access to affordable, high-quality childcare for their own children created an impediment for them to start and grow their business.<sup>1</sup> Additionally, when employees experience childcare issues, small business owners report that their business experiences lower productivity, lost revenue or earnings, shorter operating hours, and an increase in temporary workers.

The CTC and CDCTC help low-income entrepreneurs and small business employees offset the cost of everyday expenses, like childcare, rent, food and more, giving low-income entrepreneurs the financial flexibility needed to invest in their business. However, the expiration of the previous temporary expansions to the CTC has left millions of entrepreneurs and families in need of additional support. Lawmakers should consider reinstating the American Rescue Plan Act’s temporary expansion to the CTC, which expanded access to the credit for low-income families, made the credit fully refundable and increased the maximum amount of the credit. Congress should also work to expand the CDCTC, which is the only tax credit specifically designed to offset the cost of childcare, by

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<sup>1</sup> ALL DATA REFERENCED IN THIS QUESTION: “Opinion Poll: Small businesses support policy solutions to address our nation’s childcare challenges.” Small Business Majority. April 9, 2024. <https://smallbusinessmajority.org/our-research/workforce/opinion-poll-small-businesses-support-policy-solutions-address-our-nation-s-childcare-challenges>

raising the maximum credit amount and guaranteeing full refundability for low-income families.

Additional research bolstering the small business case for childcare investments conducted by Small Business Majority found the following:

- A lack of access to childcare is a barrier to small business formation and growth: The vast majority of poll respondents (92%) are parents. A significant number of these small business owners agree that a lack of access to affordable, high-quality childcare for their own children created an impediment for them to start their business (58%) and grow their business (59%).
- Entrepreneurs' childcare issues impact their ability to run their businesses: Small business owners report that their own childcare issues have forced them to take substantial time away from the business (56%), lose out on business opportunities (39%), hire additional help (28%) and shut down their own business and rejoin the workforce (26%).
- When employees experience childcare issues, small businesses struggle: Small businesses report that they've experienced lower productivity (51%), been unable to operate longer hours (44%), lost revenue or earnings (31%), and had to hire temporary workers (28%) when their employees are facing childcare issues.
- Small business employees frequently experience schedule disruptions: Nearly three-quarters of entrepreneurs say that their employees adjust their work schedules due to childcare issues at least a few times a month.
- Employees' childcare issues impact small business operations: Small business owners say that they've experienced unplanned employee work absences (62%), had an employee quit (30%), had a job candidate turn down an offer (30%) and had an employee turn down a promotion (27%) due to childcare issues. More than 6 in 10 (61%) agree that their employees' childcare issues have negatively affected their ability to do their job as efficiently as both the employer and employee would like.
- Small businesses want policymakers to act on childcare: More than two-thirds (68%) of small business owners believe that policymakers need to take action to address the cost of childcare. They support a number of policy solutions to expand access and address costs, including:
  - More than two-thirds (67%) support renewing \$16 billion in funding for the Child Care Stabilization Program, a federal program that provided additional support to childcare providers and expired last fall.
  - Two-thirds believe that nonprofit childcare providers should be allowed to access the Small Business Administration's main loan programs for working capital and real estate expansion.

- 71% support doubling the amount of money that can be saved by a family in a tax-exempt Dependent Care Flexible Spending Account to cover childcare expenses, up to \$10,000 annually.
  - 70% support expanding eligibility to more families for the national Head Start program.
  - 73% support expanding a tax credit aimed at helping businesses provide childcare to their workers by increasing the credit's rate and caps, allowing businesses to jointly create and operate a childcare facility for their employees, and adding in-home services as an eligible use.
2. Minnesota's small businesses and cooperatives rely on the Section 199A deduction to stay competitive by narrowing the tax gap with corporations. With its expiration in 2025, concerns about tax fairness and competitiveness for unincorporated businesses are growing.
- How can Congress extend the Section 199A deduction to maintain tax parity while targeting the benefit to small businesses and cooperatives that need it most, and minimizing potential abuses?
    - The Section 199A 20% pass-through deduction has failed to deliver real benefits for America's smallest businesses and has rather given millions of dollars in tax cuts to the largest and wealthiest businesses. Based on 2022 Tax Policy Center data, 69.2% of all pass-through deduction benefits flowed to the wealthiest 4.5% of small business owners.<sup>2</sup> While the richest pass-through entities claimed an average deduction of over \$1 million in 2021, claimants with adjusted gross incomes (AGI) below \$100,000 took home an average deduction of just \$1,997.<sup>3</sup> Indeed, the financial benefits for a pass-through entity earning a profit of more than \$500,000 are 20 times higher than the benefits for a business making \$75,000.

To ensure our tax code reflects the needs of America's smallest businesses that keep our economy running, Small Business Majority has long advocated for replacing or reforming the 199A deduction to function in a way that delivers bottom-up benefits. For example, small businesses could deduct their first \$25,000 of Qualifying Business Income (QBI), thus benefiting very small businesses and cooperatives rather than continuing to deliver inequitably distributed top-down tax breaks that only help a select few. Under this proposal, the smallest businesses, specifically the vast majority with a net income of less than \$125,000 per year, would benefit. This deduction should be accompanied by a phase-out for

<sup>2</sup> "Sources of flow-through business income by statutory marginal tax rate; current law, 2022." Tax Policy Center. March 1, 2023. <https://www.taxpolicycenter.org/model-estimates/distribution-business-income-february-2023/t23-0028-sources-flow-through-business>

<sup>3</sup> "The 2017 Tax Bill's Pass-Through Deduction Largely Favors the Wealthy and Encourages Gaming of the Tax Code." Center for American Progress, 2024. <https://www.americanprogress.org/article/the-2017-tax-bills-pass-through-deduction-largely-favors-the-wealthy-and-encourages-gaming-of-the-tax-code/>

business owners with more than \$400,000 in income to ensure it benefits the entities most in need. Notably, small businesses see this proposal as a viable path forward. Our polling found that 53% of small businesses supported this change.<sup>4</sup>

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<sup>4</sup>"Opinion poll: Small businesses support bottom-up tax reforms." Small Business Majority. August 28, 2024.  
<https://smallbusinessmajority.org/our-research/taxes-budget-economy/opinion-poll-small-businesses-support-bottom-tax-reforms>

#### Questions from Senator Peter Welch

#### Questions for Samantha Jacoby

1. **President-elect Donald Trump promised that the benefits of the Tax Cuts and Jobs Act of 2017 (TCJA) would trickle down to working Americans. According to some estimates, under the prevailing TCJA regime, the top 1% of American households will receive the bulk of the benefits with an average tax cut of roughly \$61,000 in 2025, while the lower 60% of households will only see a \$500 average reduction.**

**Which existing tax policies, if expanded, would ensure lower income households receive robust economic relief? Relatedly, which expiring TCJA policies, if extended, would further exacerbate America's economic divide?**

There are several existing tax policies that, if expanded, would provide robust economic relief to lower-income households.

- **Child Tax Credit.** An estimated 1 in 4 children — or roughly 17 million children — will get less than the full \$2,000-per-child credit or no credit in 2025 because their families' incomes are too low.<sup>1</sup> This includes nearly half of Black children, 4 in 10 American Indian and Alaska Native children, more than 1 in 3 Latino children, and about 1 in 3 children living in rural areas, as well as 1 in 6 white children and more than 1 in 7 Asian children.

In 2021, the now-expired American Rescue Plan's Child Tax Credit expansion delivered more resources to families with the lowest incomes, especially those with young kids. The Rescue Plan made the full credit available to children in families with low incomes and increased the maximum amount of the credit to \$3,600 for children aged 5 and younger and \$3,000 for children aged 6 to 17, among other changes.

With the temporary expansion, child poverty plummeted; the credit expansion reduced the number of children living below the poverty line by more than a third.<sup>2</sup> If the Rescue Plan version of the Child Tax Credit were in place for 2024, roughly 2.6 million fewer children would live in families with incomes below the poverty line.<sup>3</sup>

- **Earned Income Tax Credit.** While a powerful wage booster that benefits millions of families with children each year, the federal Earned Income Tax Credit (EITC) provides extremely limited support to adults aged 25-64 who work low-paying jobs and are not raising children in their household. This year, 6 million workers whose incomes are either below or

<sup>1</sup> Elaine Maag, "17 Million Children In Low-Income Families Will Not Receive The Full Child Tax Credit In 2025," Tax Policy Center, December 10, 2024, <https://taxpolicycenter.org/taxvox/17-million-children-low-income-families-will-not-receive-full-child-tax-credit-2025>.

<sup>2</sup> Kalee Burns and Liana E. Fox, "The Impact of the 2021 Expanded Child Tax Credit on Child Poverty," U.S. Census Bureau, 2022, <https://www.census.gov/content/dam/Census/library/working-papers/2022/demo/sehsd-wp2022-24.pdf>.

<sup>3</sup> CBPP analysis of the March 2023 Current Population Survey (CPS). Poverty calculations also use U.S. Census Bureau Supplemental Poverty Measure research files for the ACS.

just above the poverty line are made poor or even poorer, largely because their EITC is not even enough to offset payroll taxes for Social Security and Medicare as well as any federal income tax liability.

In 2021, Congress temporarily expanded the EITC for workers not raising children in their household, nearly eliminating the policy failure of people being taxed into, or deeper into, poverty. Specifically, it raised the maximum EITC to roughly \$1,500, as well as raising the income limit from about \$16,000 to \$21,000 for single filers and from about \$22,000 to \$27,000 for married filers. It also made individuals aged 19 to 24 and 65 and older newly eligible for the credit. If the temporary expansion had been made permanent, the EITC expansion would benefit about 14 million working adults for tax year 2024. This would include about 7.9 million white, 2.5 million Latino, 2.3 million Black, 637,000 Asian, and 304,000 American Indian and Alaska Native adults.<sup>4</sup>

- **Enhanced premium tax credits.** The Affordable Care Act (ACA) marketplaces are a critical source of health coverage for people who don't qualify for Medicaid or Medicare and don't have an affordable offer of coverage from an employer. Thanks to enhancements made by the 2021 American Rescue Plan and sustained by the 2022 Inflation Reduction Act, premium tax credits (PTCs) cover a larger share of enrollees' premiums than they did in prior years.

The PTC changes have made premiums much more affordable for all enrollees while targeting the most relief to people with the lowest incomes, who need it most. More than 20 million people had active ACA marketplace coverage as of February 2024. A record 93 percent of marketplace enrollees receive PTCs.<sup>5</sup> The average enrollee will save an estimated \$705 in 2024 because of the PTC enhancements, equivalent to a 44 percent reduction in premium costs.<sup>6</sup>

The enhanced PTCs remain available through the 2025 coverage year, but the enhancements will expire at the end of December 2025 unless Congress acts. If Congress fails to act, people in every state will face sharp premium increases for 2026 coverage, and millions of

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<sup>4</sup> Kiran Rachamalla, "About 14 Million Low-Income Adults Not Raising Children at Home Would Benefit from Permanently Expanded EITC," CBPP, September 19, 2024, <https://www.cbpp.org/blog/about-14-million-low-income-adults-not-raising-children-at-home-would-benefit-from-permanently>.

<sup>5</sup> Data as of February 2024, the most recent available. Centers for Medicare & Medicaid Services (CMS), Effectuated Enrollment: Early 2024 Snapshot and Full Year 2023 Average, <https://www.cms.gov/files/document/early-2024-and-full-year-2023-effectuated-enrollment-report.pdf>.

<sup>6</sup> CMS, "Health Insurance Marketplaces 2024 Open Enrollment Report," March 22, 2024, <https://www.cms.gov/data-research/statistics-trends-reports/marketplace-products/2024-marketplace-open-enrollment-period-public-use-files>; Jared Ortaliza *et al.*, "Inflation Reduction Act Health Insurance Subsidies: What is Their Impact and What Would Happen if They Expire?" KFF, July 26, 2024, <https://www.kff.org/affordable-care-act/issue-brief/inflation-reduction-act-health-insurance-subsidies-what-is-their-impact-and-what-would-happen-if-they-expire/>.

people (3.8 million, the Congressional Budget Office estimates) will lose coverage because they will no longer be able to afford it.<sup>7</sup>

Extending many of the expiring provisions of the Trump tax cuts would, in contrast, double down on the flawed trickle-down tax policies of the last 25 years. The 2017 Trump tax law was skewed to the wealthy, expensive, and failed to deliver on its economic promises.<sup>8</sup>

The 2017 law's expiring provisions that primarily benefit the most well-off and exacerbate income inequality include:

- **Pass-through deduction.** The 2017 law adopted a new 20 percent deduction for certain income that owners of pass-through businesses (partnerships, S corporations, and sole proprietorships) report on their individual tax returns, which previously was generally taxed at the same rates as wage and salary income. Over half of the deduction's benefits in 2024 will go to households with incomes over \$1 million, according to the Joint Committee on Taxation (JCT).<sup>9</sup>
- **Cutting individual income tax rate cuts for those at the top and weakening the alternative minimum tax (AMT).** The 2017 law cut the top individual income tax rate from 39.6 percent to 37 percent and raised the threshold to which the rate begins to apply from \$480,000 to \$600,000 for a married couple. The 2017 law also dramatically weakened the AMT, which was designed to ensure that higher-income people who take large amounts of deductions and other tax breaks pay at least a minimum level of tax. The law made far fewer households subject to the AMT and enabled many of those still subject to it to pay far less,<sup>10</sup> delivering another sizable tax cut to many affluent households.
- **Estate tax.** One of the most egregious examples of failed trickle-down tax cutting in recent decades has been the long-term effort to reduce or even eliminate taxes on massive inheritances for some of the wealthiest families in the country. The 2017 tax law continued this trend, doubling the amount that a wealthy couple can pass on to their heirs tax free from \$11 million to \$22 million, indexed for inflation. (The 2024 threshold is \$27.22 million.)

<sup>7</sup> Congressional Budget Office (CBO), "Budgetary Outcomes Under Alternative Assumptions About Spending and Revenues," May 8, 2024, <https://www.cbo.gov/publication/60114>.

<sup>8</sup> Chuck Marr, Samantha Jacoby, and George Fenton, "The 2017 Trump Tax Law Was Skewed to the Rich, Expensive, and Failed to Deliver on Its Promises," CBPP, June 13, 2024, <https://www.cbpp.org/research/federal-tax/the-2017-trump-tax-law-was-skewed-to-the-rich-expensive-and-failed-to-deliver>.

<sup>9</sup> JCT, "JCX-32r-18," April 24, 2018, <https://www.jct.gov/publications/2018/jcx-32r-18/>.

<sup>10</sup> On the other hand, many taxpayers who benefited from the law's changes to the AMT were also affected by the new \$10,000 cap on the deduction for state and local taxes (SALT) and other changes to itemized deductions. See Kimberly A. Clausing and Natasha Sarin, "The Coming Fiscal Cliff: A Blueprint for Tax Reform in 2025," Hamilton Project, September 2023, [https://www.hamiltonproject.org/wp-content/uploads/2023/09/20230927\\_THP\\_SarinClausing\\_FullPaper\\_Tax.pdf](https://www.hamiltonproject.org/wp-content/uploads/2023/09/20230927_THP_SarinClausing_FullPaper_Tax.pdf).

Moreover, these large tax cuts for high-income and high-wealth households would come on top of the large benefits those households also receive from the 2017 law's permanent corporate tax cuts, which are tilted *even more heavily* toward wealthy people than the expiring individual tax cuts.<sup>11</sup>

2. **Since their enactment, the Bush and Trump tax cuts have added \$10 trillion to the national debt. If fully extended, the TCJA could add another \$4.6 trillion to the debt over the next 10 years.**

**Which expiring provisions of the TCJA pose the greatest threat to America's long-term fiscal standing? What steps can lawmakers take to meaningfully alter the nation's debt trajectory?**

The 2017 tax law and other large tax cuts enacted over more than two decades have eroded the nation's revenue base, undermining investments, driving up deficits and debt, and, in turn, increasing future economic risks.<sup>12</sup> Adopting the two fiscal principles discussed below would begin to reverse course and rebuild our revenue base. While adopting these principles would not address our full revenue needs or even return revenues to 1990s levels as a share of the economy, it could meaningfully improve our fiscal outlook and finance investments critical to the nation's future prosperity.

*Principle #1: Let Expiring Tax Cuts for High-Income Households End on Schedule*

Making the 2017 law's individual income and estate tax provisions permanent would cost about \$4 trillion from 2026 to 2035, or roughly \$350 billion a year beginning in 2027.<sup>13</sup> Making other parts of the law permanent, including extending the "expensing" tax break for business investments or reversing certain business tax increases that were included in the law, which some policymakers have called for, would add around \$1 trillion to this cost.<sup>14</sup> Given our substantial underinvestment in high-value areas, the retirement of baby boomers, rising health care costs, and potential national security threats, this would be a costly mistake.

Ending the expiring 2017 tax cuts for high-income households is an essential step in shifting away from the regressive, costly tax cuts of recent decades and toward a more equitable tax system

<sup>11</sup> CBO, "The Distribution of Household Income, 2018," August 4, 2021, <https://www.cbo.gov/publication/57061>.

<sup>12</sup> Richard Kogan *et al.*, "More Revenue Is Required to Meet the Nation's Commitments, Needs, and Challenges," CBPP, June 17, 2024, <https://www.cbpp.org/research/federal-budget/more-revenue-is-required-to-meet-the-nations-commitments-needs-and#>.

<sup>13</sup> CBPP calculations based on CBO, "Budgetary Outcomes Under Alternative Assumptions About Spending and Revenues," May 8, 2024, <https://www.cbo.gov/publication/60114>.

<sup>14</sup> CBPP analysis of CBO, "Budgetary Outcomes Under Alternative Assumptions About Spending and Revenues," *op. cit.*, <https://www.cbo.gov/publication/60114>. Chuck Marr and Samantha Jacoby, "Corporate Lobby's New Math Doesn't Add Up for Kids," CBPP, December 8, 2022, <https://www.cbpp.org/research/federal-tax/corporate-lobbys-new-math-doesnt-add-up-for-kids>; Committee for a Responsible Federal Budget, "TCJA Extension Could Add \$4 to \$5 Trillion to Deficits," June 13, 2024, <https://www.crfb.org/blogs/tcja-extension-could-add-4-5-trillion-deficits>. Provisions in 2017 law made some corporate tax provisions less generous over time. These include provisions affecting limits on interest deductibility, investment expensing, research and development expensing/amortization, and tax rates affecting low-taxed foreign income of U.S. multinational corporations and certain income from exports.

that raises revenue sufficient to meet the nation's needs. People making over roughly \$400,000 would reap the benefits of over 40 percent of the cost of extending all of the expiring 2017 tax cuts. Letting the tax cuts for this group expire on schedule would avoid \$1.6 trillion in costs over ten years.

This would include, for example, allowing the pass-through deduction, which primarily benefits high-income business owners, to expire on schedule, saving around \$770 billion over ten years relative to full extension.<sup>15</sup> Additionally, restoring the 39.6 percent top individual income tax rate and applying it to taxable incomes exceeding \$400,000 could save at least \$500 billion over a decade (2026-2035), relative to extending the 37 percent top rate.<sup>16</sup> Moreover, ending the 2017 tax law's estate tax provisions would avoid nearly \$200 billion in cost over ten years.<sup>17</sup>

*Principle #2: Raise More Revenues to Finance Progressive Tax Cuts, and for Other Critical Investments*

Policymakers should raise more revenues from wealthy households and profitable corporations to offset any tax cuts they choose to extend or expand for people with incomes below \$400,000 and other high-impact investments they choose to make. Additional revenue increases could also be used to improve our fiscal outlook.

Raising revenues from progressive sources is particularly appropriate given that the nation's income in recent decades has grown increasingly unequal. Typical middle-income families with children had almost 50 percent more income after taxes in 2019 than such families had in 1984, after adjusting for inflation. But among the top 1 percent of households, their already disproportionate incomes grew three times as fast over that period: almost 150 percent. Indeed, by 2019, the top 1 percent had annual incomes averaging \$1.7 million, almost 20 times that of typical middle-income families with children.<sup>18</sup>

Revenue proposals should include revisiting the 2017 law's permanent and deeply unpopular corporate tax rate cut and strengthening the law's international corporate tax provisions, which continue to allow significant foreign profit-shifting.<sup>19</sup> New progressive tax policies should also reduce the tax advantages for wealthy people by, for example, curtailing their ability to permanently

<sup>15</sup> CBPP analysis of CBO, "Budgetary Outcomes Under Alternative Assumptions About Spending and Revenues," *op. cit.*

<sup>16</sup> CBPP analysis of CBO, "Budgetary Outcomes Under Alternative Assumptions About Spending and Revenues," *op. cit.*, and of Joint Committee on Taxation (JCT), "JCX-42-21," September 13, 2021, <https://www.jct.gov/publications/2021/jcx-42-21/>. This estimate is based, in part, on JCT's analysis of 2021 legislation approved by the House Ways and Means Committee that would have, among other things, applied a 39.6 percent top ordinary income tax rate to households with more than \$400,000 for single households and \$450,000 for married couples.

<sup>17</sup> CBPP analysis of CBO, "Budgetary Outcomes Under Alternative Assumptions About Spending and Revenues," *op. cit.*

<sup>18</sup> CBPP analysis of CBO's distribution of household income for households with children, at CBO, "The Distribution of Household Income in 2020," November 14, 2023, <https://www.cbo.gov/publication/59509>. We use CBO's data through 2019 (2020, the latest year with available data, is distorted by COVID effects). Amounts are after taxes, exclude medical benefits, include other means-tested government transfers, and are adjusted for inflation to 2019 dollars. Incomes are ranked by post-tax, post-transfer incomes.

<sup>19</sup> Chuck Marr, George Fenton, and Samantha Jacoby, "Congress Should Revisit 2017 Tax Law's Trillion-Dollar Corporate Rate Cut in 2025," CBPP, March 21, 2024, <https://www.cbpp.org/research/federal-tax/congress-should-revisit-2017-tax-laws-trillion-dollar-corporate-rate-cut-in>.

avoid taxes on their large unrealized capital gains and rolling back the special breaks they receive when they do pay tax.<sup>20</sup> Policymakers can also generate progressive revenues by extending and making permanent the mandatory IRS funding enacted in the Inflation Reduction Act, which supports revenues by increasing tax collections primarily from high-income households.

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<sup>20</sup> Chuck Marr and Samantha Jacoby, “Arguments Against Taxing Unrealized Capital Gains of Very Wealthy Fall Flat,” September 11, 2024, <https://www.cbpp.org/research/federal-tax/arguments-against-taxing-unrealized-capital-gains-of-very-wealthy-fall-flat>.

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<https://strgnfibcom.blob.core.windows.net/nfibcom/EY-NFIB-Macroeconomic-analysis-of-permanently-extending-the-section-199A-on-small-businesses.pdf>.

## 'Just pure uncertainty.' Small businesses are hopeful and fearful ahead of Trump's second term

By [Alicia Wallace](#), CNN

8 minute read

Updated 4:07 PM EST, Fri November 15, 2024

Family-run furniture and barware maker Barrel-Art has now been through three US presidential elections. While business before the 2024 race felt similar to 2016 and 2020, this year has also brought more unpredictability.

Sales petered out in the months ahead of Election Day as businesses and shoppers paused their purchases while waiting for an outcome. Sales for their handcrafted products, made from whiskey and wine barrels, bounced back as soon as the race was called.

However, the post-election environment is hitting different this time around for many small business owners, such as Barrel-Art's Michael Prieto, and leaving them wondering what comes next.

While President-elect Donald Trump will be a [familiar face in the White House](#), his campaign trail [rhetoric was amplified](#) and ambitious, sweeping policy proposals [have raised more questions than answers](#), said John Arensmeyer, founder and chief executive of Small Business Majority, a center-left business advocacy group.

"I think business owners don't know how much of what they've heard from the president-elect on the campaign is real, how much is going to actually happen and how much he can do," Arensmeyer said.

For business owners who already were unsettled about the economy or its direction prior to the election, navigating the months and years ahead could be even more precarious, he added.

"It's just pure uncertainty," he said.

For Barrel-Art's Prieto, his biggest question mark is [how tariffs](#) or trade restrictions could ripple through his US-based suppliers and make materials harder to obtain or more costly.

"I want to be optimistic, but I'm skeptical as well on some of the proposed policies," he said.

### **Running leaner, hoping for cheaper money**

In the months leading up to the election, Prieto was taking a wait-and-see approach. He didn't want to send Barrel-Art down two different scenarios.

A week after the election, Prieto said he was very hopeful that his small, family-owned business could benefit from any "Made in America" pushes from the new administration as well as a more favorable lending environment.

Barrel-Art is running a lot leaner staffing-wise than Prieto would want it to be, which means longer hours for him. High inflation has squeezed the business, driving up costs while driving down customers' disposable incomes.

"It's started getting more and more difficult because of inflation," he said. "We are a discretionary product, we're not a necessity. So if people don't have the disposable income, our products are going to fall to the wayside."

Barrel-Art also is heading into the busy Christmas season carrying bigger credit card debt because of the combination of slower sales due to the election and the business still trying to recover from a destructive fire a year ago, he said.

Prieto said he'd love to see the return of some small business lending products similar to the Economic Injury Disaster Loans that were made available during the pandemic.

"We've had to borrow more than we normally would have, so it would have been nice if we had access to cheaper money," he said.

### **Trying to get ahead of tariffs**

Small Business Majority has yet to conduct a full post-election survey of businesses, but in the days since the election was decided, Arensmeyer and colleagues have heard some similar themes from its network of 80,000 small businesses.

The biggest areas of concerns were tariffs and the potential impacts to supply chain and costs; stricter immigration policies, including mass deportations, which could affect food and labor supply; whether Affordable Care Act subsidies will be left to die on the vine in 2025; and whether federal contracts will no longer favor women- and minority-owned businesses, he said.

Small business owners, by their nature, are optimistic, he said. However, some have already started loading up on inventory from China or holding off on making new hires until things get clearer.

Man & Machine, which makes waterproof keyboards and computer mice primarily for the medical field, is ramping up imports and cramming in a year's worth of production in four to five months to try to avoid the brunt of any price hikes.

"If I wait, I've lost," said Clifton Broumand, founder and CEO of the Maryland-based company. "If I don't have enough inventory in place, I'm going to pay a 20% tax, and people will not buy my product."

## Seeking support for a support system

Some small business owners, like daycare owner Janna Rodriguez, are pushing harder on the advocacy front. She said the country's child care infrastructure desperately needs help from the federal government.

Some of those specific recommendations include establishing an enrollment-based versus an attendance-based payment system, greater public-private collaborations, professional development for educators, a comprehensive benefits system, a tiered reimbursement system and infrastructure grants.

Rodriguez has been an early childhood educator for 11 years. Six years ago, she opened the Innovative Daycare Corp., a home-based child care business that serves primarily low-income and minority families in the Freeport, New York, area.

Although her business plays [a critical role in the economy](#) — allowing parents to be fuller participants in the labor force — it also faces challenges similar to others in the industry, she said, noting her daycare is "stretched and under-resourced."

And if federal funding were to be cut, she fears she'd have to let go of one of her three full-time staff members, which would put the center out of

compliance and force a smaller capacity, she said. At a time when the daycare industry already has had to cut back on meals and hold off on hiring part-time staff, Rodriguez fears she'd not be that lifeline for families in need.

"You can't put profits over children," she said.

### **You 'deal with the hand you're dealt'**

On the Monday before Election Day, JD Opel opened ICON Hair Studio in downtown Evansville, Indiana.

"There's the pit in your stomach, that 'Oh God, what's going to happen?' They're both so different," he said of the two presidential candidates.

He and his customers were surprised by the results of the election, but the 20-year hair industry veteran said he's taking a simple approach:

"It's like poker," Opel said. "You deal with the hand you're dealt, and you just roll with it, and play as much as you can so that you can still win ... even though I don't agree with a lot of (Trump's) policies or the way he thinks, he's still my president, and I have to trust and believe and hope that he's going to help me out just as much as everyone else."

Some of Opel's biggest concerns are around the extent of tariffs and what that could mean for his hair products and supplies that come from overseas. Additionally, if those tariff-related costs were to be passed on to households — as economists have warned — Opel said he's worried that his customers' finances will take a hit.

"I've always said it's a recession-proof business; I lived through 2008 and that whole crisis then," he said of the Great Recession. "And we actually saw growth in our industry, because we wanted to feel good. But what if we aren't really that recession-proof? What if we aren't going to survive tariffs and all these hikes on the cost of goods?"

"But, hopefully, fingers crossed, we are that recession-proof industry and business that people still want to come feel good and don't care if they're going to spend money."

### **Pressing the pedal on expansion**

While Opel, Prieto and others expressed hope that small businesses like theirs could benefit from any expansion of tax cuts, another business owner jumped right into expansion mode after Trump was declared victor.

Jeff Wood's Coldwater Capital is a real estate development business with projects ranging from small multi-family properties to self-storage properties and express car washes.

"In 2018, we started developing these car washes, primarily in Florida, Georgia and Utah and we've expanded into Pennsylvania and Maryland," Wood said. "And one of the things that really put fuel on that fire for us was the Trump tax cuts."

One of the provisions within the 2017 Tax Cuts and Jobs Act was hyper-depreciation benefits for businesses such as car washes, he said.

The tax benefits excited some investors, who backed the expansion of the facilities, which now total 35 across five states.

"Through those 35 car washes, we typically have about 10 people on payroll for each of those, so it's been about 350 people we've been able to employ," he said.

But during the past 18 months, growth plans stalled in the high interest rate environment and investor concerns that the tax deductions could burn off if certain TCJA provisions were to expire next year.

"If a typical car wash costs us \$6 million to build, with interest rates going as high as they have, it's been difficult to make the numbers work," he said.

That investor sentiment changed after Trump was elected, he said, adding that he put two new sites under contract in the days after the election.

## **Fears of being silenced**

The impending Trump administration could have a significant effect on a Los Angeles-based talent agency and, its owner fears, a chilling effect on human rights.

Reel Management, which got its start in 2004, represents hundreds of actors in the reality and unscripted television space, booking appearances through a

variety of events, including social media promotions, in-person appearances and corporate and college [diversity, equity and inclusion](#) initiatives.

The drag queens from 'RuPaul's Drag Race' are "probably our number-one booked event across the college market," said Marc Marcuse, Reel Management's founder and owner. "They love a good drag show, it enhances diversity, and it's just fun."

Through these events, the hope is to build community, understanding, "plant the seeds to make generational change," he said.

But those appearances and deep discussions around race, gender, identity and sexual orientation have dropped off in recent years, he said, noting movements by Republican-led states, such as Florida, to try and prohibit [DEI and LGBTQ+ events and programs](#).

With Trump headed to the White House and a Republican-controlled Congress, Marcuse fears those efforts could easily spread.

"Hate is difficult; hate, when it impacts your bottom line is even more so," he said. "Nobody wants to wander the world feeling like they're a pariah and then lose their income on top of it. It's a double gut punch."

He added: "I'm a cisgendered, straight, white male who's middle-aged ... this is not me fighting for my own interests, this is me seeing this is a struggle and a concern of the civil rights movement of our time, and I believe in being on the right side of history, being kind and understanding and working with others to elevate the tide for everybody."

