S. HRG. 118–745

TAX POLICY IN 2025: IMPLICATIONS FOR THE AMERICAN ECONOMY

HEARING

BEFORE THE

SUBCOMMITTEE ON
ECONOMIC POLICY

OF THE

COMMITTEE ON
BANKING, HOUSING, AND URBAN AFFAIRS
UNITED STATES SENATE

ONE HUNDRED EIGHTEENTH CONGRESS

SECOND SESSION

ON

EXAMINING THE IMPLICATIONS OF TAX POLICY IN 2025

NOVEMBER 20, 2024

Printed for the use of the Committee on Banking, Housing, and Urban Affairs

Available at: https://www.govinfo.gov/

U.S. GOVERNMENT PUBLISHING OFFICE
62–273 PDF WASHINGTON : 2026

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C O N T E N T S

WEDNESDAY, NOVEMBER 20, 2024

WITNESSES

TAX POLICY IN 2025: IMPLICATIONS FOR THE AMERICAN ECONOMY

WEDNESDAY, NOVEMBER 20, 2024

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
SUBCOMMITTEE ON ECONOMIC POLICY,
Washington, DC.

The Subcommittee met at 10 a.m., via Webex and in room 538, Dirksen Senate Office Building, Hon. Elizabeth Warren, Chair of the Subcommittee, presiding.

OPENING STATEMENT OF CHAIR ELIZABETH WARREN

Chair WARREN. This hearing will come to order.

Good afternoon. I want to thank our Ranking Member, Senator Kennedy, and our other colleagues, and our witnesses for joining us here today.

In a little over 6 weeks, a new Republican-controlled Congress will be sworn in. And exactly 2 months from today, Donald Trump will be sworn in as President again.

One of the first policy issues that the new Congress will face is taxes, which is the topic for today's hearing, "Tax Policy in 2025: Implications for the U.S. Economy and American Workers".

Donald Trump and congressional Republicans have made perfectly clear that they are planning another huge tax giveaway to billionaires and billionaire corporations. Donald Trump said it out loud on the campaign trail. Big tax cuts will be a payoff for his richest-held donors.

Now, this isn't our first time around on tax giveaways to the wealthy. In 2017, Donald Trump had only one major legislative achievement, the Tax Cuts and Jobs Act. This $2 trillion tax scam gave away trillions in tax cuts to billionaires and billionaire corporations. The law literally gave away money that otherwise would have come in to keep our country running.

The impact was huge. That Trump tax cut for billionaires and billionaire corporations alone would have been big enough to build 3 million new homes and lower rents by 10 percent nationwide; to cut childcare costs for most families to $10 a day, and to invest in paid leave for all American workers—all of those. Instead, the money went to the billionaires and billionaire corporations.

In fact, the Trump tax cut for billionaires was so gigantic that Republicans used a bunch of accounting gimmicks to try to hide the full cost, but those gimmicks and some of those tax cuts as a result will expire at the end of 2025. And this is the reason that Republicans are pushing for a new tax law. Without a change in the tax laws, many of those Trump giveaways to billionaires and billionaire corporations will simply disappear.

So, Trump and his allies are riding to the rescue. According to an estimate from the Congressional Budget Office and Joint Committee on Taxation, Republican plans to extend their tax giveaways to the rich will cost a whopping $4.5 trillion, and that is before Trump added in a few trillion more in extra goodies—$4.5 trillion and counting. The number is huge, but because tax cuts for rich people are actually unpopular in this country, Republicans are hoping to do this very quietly, so that no one except their billionaire friends will notice what's going on.

This will be a challenge. The last time that Trump and the congressional Republicans cut taxes, Americans did notice. They noticed and they hated Trump's billionaire tax cuts. His billionaire tax cuts were more unpopular than any tax reform bill since Ronald Reagan. Trump's billionaire tax cuts were even more unpopular than the tax increases under Bill Clinton and George H.W. Bush.

When Trump's billionaire tax cuts passed, his approval rating dropped like a rock. The reason Trump's billionaire tax cuts is so unpopular is that voters want billionaires and big businesses to pay their fair share toward making our country run.

Republicans thought they could cover up their giveaways to billionaires and billionaire corporations by adding a few dollars in tax cuts to working families, but that is the wrong approach. Tax cuts for working families are a good idea, but tax cuts for working people are not tied to tax cuts for billionaires. We can have one without the other and we should say it loud and clear: billionaires don't need handouts from the Federal Government, period.

Which brings us back to the tax fight barreling toward us. President-elect Trump has proposed making every single 2017 tax cut for the wealthy permanent. In fact, he plans to go further by cutting the corporate tax rate even more, so that giant corporations making record profits off struggling Americans can shovel even more cash to their rich executives and shareholders.

Make no mistake, hardworking Americans will foot the bill for tax cuts for Trump's wealthy donors. A recent analysis of President-elect Trump's tax proposals by the Institute on Taxation and Economic Policy found that the top 1 percent would get an average tax cut of over $36,000, while the bottom 95 percent of taxpayers would see a tax increase.

Both Project 2025 and Trump himself have laid out Republican plans to pay for their next tax giveaway to billionaires. They are planning for higher taxes on everyday items that families buy, like groceries and gas and clothing, and so on. They also plan to pay for the tax cuts for billionaires by cutting programs like Social Security and Head Start. They also plan to cut investments that grow our economy and support good jobs, like roads and bridges and medical research. Those aren't tax changes that will help working families.

Americans across the country, of course, are from every political party and they are demanding a tax code that works for them. People want Congress to raise taxes on giant corporations that are raking in record profits. People want Congress to close the loopholes that let billionaires like Jeff Bezos and Elon Musk pay zero in taxes, and people want Congress to fully fund the IRS, so that it has the resources to catch wealthy tax cheats and make them pay what they owe.

The tax fight is starting now and every person in the United States needs to show—every person in the Senate needs to show the American people what side we stand on. Will we sign our names to more giveaways to President-elect Trump's billionaire buddies or will we fight for tax fairness for the American people?

So, I appreciate our panelists joining us today to share their expertise. The upcoming tax decisions are critically important to the financial security of working people. And we appreciate your being here with us to highlight the impact of those decisions.

So, I'm going to introduce the witnesses we have today, and then, we'll go to our witness statements. Are we good on that? OK.

So, we've got three great witnesses with us today to share their views on the impact of tax reform on our economy and on working Americans. And I appreciate your being here today.

First, we have Liz Shuler, who is the president of the AFL–CIO. Ms. Shuler is a visionary leader and a fierce advocate for the labor movement. She has dedicated her career to improving the livelihoods of working people across this country.

Second, we have Marc Morial, who is president and CEO of the National Urban League. Mr. Morial is one of the Nation's leading voices and advocates on redefining civil rights for the 21st century. He works tirelessly to close the economic gaps facing Americans of color.

And last, we have Mr. Brendan Duke, who is an expert in tax and economic policy at the Center for American Progress. He also served as a Senior Policy Advisor at the White House National Economic Council and as Staff Director for the U.S. Senate Finance Subcommittee on Taxation and IRS Oversight.

Thank you all for being here with us today and I look forward to hearing your testimony.

Ms. Shuler, you are now recognized.

STATEMENT OF ELIZABETH M. SHULER, PRESIDENT, AFL–CIO

Ms. SHULER. Great. Well, thank you so much, Chairperson Warren, Ranking Member Kennedy, and Members of the Subcommittee.

I'm Liz Shuler, president of the AFL–CIO, here on behalf of the nearly 13 million workers in our 60 different unions that represent, essentially, every sector of the economy, and working class people writ large, frankly.

And, you know, we're thinking about what's coming up next week. Next Thursday, American workers and their families are going to sit down at the Thanksgiving table, and many of them will be among the 60 percent of Americans who live paycheck to paycheck; the 63 percent who say they cannot afford to buy a home; the 100 million that are saddled with medical debt. They'll give thanks for what they do have—their families, their loved ones, the chance for at least 1 day to take a break from the 12-hour shifts, the long days, and enjoy a meal together.

There's one group, actually, though, who should be really giving thanks next Thursday and that is the 800 billionaires in this country who are about to receive yet another gift that they do not need. If you're a billionaire in America, you have a lot to be thankful for. You've enjoyed a system that has worked in your favor for a long time now. You've had years where you pay zero in Federal taxes, literally, not one cent, while the workers at your companies actually pay their fair share.

And now, you have an incoming administration that wants to hand you more money and power at the expense of the rest of us. We're often told the definition of insanity is doing the same thing over and over again and expecting different results. Well, giving trillions in tax breaks to the wealthiest people and companies in the history of the world, while their fellow Americans struggle to pay for rent and groceries, I believe is the very definition of insanity.

The rest of us will pay for this, just like we did in 2017. We were told that those corporate tax cuts would trickle down in the form of $4,000 raises for each worker. Well, let me tell you, they didn't. The Tax Policy Center told us the wealthiest top 5 percent of earners got triple the effective tax cut that the bottom 60 percent received.

Those tax cuts did not make life more affordable. In fact, corporations have been gouging working families—with one Economic Policy Institute study finding more than 40 percent of higher prices were attributable to corporate greed. We were told not to worry, though, but those same tax cuts for the wealthy exploded the deficit by $2 trillion. Aw, don't worry about that.

And now, Elon Musk and Vivek Ramaswamy, to come in now 7 years later and tell us that they need to slash Government spending—our health care, our Social Security, food assistance for seniors and families in need—by that same exact amount, $2 trillion, the hole that Trump created in the first place—again, insanity.

This 2025 bill will come at us fast and furious because that's how it works in this country when billionaires want something done. Working people, they've been waiting for 17 years for Congress to pass a minimum wage increase. It's been 50 years since Congress last enacted any sort of labor law reform. And we know that having a union creates equity; it lifts all workers' pay and benefits, and it narrows the racial wealth gap and the gender pay gap. So, while working people are often forced to back off of the legislative—they're at the back of the legislative line, the last Trump tax bill for the rich was actually completed before the first Christmas that he was in office.

The incoming Administration will tell us that they have a mandate. The mandate that I see from this election is that working people, they are fed up with the status quo and a system that has been rigged against them for too long. If we see a repeat of 2017, it's going to be nothing more than the same status quo that working Americans have just stood up against.

There's a real opportunity to do something different, and I think that's what we're here to talk today. If Congress has the courage, here's what working people would suggest. We have a long list in my written testimony, but a few:

Let the top marginal tax rate for the country's richest people reset to the pre-2017 level.

Second, reestablish the estate tax, so that we are not passing down an oligarchy to the next generation.

Third, close the loophole on carried interest.

Fourth, enact a minimum tax on the ultra-wealthy, a commonsense policy that a vast majority of this country across all political ideologies actually agrees with.

And five, maintain any provisions that directly benefit working people, including continuing and expanding the child tax credit.

Make things more fair. Give people a reason to believe in this system.

And my written testimony contains a long list, as I said, of other proposals that would benefit working families.

To conclude, the rich, the large, profitable corporations, and Wall Street have all benefited from the vast opportunities this country affords them. It is time for them to pay their fair share.

And I just want to say thank you for the opportunity to be here today with you.

Chair WARREN. Thank you very much. Very powerful testimony.

Mr. Morial.

STATEMENT OF MARC H. MORIAL, PRESIDENT AND CEO, NATIONAL URBAN LEAGUE

Mr. MORIAL. Thank you very much.

Chair Warren, Senator Smith, in his absence to Ranking Member Kennedy, who, like me, is from the great State of Louisiana, I'm proud today, on behalf of the National Urban League, to offer these comments which summarize my written testimony.

Number one, in 2017, we were promised that the 2017 tax cut bill would be deficit-neutral and would provide jobs for the people of this Nation. What we know today is that the wealthiest Americans got whole loaves of bread—multigrain, white, baguettes, French, lobster rolls, and you name it, and working men and women got crumbs.

We were promised that dynamic scoring, a 21st century version of the old Laffer curve, would ensure that economic growth would make up for the loss in revenues. We knew that the Laffer curve was a laugh and dynamic scoring is a mirage.

What Americans were promised has not come to pass. And once again, it is rinse and repeat. We are about to see the same arguments, the same fantasy stories, posited forward in support of an extension of the 2017 tax cuts.

I'm here today to suggest to you that, instead of a Wall Street caviar/champagne tax cut plan, we need a Main Street hot dogs-and-pizza plan that the National Urban League calls the Main Street Tax Initiative. And here are a few features of it that we suggest:

Number one, instead of all the talk about doing something for working people, how about trying something different, like cutting taxes in half for Americans that make under $100,000? Fully 60 percent of all Americans make less than $100,000. By cutting their taxes in half, we would truly put money in their pockets—for gas, for housing, for bread, for milk, for those expensive copays in medicine.

Number two, let's restore the Child Tax Credit which pulled people, children, out of poverty at a record level.

Let's expand, make permanent, and simplify the Earned Income Tax Credit.

Those three provisions alone would do more for working men and women—beyond the rhetoric, beyond the talk, beyond the conversation.

Then, let's address, to the extent that we can, Senator Warren, something that I know you are passionate about, and that is the housing crisis in America. Let's expand the Low-Income Housing Tax Credit and let's create a new affordable housing tax credit which puts money into affordable home ownership for American people.

Let's address the problems that we see.

And then, I would also like to highlight what I call the Fair Deal. The Fair Deal is to say to those people in America with assets above $1 billion—I think 770 people—You need to pay a modest surtax on your assets in an effort to be fair. It is not fair for the police officer, the firefighter, the teacher, the nurse, your staff, cafeteria workers, public sector workers, it's not fair for them to pay a higher tax rate than America's billionaires. This could be addressed with a modest surtax which would address and be paid for by fewer people than are working in this building at this moment—770 Americans.

In summation, it's now time to do something for the working men and women of America. It's also time to end the fantasy and the facade that somehow cutting taxes for the wealthiest Americans somehow will create jobs and economic growth for the rest of us. The evidence is overwhelming. The evidence is clear. Those strategies do not work and they have not worked. And in offering these provisions, we suggest another way to go.

Thank you so much.

Chair WARREN. Thank you very much, Mr. Morial. I really appreciate your testimony here.

Mr. Duke.

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

Mr. DUKE. Thank you, Chair Warren, Ranking Member Kennedy, and Members of the Subcommittee.

My name is Brendan Duke and I'm Senior Director for Economic Policy at the Center for American Progress. I'm honored to testify today on the 2017 tax law and the implications of extending its expiring provisions next year.

My main message to you is this: letting the tax codes expire is a far, far better alternative than saying yes to a bill that will entrench income inequality and rip off working and middle-class Americans down the road.

But first, let's remember how we got here. Congressional Republicans and Donald Trump deeply wanted to a cut in the corporate tax rate. They also knew that cutting taxes just for corporations without cutting taxes for individuals would have been a political disaster. So, they pursued a party-line tax cut and limited themselves to a cost of $1.5 trillion over 10 years.

And because they did this using the budget reconciliation process, they could not increase deficits beyond the 10-year window. And this gave birth to the bill that actually passed. They made a big, permanent, 40-percent cut to the corporate tax rate and paid for it beyond the 10-year window by raising taxes on families across the board and by cutting health care.

Then, they did a series of tax cuts for individuals—again, heavily tilted to the wealthy. But because they couldn't even limit the size of those tax cuts to $1.5 trillion, they set them to expire in 2025. And here we are today at the beginning of the debate about what to do about them.

What have we learned? The corporate rate cut, the centerpiece of the original bill, was a massive windfall for investors, spurring a $1 trillion surge in stock buybacks. Yet, it failed to meaningfully increase business investment and none of that windfall trickled down to ordinary workers.

And the recovering housing investment after the Great Recession which was powering along, screeched to a halt after the bill passed. CBO, in fact, projected that, quote, residential investment is reduced throughout the entire period by crowding out. End quote.

Given that the corporate tax cut didn't trickle down, we should then focus on the direct tax cuts it gave to families, which are the ones that expire next year. Any way you look at it, extending these expired provisions will increase income inequality—cutting taxes for rich people, while giving pennies to everyone else.

The average tax cut for the top 1 percent of Americans is more than 60 times larger than that of the middle 20 percent of Americans. It is more than 600 times larger than that of the bottom 20 percent of Americans, who only got an average tax cut of $100 apiece.

And even these numbers are too rosy. We are talking about a tax cut that will add $4 trillion to the deficit over 10 years. These tax cut numbers include money we are borrowing that we will have to pay back 1 day in the form of tax increases or spending cuts.

One financing mechanism Trump has floated is a giant, across-the-board tax on all imported goods. A range of analyses from progressive to conservative think tanks estimates that this would cost a typical family thousands of dollars by making a trip to the grocery store or pharmacy more expensive. Just yesterday, Walmart told investors that they would raise prices in reaction to these taxes on imported goods. It's important to note that the size, magnitude, nature, and purpose of these taxes differ greatly from the strategic tariffs that Presidents of both parties have employed over the years.

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

Finally, the Trump administration and some congressional Republicans could find that the easiest way to offset the cost of the taxes is to not offset them at all. That's what they did last time.

But there's no free lunch here. The taxes will likely be paid for eventually in the form of spending cuts or tax increases down the line.

The very real danger of cuts to programs that low- and middle-income families rely on, including Social Security and Medicare eventually, highlights why Congress must offset the tax cuts they extend in a revenue-neutral manner.

This also means rejecting attempts to pretend that extending the expired provisions have no cost—otherwise known as a current policy baseline. This type of baseline undermines good budgetary practice. It is logically inconsistent.

Under that type of analysis, the failure to renew the 2021 American Rescue Plan rebate checks in 2022 amounted to a $5600 tax increase for a family of four that nobody complained about.

Simply changing the accounting convention does not remove the burden that extending these tax cuts will place on Federal and eventually on families' finances.

The good news is that there are ways to smartly and efficiently raise revenue from high-income households and corporations, such as raising the corporate tax rate to 28 percent.

These are far better ways to find savings than making a trip to the grocery store more expensive through taxes on imported goods or cutting vital programs like Medicaid.

Thank you, and I yield the balance of my time.

Chair WARREN. Thank you very much, Mr. Duke. Really powerful data there. We appreciate it.

Senator Van Hollen, would you like to start the questions?

Senator VAN HOLLEN. Thank you, Madam Chair, and thank you very much for holding this hearing.

I thank all of you for testifying.

I thank my colleagues for letting me have some questioning now because I have to go to something immediately.

I think it's important that, when you have a train coming at the American people and the working people throughout this country, we should get a preview of what to expect if we don't ourselves take action to stop it. And we've got, as you've all testified, clear evidence of what's coming at us because it came at us once before. So, I do think it's important to lay the sort of foundation of the claims that were made before and whether or not they ever came true, whether they ever materialized.

So, I do want to start with the claim that the 2017 Trump tax giveaway to the rich, which included a major cut in the corporate tax from 35 percent to 25 percent, whether or not that paid for itself.

And, Mr. Morial, I know you were prescient here, I know, during the debate over the 2017 tax cuts. You wrote a piece entitled, quote, Trump's tax cuts are a feast for the wealthy and gruel for working families. Unquote. And in it, you said that supporters of the bill, quote, like to say their huge tax cuts for the wealthy and corporations will pay for themselves through greater economic growth. Even conservative economists know it's a lie. Unquote.

Mr. Morial, just for the record again—now we're here many years later—did those tax cuts ever pay for themselves?

Mr. MORIAL. No, no, and no.

Senator VAN HOLLEN. So, it was a lie then and it's a lie now.

Mr. MORIAL. It was a lie and it was economic fantasy theory. George W. Bush called it voodoo economics. I call it hocus-pocus dominocus.

[Laughter.]

Senator VAN HOLLEN. That sounds right to me.

We were also told at the time that the tax cuts would generate a new wave of investments, that corporations would spend their tax savings in growing their businesses.

So, Mr. Duke, did corporations suddenly start to make new investments to grow their businesses in the 2 years following the tax cut, when corporations first felt the effects of those cuts and before COVID may have distorted the data?

Mr. DUKE. Yeah, sure. The 2 years after, so anything in 2019. Investment actually fell slightly. Economic growth was, basically, flat. The only thing powering it was Government spending under a Republican Congress.

Senator VAN HOLLEN. Right. And if I have my facts right, what corporations did do was took $186 billion in stock buybacks in 2018 to, essentially, pad their own executives' pockets and that of many of their top investors.

So, we were promised, also, that the corporations were going to use some of those tax savings, right, to increase the wages that they paid to their employees. In fact, Kevin Hassett, who was the head of Trump's Council of Economic Advisors at the time, said there would be, quote, an immediate jump in wage growth, unquote, and then-President Trump predicted an average wage increase of $4,000 per worker.

So, Ms. Shuler, you represent a lot of working people in this country. Did the average American get a $4,000 raise from these tax cuts?

Ms. SHULER. Senator, they did not. As Marc said, it was a mirage. And, in fact, we had one of our unions go to their company in anticipation of this to try to bargain language in their contract, to say, OK, if you're getting this windfall, then, you know, we're going to get our $4,000. Let's put it in writing. And, of course, no company would agree to it and it didn't happen.

Senator VAN HOLLEN. Right. So, as I watched this unfold, I did see some people get these big pay hikes. They just happened to be the top executives who received an average pay increase of $5,000—excuse me—$50,000 on average.

I'm assuming none of your members, Ms. Shuler, saw anything like that, right?

Ms. SHULER. They did not. And you may also be aware that we track CEO-to-worker pay ratios. On our website, we do an annual Paywatch. And the CEO-to-worker pay ratio actually is now at 268-to-1, and I think this is one of the reasons why.

Senator VAN HOLLEN. And when these corporations were making all these additional profits because they got these big tax cuts, you've said that they didn't pass on the savings to their workers. They didn't make additional business investments that helped grow the economy. Did they at least, since they were making these profits, lower prices to consumers? Did we see any of that?

Ms. SHULER. We continue to see the opposite, which is price gouging and, of course, taking advantage of, you know, things like the pandemic, where the supply and demand was, you know, demand was outpacing supply and they jacked up prices and, of course, never lowered them when we were coming out of recession.

Mr. MORIAL. And I would add this: the proponents need to be held to account for the promises they made. They made a long series of promises. The evidence is unambiguous that few of these promises, if any of them, were ever kept. And so, why would we lather, rinse, and repeat on policies that did not yield what the proponents suggested they should yield? And I think that should be the framework around the discussion, is: did it work? Did it work?

Senator VAN HOLLEN. Thank you. Thank you, Mr. Morial.

And that's why I want to thank Senator Warren for reminding us of the claims and what actually happened, as a preview of what they might try to do again and claim again. So, thank you very much.

Thank you.

Chair WARREN. Thank you, Senator Van Hollen.

Senator Smith.

Senator SMITH. Well, thank you very much, Chair Warren, and thanks for your generosity in letting me go next in this questioning.

And thanks so much to our panelists for this really important discussion.

So, President Trump often touts his 2017 tax bill as historic, delivering the biggest tax cuts in American history. It sounds good, right? I mean, that's what people want. They want tax cuts, apparently.

But the question is, who gains and who pays when this goes around and comes around? And this conversation is establishing that Trump tax cuts did provide historic tax cuts, but for massive corporations.

And I really appreciate the line of questioning of Senator Van Hollen as he's going after this promise that this would trickle down to wages, President Shuler, to average working people. And as Senator Van Hollen has laid out, it was actually zero. As I understand, it's zero increase in wages that could be attributed to the Trump tax cuts.

But is there any benefit that you could see that working Americans experienced because of these big corporate tax cuts?

Ms. SHULER. It's the opposite because, as we've seen inequality grow, where workers are struggling.

Senator SMITH. Right.

Ms. SHULER. And I know, you know, I'm out talking to workers. Every week I'm on the road. People are struggling with the basic necessities. They're working more than one job to make ends meet, while they see those at the top making more. The companies that they help create the wealth for are actually profiting, but none of those profits coming back in terms of wage increases.

And every collective bargaining agreement we go to the table, we are fighting for scraps. And we've seen it time after time; workers going on strike because they have been pent-up, right?

Senator SMITH. Right.

Ms. SHULER. They've been doing more with less and not seeing the returns. And so, I think it's the same old story where none of this trickled down. It was all a fantasy and we don't want to fall for it again.

Senator SMITH. That's right.

And, Mr. Morial, I mean, I know you've done such important work on addressing the wage and wealth disparity that we see in this country. Is there any evidence that this Trump tax cut to big corporations had any positive impact on reducing that wage disparity or wealth disparity?

Mr. MORIAL. I think it has exacerbated it.

Senator SMITH. Right.

Mr. MORIAL. Because it's lifted up and we have a greater gulf between, quote-unquote, haves and have-nots and have-mores in this country. We have a widening gap when it comes to wealth between Black and White Americans and White Americans and Latinos. That is the evidence. That is what is clear. None of these commitments and promises have come to be true. And that is so, so important in closing that gap. Closing the widening gap should be the aim of any serious economic policy in this country.

And so, that's why I think many of us have offered alternatives——

Senator SMITH. That's right.

Mr. MORIAL. ——a different way of going.

Senator SMITH. And, Mr. Duke, I think we've been discussing how so much of those big corporate tax cuts went into stock buybacks. So, is there any evidence that those big stock buybacks benefited regular Americans in any way?

Mr. DUKE. Not unless they own billions of dollars of stock. You know, we saw a $1 trillion surge in stock buybacks. We saw that they took, basically, only two dimes out of every dollar and put it into investment at all into the whole thing.

So again, it just didn't trickle down. The primary beneficiaries, when you look at the wage gains, were shareholders, executives, and the top 10 percent of workers. The bottom 90 percent of workers——

Senator SMITH. Right.

Mr. DUKE. ——that study, zero, zero, zero.

Senator SMITH. Right. So, you got tax cuts. You ask the question: who gains and who pays? And we see that time after time after time with the Trump tax cuts that the folks that gained were those at the very, very top, and the folks that pay are the folks that always pay.

So, I would argue, Chair Warren, that when Americans went to the ballot boxes and voted this election, they weren't voting for more tax cuts for billionaires. They were voting because their lives cost too much. They were voting because they wanted to afford their lives.

And one of the biggest places where that's a challenge is, of course, the issue of housing and how much it costs for housing.

So, let me just ask—and I just have a couple minutes left—but I'm going to go to you, Mr. Duke. In the Trump tax cuts, there were some pretty generous tax benefits and tax subsidies for big investors, who in my home State are going out there and buying up housing, which is ending up driving up rents and the cost of owning a new home for regular Minnesotans. Is that what you see with the impact of the Trump tax cuts on the cost of housing in this country?

Mr. DUKE. Yes. First of all, real estate developers got very big tax breaks. What we saw was housing investment cratered after. When you just look at the trend, we were recovering out of the Great Recession——

Senator SMITH. Right.

Mr. DUKE. ——and then, it just cratered and hasn't come back since then.

Senator SMITH. Like the amount of housing that was being built to address the housing supply shortage got worse?

Mr. DUKE. Exactly. You can just see it directly on the line. In some way, there was this industrial policy away from housing. It's industrial policy to raise rents by reducing the supply of housing.

Senator SMITH. Yes. That's exactly right.

And this, Chair Warren and Colleagues, is one of the reasons why the legislation that I've introduced with Representative Ocasio-Cortez on getting after a market that is so dominated by these big-ticket, big, deep-pocketed investors, that it is crowding out regular investors and crowding out the work that we need to do to address this housing supply shortage in this country.

Thank you very much.

Chair WARREN. Thank you, Senator Smith.

So, I'm going to do a round of questions, and then, we'll go to Senator Helmy, if that's all right, because I've got two rounds here that I want to get to.

All right. So, a progressive tax code can give a break to families and small businesses, while making sure that those at the top pay a fair share. And that gives us enough money to make the investments we need to make in roads and bridges and infrastructure and schools and Social Security, and the things we need to buy to keep this country going.

I want to talk for just a minute, though, about the politics and power, about how all of this works. For decades now, instead of a tax system running that way, we've gotten caught in a doom loop on taxes.

So, Republicans pass these giant tax cuts for the wealthy. They toss a few small breaks to everyone else. And then, because of the special tax breaks they get, the rich get richer and their growing piles of cash fund the armies of lobbyists that demand even greater tax breaks.

Meanwhile, because billionaires and billionaire corporations are skipping out on their tax bills, deficits go through the roof. Republicans, then, use rising deficits as an excuse to cut the programs that American families rely on. Over time, the rich get richer and everyone else gets left behind. The result: Jeff Bezos and Elon Musk pay a lower tax rate than firefighters and public school teachers.

So, let's look at the most recent tax scam. I know we've gone over this a little bit, but I want to see if we can get it on the record, and then tie it into other parts of what's happening here.

Two trillion dollar tax giveaway to millionaires and billionaires that Donald Trump signed in 2017. And the sequel, he's now promised that he will renew for his billionaire buddies this year.

So, Mr. Duke, what was the impact of the 2017 Trump tax cuts on the U.S. economy? Did those tax cuts trickle down and supercharge our economy?

Mr. DUKE. No. Economic growth stayed the same. Investment fell. Stock buybacks, though, did surge.

Chair WARREN. OK. So, let's see, business investment actually fell?

Mr. DUKE. Slightly.

Chair WARREN. All right.

Mr. DUKE. And housing investment cratered.

Chair WARREN. Housing investment cratered. Corporate profits, what happened to them?

Mr. DUKE. They went up after the tax——

Chair WARREN. Corporate profits went up. Stock buybacks?

Mr. DUKE. Record.

Chair WARREN. Record stock buybacks up. And executive pay?

Mr. DUKE. That also went up.

Chair WARREN. OK. Ms. Shuler, tell me, did the Trump tax cuts trickle down to the 12.5 million union workers that you represent at the AFL–CIO—transportation workers, food workers, teachers, construction workers, nurses, and more?

Ms. SHULER. The simple answer is no. The tax cuts, of course, went to CEOs, shareholders, not workers. And every dollar in tax cuts that a bigwig in the top 1 percent got, a worker at the bottom, 60 percent got less than one cent.

Chair WARREN. So, the rich get a dollar and the workers get a penny? Right?

Ms. SHULER. Less than a penny.

Chair WARREN. Less than a penny?

Ms. SHULER. Yup, yup.

Chair WARREN. OK. I think we're detecting a theme here.

And, Mr. Morial, did the 2017 tax cuts for millionaires and billionaires lift up Black Americans and other underserved communities that you represent, at the National Urban League?

Mr. MORIAL. Not at all. Not at all. The tax cuts widened the racial wealth gap and there was no impact on incomes—on incomes—or on closing the twin of the racial wealth gap, which is the racial income gap. So, there was no impact; there's no evidence that it had an impact, and any positive movement between then and now came from the American Rescue Plan, came from the post-COVID investments that were led by the Biden administration and many of you. That's important. So, any improvement cannot be attributed to the 2017 tax cuts.

Chair WARREN. OK. So, this time around, though, it's going to be the same old scam. Trump has promised he will splash out another $4 trillion, extending all of his rich pals' tax cuts, and throw a few more goodies in for good measure, and that he will give another rate cut for billionaire corporations. And he's promised a little something extra for big oil and that means one more loophole for Wall Street.

Here's the part now that I want to see if we can draw a connection. Special interests lavished eye-popping amounts of money to get Donald Trump reelected. And now, these same special interests are ready to collect.

But wait, Donald Trump says, don't mind all that. He says that he will cut taxes on overtime pay and Social Security for everyone else. So, that's how this is going to work out.

Ms. Shuler, you represent these workers. Is that a good deal for workers?

Ms. SHULER. No, and the operative word is scam. It's the exact same scam that we've seen before. And so, the Trump plan is to give your average worker pennies, or, you know, less than a penny, as we've said.

Chair WARREN. Less than a penny, uh-huh.

Ms. SHULER. While the real money and the benefits of the plan actually go to the rich, and so, thus, widening the this gap that we've all been talking about.

And, you know, not taxing overtime sounds good, but we all heard Trump's Project 2025 would actually eliminate overtime. So, we keep saying, OK, well, I guess you can make a promise to not tax something that doesn't exist. That's a pretty easy——

Chair WARREN. Uh-huh.

Ms. SHULER. Taxing zero is zero.

But we've also seen that, you know, that a Trump-appointed judge actually just blocked the Biden administration's rule to provide overtime pay protections for 4 million workers, as we saw in the Biden administration that expansion. And so, that Trump-appointed judge blocked it.

So, I think this is just another, as we've said, another attempt to pay for a tax giveaway to the people who don't need it—people like Elon Musk who are slashing, who propose to slash Federal programs, you know, whether it's Social Security to affordable childcare, to investments in good manufacturing jobs, like we've seen with clean energy investments that we know have been coming. If you eliminate those, that's actually going to create a downward pressure on the ability to have a pathway to the middle class and have good jobs in this country to pay for these tax cuts that we do not need.

Chair WARREN. That's right.

So, think about that: Donald Trump says he will slash taxes, end taxes on overtime, but he will also end overtime, and says he will cut taxes on Social Security at the same time that his running buddy right now, Elon Musk, is saying they're going to slash Social Security.

You know, Trump and his buddies think that, if they throw small cuts to working people, that no one will notice that millionaires and billionaires are pocketing trillions of dollars. They think that, if they give small tax cuts to working people, that they won't notice when infrastructure jobs dry up or when their Social Security checks are cut.

But the American people are not so easily fooled. In December 2017, when Donald Trump signed his $2 trillion tax giveaway into law, it was his lowest approval rating of his entire presidency, second only to the insurrection that he stoked on January 6.

The American people know a scam when they see one. Trump's last tax giveaway was a scam of giant proportions, and his plans for another tax cut for billionaires is just more of the same.

Thank you.

Senator Helmy.

Senator HELMY. Thank you, Chairwoman.

It's great to see some of you, especially those who have done so much for my home State, and thank you for being here.

I think it's been amply demonstrated by my colleagues and the chairwoman that the Trump tax cuts disproportionately benefited the wealthy and large corporations, and that these benefits have had no positive impact on the economy and no material impact on working families.

And to add a data point—Mr. Duke, I think you were mentioning this—since the tax cuts, America's billionaires are now collectively worth a record $6 trillion—a wealth that has more than doubled since the Trump tax cuts. And researchers from both the Fed and the Joint Commission have concluded that zero percent of those gains—zero—have gone to the bottom 90 percent of workers.

And unfortunately, it seems that some are not here to participate in this conversation. But rather than accept the data, it seems that we're on a pathway to continue that or even further it.

And I would ask you, Mr. Duke—you've touched on some of this—but not only just the Trump tax cuts, but in other prior moments of policymaking in history, is there something that our colleagues can point to where these kinds of drastic tax cuts to corporations and to the wealthiest among us actually have some trickle-down effect on America's working families and firefighters and teachers and the middle class in New Jersey and through the Nation?

Mr. DUKE. I think all they can point to is that, oh, we need more tax cuts because this first round didn't work. So, we just need more of the same, is kind of the argument that we've been hearing for the last few decades. There's no evidence that it has had any appreciable contribution to American, you know, to the outsized GDP growth the U.S. has had compared to its competitors.

Senator HELMY. And while I appreciate that some who are not here may disagree, I think policy positions are an explanation of priorities, and either you are prioritizing the consolidation of opportunity or you are looking to expand this country's economic wealth and growth from the middle class out.

Ms. Shuler, you've been involved in so many things that we've been able to do in terms of the progressive agenda. In New Jersey over the last 8 years, with this chairwoman's leadership and the Biden administration, the ARP was able to expand the Child Tax Credit and the Earned Income Tax Credit. Expanding these credits lifted approximately 10 million Americans out of poverty. The success was replicated in many of the States you represent. Specifically, with your help, we were able to do it in New Jersey, providing a State-level credit that provided $1,000 to the lowest-income families.

Again, thinking about the priorities of whether prioritizing those who have already doubled their wealth in the last 7 years or the working class, in terms of just the workers you represent, labor or otherwise, what kind of an impact would expanding the CTC and the EITC mean?

Ms. SHULER. So, the traveling that I do and talking to workers, the most often raised issues are childcare and housing. And those are the costs that people are struggling with.

And I'll just share one quick story. I went to a convening of 5,000 women in the trades, women who are accessing pathways to the middle class through good construction job training and making their way into good, stable employment because of these opportunities. And the one thing that kept coming up over and over again that is a barrier to getting more women into construction is childcare.

And, you know, they have unique—they deal with unique situations because they go to work early in the morning and often childcare is not available. Or they're not able to, on a moment's notice, find the capacity that they need.

So, this would enable them to have some breathing room and to be able to plan for their lives and to make the investments in their future that puts them on this pathway to a better life.

Senator HELMY. Yes. So, on one hand, we're looking at a tax policy proposal that, again, continues to consolidate opportunity among the wealthiest and the largest corporations, while at the same time making it harder for those folks who want to get back into work and restart their careers after starting families. That seems to be a way to shrink economies, not expand them.

Mr. MORIAL. I think I heard some of this on my way in on your testimony. And I would applaud the chairwoman's leadership on this issue. But, you know, housing affordability is a crisis, whether it be in the Northeastern States and New Jersey, where I represent, or across the country. Home prices are 47 percent higher than they were just a few years ago; much more acute for renters, where 26 percent higher than just in 2020.

In New Jersey, where we've had a progressive elevation in our minimum wage, which is now at $15 an hour, you would need to work two full-time jobs just to afford a one-bedroom rental.

Mr. Morial, can you give us, in the short time I have left, what ways we can use the tax code to address and make significant positive change in our housing crisis?

Mr. MORIAL. I did also just want to go on the record that working people would benefit greatly if we had a national living wage bill. It's long overdue. And States like New Jersey and many other States have done it on their own. But, Senator Warren, we need a national living wage bill indexed to inflation.

Now, in our proposal, the tax code could expand the Low-Income Housing Tax Credit, which has been a tool used to expand affordable housing in this country. But I propose something else, and that is an affordable housing tax credit which would be a tax credit that would put money into the construction of affordable home ownership opportunities. We need to not only build rental housing, we need to build housing that people can buy and build wealth. That's how you create intergenerational wealth—through property ownership, through home ownership. So, the tax code could be shaped, could be used to do that.

The New Markets Tax Credit program is another that has been used to construct mixed-use affordable housing in this country. There are a number of things that, indeed, could be done. None of them address what we really need, which is a housing supply initiative to really build the number of units. We've gotten so far behind in the last 25 years, and that's why the challenge is so acute. But there's a lot that could be done in an upcoming tax bill, if we centralize the needs of working families.

And I think, Senator Warren, you're so right in really saying let's call for the proposers of the 2017 bill to account for their promises, so that the American people understand and know that what they were promised did not occur. And in doing that, stop this or shape a better approach.

Senator HELMY. Madam Chair, I just have 20 seconds. To just make a statement, to piggyback off of what Marc said, just to make one statement about the SALT deduction. You mentioned Black and Brown home ownership.

Mr. MORIAL. Yes.

Senator HELMY. And what goes under-said about the SALT deduction, which is essential, in my opinion, to encouraging home ownership and wealth-building in Black and Brown home ownership in communities, because they pay an inflated share of the property tax comparable to White homeowners.

So, as this Committee considers these important issues, I would hope that the SALT tax cap goes away.

Mr. MORIAL. I concur.

Senator HELMY. Thank you, sir.

And I would just, I think, end where you ended, Marc, and applaud our chairwoman's leadership on making sure that our tax policy is reflective of what's in the best interest of working families.

Thank you.

Chair WARREN. So, thank you. Thank you, Senator Helmy, and thank you for the comments——

Senator HELMY. Thank you.

Chair WARREN. ——on this.

So, the Trump tax scam playbook has more than one page. Page one is hiding the giveaways to the wealthy by trying to throw some small cuts, or at least allegedly throw some small cuts, to working Americans.

Then, there's page two: using magic math to pretend that the tax cuts don't cost anything at all. The 2017 Trump tax cut was so big that Republicans had to use budget gimmicks and accounting tricks in order to hide the true cost.

One of the main tools was to set up a bunch of the cuts to expire next year. That limited the cost to just $2 trillion.

So, what's Trumps second-term agenda? Keep cutting taxes for billionaires and pretend they don't cost anything. Magic math formula number one: save money by defunding the IRS and letting wealthy tax cheats off the hook.

Mr. Duke, help us double-check the math here. Does cutting the IRS enforcement budget actually save any money?

Mr. DUKE. No. The Congressional Budget Office estimates that every dollar cut from IRS enforcement actually increases the deficit by $2.50. Other estimates go as high as $11. And just fundamentally, they are trying to pay for tax cuts for the rich with tax cuts for the rich. It breaks the laws of arithmetic.

Chair WARREN. Yes. But that's not the only magic math. Senator Crapo, the incoming chief Republican tax writer in the Senate, has an even better scam. He's running around Capitol Hill saying that Congress shouldn't pay for a single cent of the $5 trillion in the Trump tax cut extensions because that's just extending current policy, and if you're extending current policy, it doesn't cost anything. It's free.

Mr. Duke, another math question for you. Does $2 trillion in tax cuts in 2017, plus another $5 trillion in extensions in 2025, equal zero dollars in cost?

Mr. DUKE. No. I didn't hear Senator Crapo say that extending the American Rescue Plan Child Tax Credit was also free because it would have just been extending current policy, either. This is just a way to hide the cost of enormous tax cuts for the wealthy, while clearing the way for Elon Musk's cuts to health care and food for families.

Chair WARREN. Yes. You know, none of this is new. For decades, Republicans have over and over passed massive giveaways to the wealthy, used fake math to try to hide the true cost, and then, turned around and claimed to be shocked—shocked—by the ballooning deficit. Then, in fake outrage, they demand that we cut the deficit by cutting funding for everything from Social Security to public schools.

Trump and his MAGA buddies have made clear that they plan to run the same play again next year. They want to hide the true cost of tax cuts for billionaires and billionaire corporations and do it while claiming that they're helping working people.

Mr. Morial, should working people buy this?

Mr. MORIAL. No. And, Senator Warren, since tax cut fever in the GOP began in the 1980s, I encourage all Americans to go look at the widening gap between rich and poor Americans, between rich Americans and middle-class Americans, that so many people in elected office profess to champion for, and to look at the widening wealth and income gap since tax cut fever began in the 1980s in the GOP.

You can do a through line. In the Reagan years, the economy was about a $5 trillion economy. Today, it's almost a $25 trillion economy. Yet wages for the bottom 70 percent of Americans have not kept pace with that growth. In fact, it's gone in reverse.

It's time for this tax cut fever, this tax cut fever, to get the proper dosage of medicine—to end this, if you will—call it a scam? Yes. I call it razoo and a head fake, right. Get Americans looking over here, believing that they're going to get something, and they get crumbs——

Chair WARREN. Yes.

Mr. MORIAL. ——while over on the other side, massive subsidies are given to Americans who don't want, nor need, these subsidies, and then, behind it, come back and challenge the programs, workforce, Medicaid, Medicare, Social Security, aid to education, aid to small businesses, that we sorely need.

So, you have, I think, Senator Warren, accurately characterized the current situation, and I'm just proud and committed to working with you and others to get a fair deal for the American people. The American people need a fair deal, a better deal when it comes to tax and fiscal policy.

Chair WARREN. Oh, I very much appreciate your comments on this.

Look, Democrats in Congress should flat-out reject Trump's tax scam 2.0 and the junk math that Republicans are using to try to sell this thing.

The tax code is not about magic math. It is about choices. Are we a country that invests in roads and bridges, in housing and health care, in our children, or a Nation that cuts taxes for billionaires and billionaire corporations?

American families are counting on us to have their backs, and that means fighting for a tax code that demands that the wealthy pay their fair share, just like everyone else—a tax code that invests in American workers; a tax code that helps us build a stronger economy in which everyone gets a chance to participate.

In next year's tax debate, every person in the U.S. Senate will have the opportunity to show the American people whose side they are on—the side of billionaires clamoring for more handouts or the side of hardworking Americans. Because next year is a chance to fight for a tax code that works for working people, a chance to fight against more giveaways to the wealthy and giant corporations, and to flat-out reject any package that includes billionaire handouts. It is a chance next year to fight for a tax code that raises taxes on the wealthy to fund the investments that we all need. And I am proud to stand shoulder to shoulder with working people across this country in this fight.

I want to say one more time how much I thank the witnesses for being here today; for the testimony that you provide, and for the work you do every day.

For any Senators who wish to submit questions for the record, those questions will be due 1 week from today, Wednesday, November 27th.

And for our witnesses, you will have 45 days to respond to any questions.

Thank you again.

And with that, this hearing is adjourned.

[Whereupon, at 3 p.m., the hearing was adjourned.]

[Prepared statements and responses to written questions supplied for the record follow:]

PREPARED STATEMENT OF ELIZABETH M. SHULER

PRESIDENT, AFL–CIO

NOVEMBER 20, 2024

Chairperson Warren, Ranking Member Kennedy, and Members of this Subcommittee, I appreciate the opportunity to appear before you today to talk about tax policy and working people.

I am here representing the nearly 13 million workers who are part of the 60 affiliated unions of the AFL–CIO. We represent workers in every sector of the economy, including construction and building trades, transportation, maritime, healthcare, education and entertainment, manufacturing, and professional athletes. We are also the voice of the labor movement representing the concerns and needs of working people broadly, whether they are in a union or not.

Today I have been asked to testify on the tax system, which is something every working-class and middle-class worker pays into with their hard-earned wages. In the next few months Congress will be discussing the fate of the expiring 2017 Trump tax cuts as well as determining the direction of our tax policy. For working people, these are the most consequential decisions that the new Congress will make because they will affect not only take-home pay, but the ability for the Federal Government to provide essential programs and services.

The AFL–CIO will fight for a tax system that is fair and equitable for all Americans, especially working people. The expiration of the 2017 tax cuts is an opportunity to take stock of that tax policy and get it right this time.

In 2017, President Donald Trump and his allies promised an array of benefits for the American people from the Tax Cuts and Jobs Act. Those benefits did not materialize. They said that cutting the corporate tax rate would raise the wages of working people by $4,000 on average. That did not happen. Studies show that 90 percent of workers received no wage increase as a result of the tax cuts, and, for those who did, they were already the highest paid 10 percent of people at their companies.[1] Corporate executives, who last year made 268 times what the average worker made, benefited the most.[2] The projections of increased revenue and investment from corporate America also never materialized. By 2019, a couple years into the tax cuts and even prior to the pandemic, business investment was declining quarter after quarter.[3]

The Trump tax bill's massive temporary and permanent cuts to corporate and individual taxes have had three consequences.

First, corporations benefited most significantly from the tax cuts. The top corporate tax rate was lowered from 35 percent to 21 percent but as reported by the Government Accountability Office (GAO) the actual effective tax rate for many corporations was far below 21 percent and instead averaged 9 percent—if the corporations paid any taxes at all. Many large and profitable corporations continue to pay nothing in corporate taxes, and a larger percentage of corporations paid no corporate taxes than in previous years.[4] Corporations thus had a far lower tax rate than any middle-class worker.

Second, for all their ineffectiveness to boost wages or investments, the Trump tax cuts have been outrageously expensive. As a result of lower taxes on corporations and the ultra wealthy, the 2017 Trump tax law has lowered Government revenue. While Trump tax supporters claimed the tax cuts would "pay for themselves," they have not and the Congressional Budget Office projects that the tax cuts will increase deficits by nearly $2 trillion over a 10-year period. That effect will be stronger if the measures, which are set to expire in 2025, are allowed to continue. These deficits squeeze funding for programs and agencies upon which low to moderate income working people depend.

Third, the benefits of the 2017 tax cuts, particularly on individual taxes, have overwhelmingly skewed toward the wealthy. Highest earners got the greatest tax

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[1] David S. Mitchell, "Six Years Later, More Evidence Shows the Tax Cuts and Jobs Act Benefits U.S. Business Owners and Executives, Not Average Workers" Washington Center for Equitable Growth (December 20, 2023), at *https://equitablegrowth.org/six-years-later-more-evidence-shows-the-tax-cuts-and-jobs-act-benefits-u-s-business-owners-and-executives-not-average-workers/*.

[2] "New AFL–CIO Report: S&P 500 Company CEOs Made 268x Worker Pay in 2023" AFL–CIO (August 8, 2024), at *https://aflcio.org/press/releases/new-afl-cio-report-sp-500-company-ceos-made-268x-worker-pay-2023*.

[3] Josh Bivens, "New GDP Data Show That Business Investment Slows for 3rd Straight Quarter" Economic Policy Institute (January 30, 2020) at *https://www.epi.org/press/new-gdp-data-show-that-business-investment-slows-for-3rd-straight-quarter-more-evidence-that-tax-cuts-have-failed/*.

[4] *https://www.gao.gov/assets/gao-23-105384.pdf*

benefits through being granted special deductions on estates and investments while middle earners saw few benefits. The Tax Policy Center estimated that the wealthiest top 5 percent of earners got triple the effective tax cut that the bottom 60 percent of the income distribution received.[5] Middle-class families, who often depend solely on wages for their income, brought home a smaller percentage of their paycheck than the billionaire class.

At the end of 2025, many provisions of the Trump tax law will expire—and most of these provisions should expire because they rig the system against working people. For example, letting the top marginal tax rate reset to the pre-2017 level and re-establishing the estate tax will improve tax revenue and restore some fairness to the system. Any talk of cutting the corporate tax rate even more deeply, with another round of massive giveaways to the rich in 2025, is an insult to working people. Corporations on the whole have been doing great in this economy, and they have been gouging the American consumer. Corporations have been experiencing a spike in profits over recent years, and, according to one study, over 40 percent of rising price levels between 2019 and 2022 was attributable to corporations' rising profits, not rising costs.[6] Based on prior behavior, boosting their profits even higher with even more tax cuts will do nothing to lower prices. Members of Congress who claim to represent the interests of working people should reject any tax deal that includes extending the 2017 Trump tax cuts for the wealthy.

But aside from letting the worst provisions expire and doing no further harm, we also want Congress to recognize that there are long-standing problems with our tax code that privilege corporations and the wealthy over the average households. These policies have eroded our tax base, making the deficits and debt worse.

Specifically, the tax code needs to require high-income households, the billionaire class, large profitable corporations and Wall Street to pay a greater share of their income in taxes than each one does currently under the Trump tax revisions. By restoring revenue through fairly taxing those who earn more or profit more, we can provide tax relief to middle- and lower-income families.

We also support specific measures that will promote tax fairness such as:

- Fairer and more efficient tax enforcement, including increased funding and staffing for IRS enforcement and a plan to restore audits on wealthy individuals and profitable corporations.
- Reinstating a union dues tax deduction.
- Closing the carried interest loophole that would tax income from carried interest as ordinary income.
- Continuing IRS Direct File as a free, online, user-friendly alternative to costly tax preparation services.
- Letting the SALT deduction cap expire.
- Creating a new above-the-line deduction for worker-provided tools and equipment.
- Raising the maximum income cap for the Qualified Performing Artist Deduction to update incomes to reflect inflation.
- Disallowing tax deductions for union avoidance. Tax deductible ordinary business expenses should not be allowed to include money spent on opposing union organizing.
- Taxing capital gains as ordinary income for taxpayers earning more than $1 million.
- Enacting a Wall Street Speculation Tax to discourage risky speculation.
- Taxing stock buybacks at a higher rate.
- Promoting racial equity in tax policy by refining tax data collection and analysis to root out inequities in tax policy design and enforcement.
- Repealing real estate loopholes that allow real estate investors to delay, reduce, and eliminate their tax obligations.
- Enacting a minimum tax on the ultra wealthy of 25 percent (e.g., annual income above $100 million) and other taxes on those with extensive wealth.

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[5] Tax Policy Center, "Distributional Analysis of the Conference Agreement for the Tax Cuts and Jobs Act", December 18, 2017, *https://www.taxpolicycenter.org/sites/default/files/publication/150816/2001641-distributional-analysis-of-the-conference-agreement-for-the-tax-cuts-and-jobs-act-0.pdf.*

[6] Josh Bivens, "Profits and Price Inflation Are Indeed Linked" Economic Policy Institute (September 5, 2024) at *https://www.epi.org/blog/profits-and-price-inflation-are-indeed-linked/*.

Economist after economist, regardless of political leanings, has cautioned against the current tax system crippling the future of our economy by expanding our budget deficits and national debt. The trickle down economics model that the current system is built on is faulty in its beliefs that economic benefits will spread throughout the system. Wealth concentrates in corporations and middle- and lower-income earners are excluded from most of the benefits. We cannot continue to ignore this problem, and we must rebuild a progressive tax system that taxes those who earn more at a higher rate than those who earn less.

Thank you for the opportunity to address the Subcommittee today.

PREPARED STATEMENT OF MARC H. MORIAL

PRESIDENT AND CEO, NATIONAL URBAN LEAGUE

NOVEMBER 20, 2024

Chair Warren, Ranking Member Kennedy, and Members of the Subcommittee: Thank you for the invitation to testify about the urgent need for a tax policy that works for all Americans, particularly low- and moderate-income individuals.

My name is Marc Morial and I serve as President and CEO of the National Urban League, an organization that has been uplifting and empowering Americans since its founding in 1910. I am also a former Mayor of New Orleans, Louisiana.

The National Urban League is a historic civil rights organization and since our founding, we have been dedicated to efforts to guarantee equality, social justice, and inspire economic empowerment. We collaborate at the national and local levels with community leaders, policymakers, and corporate partners to elevate the standards of living for African Americans and other historically underserved populations.

For example, through our affiliate network of 92 Urban League affiliates in 36 States and the District of Columbia, the Urban League spearheads the development of social programs and authoritative public policy research, and advocates for policies and services that close the equality gap. At the community level, the Urban League and its affiliates provide direct services that improve the lives of four million people annually, and we promote economic empowerment through education and job training, housing and community development, workforce development, entrepreneurship, health, and quality of life.

The National Urban League stands here today to call for a new approach, a bold, comprehensive and equitable plan to lift undercapitalized communities out of poverty and stimulate their economic growth. One that helps hardworking Americans and their families to advance the National Urban League's Main Street Tax Initiative, which I will introduce to the distinguished Members of the Subcommittee during my testimony, today, and in addition, legislation that prioritizes equity and meaningful opportunities for low- and moderate-income Americans that starts with extending, expanding, and/or making permanent several important tax provisions impacting hardworking Americans, their communities, and small businesses.

National Urban League's Main Street Tax Initiative

Background

In 2017, the Tax Cuts and Jobs Act (TCJA) was enacted with the goal to cut taxes, lower rates, and provide tax relief for Americans, however the provisions providing direct tax relief to individuals and their families were not permanent and within this group, the top earners experienced the most substantial benefit of the tax cuts for individuals. Against this backdrop, as many of the TCJA tax code changes set to expire at the end of 2025, the National Urban League proposes a 10-point plan called the Main Street Tax Initiative, which, if enacted, would ensure that the tax code promotes economic opportunity and growth for all Americans. Amongst other things, this proposal includes making permanent the expanded Child Tax Credit (CTC) and Earned Income Tax Credit (EITC), restoring the State and Local Tax (SALT) deduction, and increasing support for first-time homebuyers and small business owners in undercapitalized communities. Additionally, the National Urban League calls for reforms that address systemic inequities in the tax system, such as targeted incentives to close the racial wealth gap and enhanced tax benefits for affordable housing development and community investment. Together, these measures aim to uplift families, empower communities, and foster long-term economic prosperity for all Americans.

Ten-Point Plan

1. Create Direct Tax Cuts and Incentives To Support Low- and Moderate-Income Workers

The National Urban League advocates for making new investments that prioritize low- and moderate-income workers by providing transformative tax reform that includes a 50 percent direct income tax cut for Americans earning less than $100,000 annually, a policy that would benefit approximately 60 percent of the U.S. population. This bold initiative aims to put significant financial relief directly into the pockets of those who need it most, creating a more equitable and sustainable economic foundation for our Nation. In addition, more targeted tax incentives for lower-income Americans provide real relief that strengthens communities, as compared to deductions for mortgage interest, college savings, and retirement accounts, which disproportionately benefit wealthier Americans. Finally, we are urging Congress to equalize the tax rates on wealth and work. For example, capital gains that are profits from investments are taxed at a far lower rate than wages earned by working people, and we are asking Congress to create a tax system that equitably helps more low- and moderate-income American families and communities build economic security.

2. Make Permanent the New Markets Tax Credit Provision

Historically, low-income communities experience a lack of investment, as evidenced by vacant commercial properties, outdated manufacturing facilities, and inadequate access to education and healthcare service providers.

The New Market Tax Credit (NMTC) program, which attracts private capital into low-income communities by permitting investors to receive a tax credit against their Federal income tax in exchange for making investments into a Community Development Enterprise. The NMTC program was originally authorized in 2000 and has been extended by Congress eight times since. These extensions, along with the original NMTC legislation, have enjoyed bipartisan and bicameral support over the past two decades. Since its inception, the NMTC program has provided billions of dollars to organizations that help rebuild economically distressed communities and has created more than a million jobs.

In addition, during a July 2024 Senate Finance Committee Hearing, “Tax Tools for Local Economic Development”, Chairman Ron Wyden stated “all 50 States have benefited from the New Markets Tax Credit. It has helped get thousands of projects off the ground. Health care and manufacturing facilities. Childcare centers and schools. Retail developments and housing, including lots of affordable units.” And during the same Hearing, Ranking Member Mike Crapo stated that, in his State, a new primary care facility opened that will serve a more rural part of his State and was made possible due to a New Markets Tax Credit investment. In addition, both Senators indicated their support for bipartisan legislation introduced by Senators Cardin and Daines to permanently extend the New Markets Tax Credit.

The current extension of the NMTC program expires next year, however, the program is needed, especially in today’s uncertain economy, because corporations are looking to attract capital to underserved communities to revitalize neighborhoods, offer employment opportunities, and jumpstart small businesses. The National Urban League is strongly urging Congress to extend the NMTC program to attract the investment necessary to reinvigorate and grow struggling disadvantaged communities.

3. Expand the Low-Income Housing Tax Credit: Promoting Housing Affordability

Affordable housing remains an urgent need and with a critical nationwide shortage of affordable housing units, makes it extremely difficult for American families to purchase or rent a home. The National Urban League is advocating for the expansion of existing tax incentives like the Low-Income Housing Tax Credit (the LIHTC or Housing Tax Credit), which would support the creation of affordable housing units in all parts of the country, provide stability for working families, help to address significant housing needs, and contribute to closing the home ownership gap. For almost 40 years, the Housing Tax Credit has played an important role in supporting new multifamily housing construction and has reduced housing costs for millions of families. The Housing Tax Credit can continue to help increase the housing supply and with Congress’ support, expansion of the credit could provide affordable housing for many more families in need during our country’s housing affordability crisis.

4. Create an Affordable Housing Tax Credit for the Construction of New Homes

The National Urban League is strongly urging Congress to continue building upon Federal Government efforts to address the housing supply needs and also to invest more directly to spur investment in affordable housing construction.

As examples, the Federal Government could increase available tax credits for LIHTC and funding for other affordable housing subsidy programs, which some researchers contend could be achieved by boosting funding for the U.S. Department of Housing and Urban Development’s existing programs that support LIHTC, such as HOME Investment Partnerships Program. In addition, several States and localities are considering implementing new social housing programs that could develop projects independently of the private market, and the Federal Government could invest in those initiatives as a complement to LIHTC. These are only a couple of strategies that could accelerate Government-supported production of affordable rental units and help more people with low incomes access stable housing.

5. Restore the State and Local Tax Deduction

The State and Local Tax (SALT) deduction, which has been around over 100 years and was originally more expansive, is for taxpayers who itemize deductions on their tax return. Currently, the SALT deduction allows taxpayers to subtract a portion of their State and local property taxes, income taxes, and/or sales taxes from their Federal taxable income. TCJA limited the SALT deduction to $10,000 (cap); however, if Congress allows the SALT cap to expire next year, taxpayers may claim the SALT deduction again, beginning in 2026, but some may find their itemized deductions will be less than TCJA's higher standard deduction. The National Urban League supports Congress allowing the SALT cap deduction to expire as scheduled next year along with a plan to offset the costs of restoring the deduction.

6. Extend and Expand the Child Tax Credit and Earned Income Tax Credit

Our first priority must be to expand tax credits that uplift working families. This includes extending and making permanent the expansion of the Child Tax Credit (CTC). A robust Child Tax Credit can drastically reduce child poverty, lifting up the next generation and contributing to stronger communities and a healthier economy overall. As an example, after the CTC was further expanded in 2021 during the pandemic, U.S. Census data showed that the CTC expansion significantly decreased the number of children experiencing poverty across several race and Hispanic origin groups, specifically—1 million children under 6, and 1.9 million children between the ages of 6 and 17.

The TCJA did not make any direct changes to the Earned Income Tax Credit (EITC), however, the TCJA uses a permanent, new, more conservative measure of inflation to index its parameters and indirectly affected the EITC's value so that EITC benefits would grow more slowly in future years. The EITC has a proven track record of reducing poverty, particularly in Black and Latino communities and the National Urban League urges Members of Congress to reverse this permanent change, which can help offer millions of families a stronger foothold to achieve economic stability in the future.

7. Establish the "Fair Deal for America Tax"

To help offset the tax incentive benefits that I have testified about today, the National Urban League proposes the creation of the "Fair Deal for America Tax", a targeted initiative designed to address wealth concentration inequities and ensure a more balanced contribution to the Nation's revenue base. This tax would also take meaningful steps towards closing the racial wealth gap by enabling equitable investments across all economic levels.

Under the "Fair Deal for America Tax", ultra-wealthy individuals—those with assets surpassing $1 billion—would pay a modest surtax. Importantly, this tax would apply to an extremely small group of individuals. As of 2023, only 770 individuals in the United States had assets surpassing $1 billion. The number of people that this tax would apply is fewer than the number of fans attending a Washington Commanders football game on any given Sunday. Despite its limited scope, this tax has the potential to generate substantial revenue that can be reinvested into programs supporting low- and middle-income families, promoting greater economic equity and opportunity nationwide.

As an example, according to the Tax Policy Center, most Federal revenues are collected from wages, which are paid primarily to low- and middle-income families, face heavier taxation than capital income, which generally goes mainly to high-income families. Moreover, payroll taxes account for 33 percent of Federal revenues and are imposed solely on wages. In addition, the Federal Reserve Bank of St. Louis examined the challenges facing vulnerable workers in 2023 and the opportunities that more equitable participation in the economy may provide. It concluded that "greater wealth equity could help mitigate economic declines and boost the economy during expansions. During an economic contraction, more financially stable families would have funds to fall back on if facing a job loss or a decline in asset values. This means that many families wouldn't need to heavily rely on the support provided by the public safety net (e.g., unemployment insurance). During times of expansion, greater wealth equity could drive consumption (via the wealth effect) and investment even higher, thus boosting economic growth."

However, the Federal Reserve Bank further stated that "to achieve greater wealth equity, many families need greater capacity to build savings and access to sustainable asset ownership (e.g., home ownership, tax-advantaged retirement accounts). Additionally, addressing inequities in wealth outcomes could lead to more opportunities for families of different demographic groups to invest in their futures and thrive."

8. Extend or Make Permanent the Standard Deduction

Many working families have also expressed frustration about high prices for housing, groceries and other necessities and are struggling to meet basic needs. The National Urban League is advocating on their behalf and urging Congress to support extending or making permanent the standard deduction increase, which helped many hardworking families by reducing the amount of tax they owed. If Congress allows the standard deduction increase to expire next year, it will likely result in a tax increase for many low- and moderate-income Americans who have made it clear that they do not have enough money to pay their monthly bills and buy what they need for themselves and their families. Further, the increased standard deduction makes itemizing not as beneficial for many tax filers, which represents another important benefit of the change.

9. Incentivizing Corporate Investment in Certain Stressed and Rural Communities

The National Urban League supports extending the TCJA Qualified Opportunity Zone deferral provision that is set to expire next year and is strongly urging Congress to review and consider any necessary reform measures, including reporting requirements that would help to give necessary information on the community benefits of Opportunity Zones to ensure the legislation is accomplishing what the law intended, and that is to use investments for projects and businesses that meet the community's needs and produce significant economic and social benefits, while encouraging economic development, job creation, and a positive economic impact specifically to certain stressed communities and rural parts of the U.S. and its territories. These communities, as you know, are generally low-income and undercapitalized communities. Reform measures and reporting requirements would show if the underserved communities initially targeted for assistance by the incentive are, in fact, receiving investment.

The goal of Opportunity Zone tax provision is to encourage long-term investment in these communities by providing tax incentives for new investment. If the Opportunity Zone provision is not extended, these communities could see a decrease in economic growth. The National Urban League is advocating for extension of the Opportunity Zone deferral provision that includes necessary reform measures, and we stand ready to assist Congress and States to ensure the legislative intent of the tax provision is carried out, effectively.

10. Prioritize Small Business Growth

Small businesses, as we know, are crucial to our economy, the backbone of many communities and according to the Department of Labor, employ nearly half of all U.S. workers and comprise more than 99 percent of businesses. Further, small business ownership can be an important step to economic empowerment because it allows hardworking Americans to control their own income, create jobs, and achieve financial independence, especially for those who might face barriers in traditional employment markets.

The TCJA included important tax provisions that affect small business taxpayers and their owners. For many small business owners, the qualified business income (QBI) deduction (Section 199A) under the TCJA has been an essential tool for supporting these businesses, allowing eligible owners to deduct up to 20 percent of their income. However, the deduction is set to expire, potentially undermining small business growth unless Congress acts.

While the National Urban League supports extending the QBI deduction, we urge Congress to address its significant distributional inequities. Researchers have found that the top 1.5 percent of tax filers (AGI over $500,000) claimed more than half of all QBI deductions in 2021, while filers with AGIs under $100,000—51 percent of claimants—received average deductions of only $1,997. Meanwhile, those earning $10 million or more averaged over $1 million in deductions.

To ensure the QBI deduction better serves small businesses in underserved communities, Congress must pair its extension with reforms to reduce abuse, encourage reinvestment in business growth, and align tax benefits more equitably across income levels. This approach will strengthen small businesses as engines of economic opportunity and empowerment for all communities.

Conclusion

In closing, according to a recent Pew Research Center (Center) finding published in April 2024, most Americans feel that corporations and wealthy people don't pay their fair share in taxes. And, about six-in-ten U.S. adults said they're bothered a lot by the feeling that some corporations (61 percent) and some wealthy people (60 percent) don't pay their fair share.

Our tax system must reflect our values as a Nation and the goal of any tax reform should be to improve incentives for Americans to work, take care of their families, and be able to save to achieve economic security. We have a chance to create a tax system that provides true relief to low- and moderate-income Americans, ensures all Americans pay their fair share, and encourages businesses to invest directly in our underserved communities.

This is a pivotal moment to reshape our tax policy for a fairer and more prosperous America for all. The recommendations in the National Urban League's Main Street Tax Initiative offer a transformative path toward ensuring that every American can realize the promise of the American dream.

Thank you, and I look forward to your questions.

PREPARED STATEMENT OF BRENDAN DUKE

SENIOR DIRECTOR FOR ECONOMIC POLICY, CENTER FOR AMERICAN PROGRESS

NOVEMBER 20, 2024

Brendan Duke
Senior Director for Economic Policy, Center for American Progress
Testimony Before the U.S. Senate Banking Subcommittee on Economic Policy
"Tax Policy in 2025: Implications for the American Economy"
November 20, 2024

Thank you, Chair Warren, Ranking Member Kennedy, and members of the Subcommittee.

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

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

- The 2017 tax law's cut in the corporate tax rate failed to increase economic growth or investment above pre-2017 levels. None of the paltry wage gains resulting from the tax cut went to ordinary workers and instead went to the highest paid workers.

- Extending the expiring provisions will increase income inequality–the average tax cut for the top 1 percent of Americans ($63,800) is more than 60 times larger than that of the middle 20 percent of Americans ($950). It is more than 600 times larger than that of the bottom 20 percent of Americans ($110).

- Even the above numbers are too rosy: Any honest analysis of deficit-financed tax cuts must include an assumption of how they are paid for. Paying for the tax cuts with enormous taxes on imported goods like President-elect Trump has proposed would leave low- and middle-income families with a net tax increase. Relying on current or future spending cuts to pay for them would similarly hammer low- and middle-income families.

- Trump has proposed a series of populist-sounding tax cuts like "No Tax on Tips," but they would leave out most workers, provide meager tax cuts to the small share of eligible workers, and produce enormous incentives to game the tax code.

Members of Congress should reject any approach to the 2017 tax law that asks working- and middle-class families to pay for tax cuts for the wealthy through higher prices on imported goods, cuts to critical programs, or higher deficits that tax cut proponents will later cite to cut critical programs.

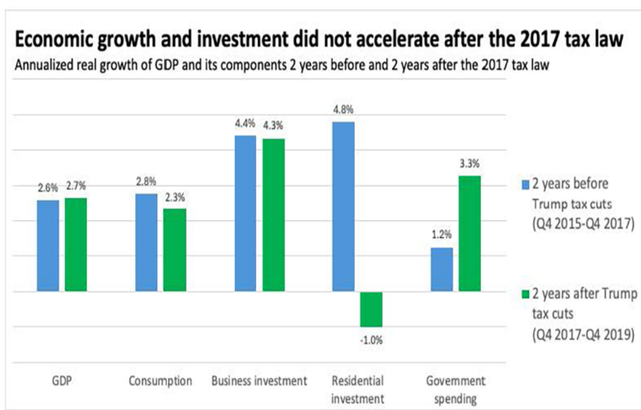
Letting the tax cuts expire is a far better alternative than saying "Yes" to a bill that will entrench income inequality and rip off working- and middle-class families down the road.

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

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

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

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



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

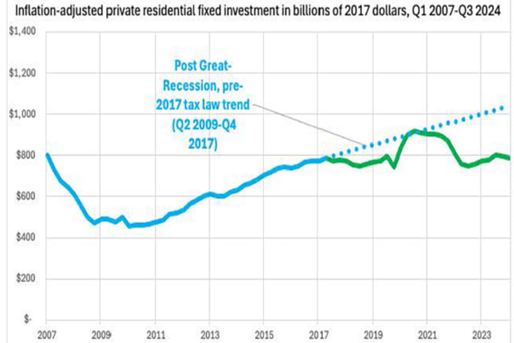
Mainstream projections of the effect of the law on GDP growth from the Congressional Budget Office, the Joint Committee on Taxation, Goldman Sachs, and others estimated that the law would cumulatively raise real GDP by less than 0.7 percent over the decade. This amounts to a less than 0.07 percentage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

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

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

Post-Great Recession recovery in housing construction ended after 2017 tax law passed

Inflation-adjusted private residential fixed investment in billions of 2017 dollars, Q1 2007-Q3 2024



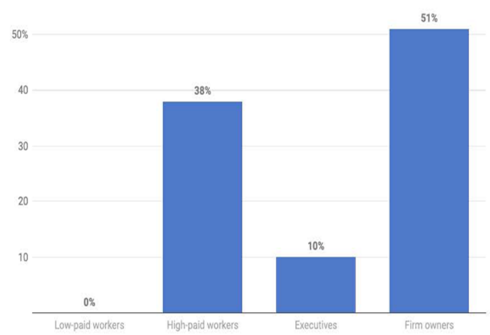
Source: Center for American Progress analysis of U.S. Bureau of Economic Analysis data.

The overall average wage gains spurred by the corporate rate cut are exceedingly modest and, most importantly, none of them went to the bottom 90 percent of workers at firms receiving a tax cut.[viii] Instead, highly paid workers and executives received all of the wage gains resulting from the corporate rate cut. The wage gains were the mechanism by which a direct corporate tax cut to investors was supposed to trickle down to ordinary workers, but again the evidence shows that this did not occur.

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

The benefits of the cut to the corporate rate went exclusively to corporate owners and high-paid workers

Percentage incidence of the corporate tax cuts in the Tax Cuts and Jobs Act (TCJA)



Note: Low-paid workers are defined as those in the bottom 90 percent of the within-firm wage distribution; high-paid workers are those in the top 10 percent. Executives are defined as the top five paid workers within a firm.

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

Chart: Center for American Progress

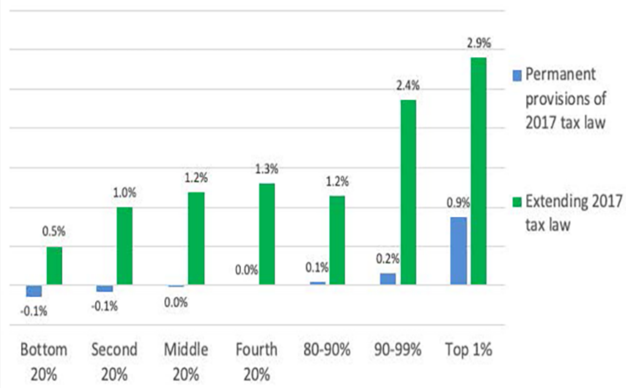
Both the permanent and expiring Trump tax cuts provided small benefits to most families while providing enormous tax cuts to the wealthy

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

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

Both the permanent and expiring parts of the 2017 tax law are tilted to the top 10 percent

Percent change in after-tax income from 2017 tax law provisions



Source: Center for American Progress analysis of Tax Policy Center Tables T17-0316 and Table T24-0037

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

Extending the expiring portions of the Trump tax cuts would:

- Give the bottom 20 percent an average tax cut of $110, amounting to just a 0.5 percent increase in their after-tax income.[xiii]

- Give the middle 20 percent an average tax cut of $950, amounting to a 1.2 percent increase in their after-tax income.

- Give the top 1 percent an average tax cut of $63,800, amounting to a 2.9 percent increase in their after-tax income.

These expiring provisions are tilted to high-income households for two reasons. First, high-income households fully benefit from tax cuts in the lower brackets (i.e., the "middle-class tax cuts") while lower income families receive partial benefits at best. For example, about one-quarter of the entire cost of extending the expiring tax cuts (roughly $1.1 trillion) is the cut in the second tax bracket's tax rate from 15 percent to 12 percent.[xiv] This is the tax rate on a married couple taking the standard deduction's adjusted gross income between roughly $55,000 and $125,000 in 2025. A family with an adjusted gross income of $1 million gets a full $2,200 tax cut from the change in this "middle-class" tax bracket while a family making $80,000 only gets a $800 tax cut because they do not have enough income to "fully" benefit from that change to the tax rate.

Second, other expiring provisions heavily or exclusively benefit high-income people:

- The 2017 tax law introduced a new 20 percent deduction for the profits of closely held ("pass-through") business owners such as car dealership owners and real estate investors. The deduction is extremely regressive since the value of the deduction is largest for business owners in the highest brackets and because a much larger share of high-income Americans' income comes from pass-through profits.[xv] The tax break provides over half of its benefits to the top 1 percent and over 80 percent of its benefits to the top 10 percent of Americans.[xvi]

- The Alternative Minimum Tax (AMT) is a simplified back-up tax system designed to ensure high-income people pay at least some tax. Taxpayers calculate their normal tax liability and their AMT liability, paying the larger of the two. The cuts to ordinary income tax rates normally would have meant more affluent families paying the AMT, but the law gutted it by moving up the income where the generous AMT exemption level begins to phase out from about $200,000 to $1.3 million. This provision alone costs $1.5 trillion over 10 years.[xvii]

- The estate tax is a key policy for preventing wealth inequality from exploding and is a backstop for the income tax by ensuring capital gains that go untaxed at death face at least some tax.[xviii] The 2017 tax law continued the multi-decade weakening of the law by doubling the amount a married couple can pass on tax-free to their heirs from about $14 million to about $28 million, benefiting fewer than 1 in 1,000 estates. A couple's fortune worth over $28 million receive a full $5.6 million tax cut from this provision.

The tax cuts will dramatically increase income inequality once they are paid for

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

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

Taxes on imported goods

The incoming Trump administration has indicated a key way it plans to offset the cost of the tax cuts: an up to 20 percent tax on all imported goods along with a 60 percent tax on all imported goods from China.[xix] A range of think tanks, spanning left to right, have estimated that these would cost families up to $6,000 annually.[xx] Each of these think tank's estimates suggest they would entirely offset the tax cut low- and middle-income families receive from extending the expiring tax cuts.[xxi] Several analyses show they would add to consumer prices and generate a one-time burst of inflation, adding 1 to 3 percentage points to the inflation rate.[xxii]

Think tanks with a wide array of ideological backgrounds agree taxes on imported goods would cost families thousands

Various think tanks' estimates of annual tax increase for a typical family from Trump's proposed 20 percent tax on all imports and a 60 percent tax on Chinese imports

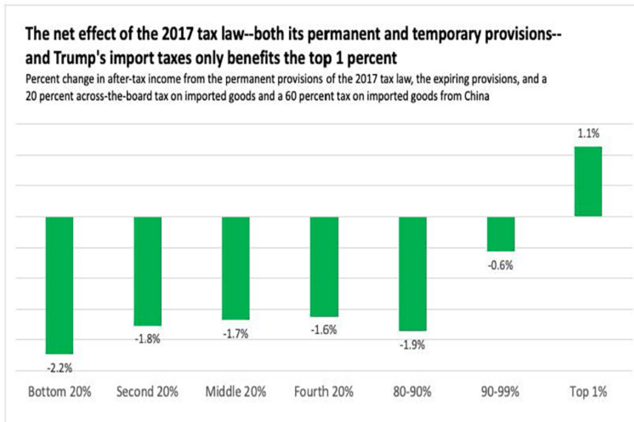
*Analysis assumes the across-the-board tax is 10%, not 20%, and does not include a special tax on Chinese imported goods. Analysis is for the average, not a typical, household.
**Analysis is for the average, not the median or middle-income, household.
***Analysis assumes the across-the-board tax is 10%, not 20%.

Source: Center for American Progress

It is important to note that the nature, magnitude, and purpose of these taxes differ greatly from the strategic tariffs presidents of both parties have employed. The size of the tariffs is roughly 10 to 20 times the size of the tariffs enacted during the first Trump administration and retained by the Biden administration.[xxiii] They would not just apply to imports from China, but to the 60 percent of imports we receive from Canada, Mexico, the EU, the UK, Japan, and South Korea–allies we need to help counter and rebalance our economy away from China.[xxiv] The taxes would apply to a wide array of imported goods that we have no hope of ever producing in the United States, such as coffee and bananas, as opposed to just strategic industries that are key to the future, like electric vehicles or semiconductors.

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

The combination of the permanent portions of the 2017 tax law, extending its expiring provisions, and the proposed import taxes would raise taxes on the bottom 99 percent of Americans. The top 1 percent would get a net tax cut of $25,000 while the middle 20 percent would get a net tax increase of $1,300.



Source: Center for American Progress analysis of Tax Policy Center tables T17-0316, T24-0079, and Table T24-0037

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

Spending cuts

Another way some congressional Republicans may attempt to pay for their proposed tax cuts is cuts to programs low- and middle-income Americans rely on. One version of this occurred during the first Trump term, when House Republicans passed a bill repealing the Affordable Care Act while cutting taxes for the highest income Americans.

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

An especially troubling area that some congressional Republicans and a second Trump administration may target for cuts is the manufacturing investments in the Inflation Reduction Act and the CHIPS and Science Act. A key motivation for the combination of corporate tax cuts and tax hikes on imported goods Trump has proposed is to reshore manufacturing. Yet, that combination failed to trigger the type of factory construction boom we are now seeing after the Biden administration made the investments that congressional Republicans may seek to repeal.[xxviii]

Deficits

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

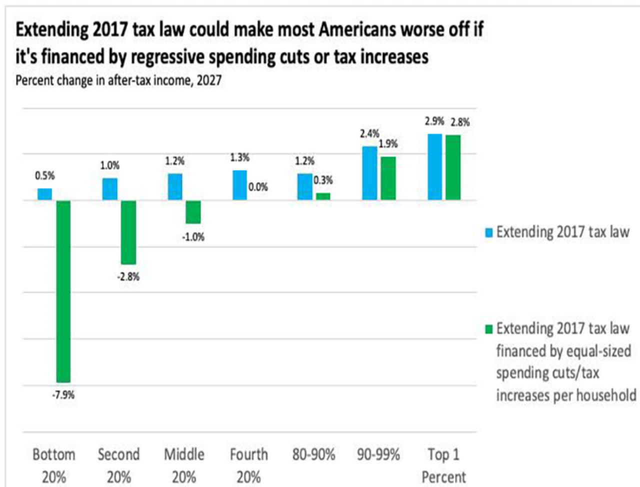
Extending the Trump tax cuts without offsets will exacerbate our long-run fiscal imbalance. The 30-year fiscal gap–the average amount of primary deficit reduction required to stabilize the debt-to-GDP ratio–is equal to 2.1 percent of GDP, which is the equivalent of $7.6 trillion over 10 years, under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

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

Extending the Trump tax cuts with equal-dollar financing would be an enormous burden for the bottom 60 percent of Americans. The middle 20 percent of Americans would experience a one percent reduction in their incomes and the bottom 20 percent of Americans would experience an 8 percent drop. The top 10 percent–and especially the top 1 percent–would still come out ahead with the size of their net tax cuts barely reduced.

The very real danger of cuts to programs that low- and middle-income families rely on–including Social Security and Medicare eventually–highlights why Congress must offset any tax cuts they extend in a revenue-neutral manner.

This also means rejecting attempts to pretend that extending the expiring provisions has no cost, otherwise known as a "current policy baseline." This type of baseline undermines good budgetary practice and is logically inconsistent; under that type of analysis, the failure to renew the 2021 $1,400 American Rescue Plan rebate checks in 2022 amounted to a $5,600 tax increase in 2022 for a family of four. Simply changing the accounting convention does not remove the burden that extending these tax cuts will place on federal–and eventually on families'–finances.



Source: Center for American Progress analysis of Tax Policy Table T24-0037

Trump has proposed a series of populist-sounding tax cuts would leave working- and middle-class families just pennies

Simply extending a $4.6 trillion tax cut was seemingly insufficient, so Trump has proposed additional populist-sounding tax cuts like "No Tax on Tips" and "No Tax on Overtime." These proposals are, in effect, an admission that simply extending the expiring tax cuts provides little benefit to working families. And they provide cover for the enormous, inequality-increasing tax cuts designed above–they would provide small tax cuts to a small number of workers while opening up the door to large-scale tax avoidance. Additionally, Trump has at the same time proposed further tax cuts for corporations as pitching these populist sounding tax cuts.[xxxiv]

Making tips tax-free sounds like a working-class tax break because it would benefit some waiters and hairdressers, but at the same time it would provide no benefit for non-tipped workers like janitors and security guards. If constructed along similar lines to Sen. Ted Cruz's (R-TX) No Tax on Tips bill, it would benefit fewer than 5 percent of low- and moderate-wage workers. More than one third of tipped employees would receive no benefit because they do not earn enough to pay income taxes, even before accounting for tax credits.[xxxv] The average tax cut for the less than 5 percent of households in the bottom 20 percent that would receive a tax cut is $220.[xxxvi] It would also encourage gaming in the tax code because non-tipped employees would face a strong incentive to recharacterize non-tipped income as tipped income. One analysis found that this recharacterization could cause the cost of the provision to go up six-fold.[xxxvii] And a bill similar to Cruz's that lacks guardrails could even result in hedge fund managers and corporate lawyers shifting to tax-free tipped income compensation.[xxxviii]

The same problems are present in "No Tax on Overtime."[xxxix]

Making tips and overtime pay tax free are especially hollow proposals in light of action by the first Trump administration's Department of Labor that directly undermined tipped workers and overtime pay rights. The second Trump administration may do more of the same. In Trump's first term, his Department of Labor tried to let employers transfer an estimated $700 million annually from their employees' paychecks to their own profits by permitting them to force tipped workers to spend more time doing non-tipped work at the sub-minimum wage.[xl]

Similarly, the first Trump administration issued a far weaker update to federal overtime rules than proposed by former President Barack Obama, leaving 8 million workers behind.[xli] The Biden Administration subsequently enacted a stronger overtime rule, but Project 2025 has called for restoring the weaker Trump standard.[xlii] In fact, a federal judge in Texas blocking the Biden Administration overtime rule last week could ease the second Trump Administration's path for restoring its watered down standard.[xliii]

A tax agenda that puts working- and middle-class families first

The good news is that there are ways to smartly and efficiently raise revenue from high-income households and corporations. The Biden Administration's last budget proposed $5 trillion in tax increases on these groups including raising the corporate tax rate to 28 percent, requiring wealthy business owners to pay the same Medicare taxes their workers do, and no longer letting millionaires pay half the tax rate on their capital gains income as their wage income.

These are far better ways to raise revenue than making a trip to the grocery store more expensive through taxes on imported goods.

Even better, these revenue sources can also offset the cost of other investments such as making the Child Tax Credit fully available to low-income families, enacting paid family and medical leave, reducing the cost of health care, or any dozen other investments that will do more for working families than cutting taxes for the wealthy and corporations.

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RESPONSES TO WRITTEN QUESTIONS OF SENATOR CORTEZ MASTO FROM ELIZABETH M. SHULER

Q.1. There is currently a tax law fluke that forces consumers who win consumer law cases to pay income taxes on parts of the settlements they never see; specifically, the court-ordered fees that go to attorneys. In fact, the attorneys who receive the funds already pay income taxes on those funds. In 2003–2004, Senator Grassley introduced and Congress passed a provision to protect victims of discrimination. The Internal Revenue Code now excludes awarded legal fees from a plaintiff's taxable income in civil rights suits. The End Double Taxation of Consumer Claims Act (S. 3459) aims to provide this protection for consumer victims who successfully enforce consumer laws.

Should victims of consumer law violations be similarly protected from a tax policy that would force them to pay taxes on funds awarded to their attorneys and they do not receive?

Why is preserving access to legal support important to ensuring a fair consumer market?

A.1. The AFL–CIO is a voluntary federation of 61 national and international labor unions that together represent nearly 15 million workers. We have one overarching goal: a better life for working people. At the heart of that goal is assuring that the financial system—including the tax system—benefits and treats fairly the millions of workers in the United States. As such, we support any measure that increases the fairness of the system and assures that individuals are treated consistently before the law.

In regards to the question: Should victims of consumer law violations be similarly protected from a tax policy that would force them to pay taxes on funds awarded to their attorneys and they do not receive? We believe protecting individuals from unfair taxation on funds that attorneys instead of the clients receive is a commonsense way to protect victims of consumer law violations.

In regards to the question: Why is preserving access to legal support important to ensuring a fair consumer market? We believe that consumers often require legal support in order to fight against much more powerful well-funded financial actors and corporations and to navigate confusing policies and procedures. Without the ability to use the legal system effectively, consumers would be disadvantaged.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR CORTEZ MASTO FROM MARC H. MORIAL

Q.1. There is currently a tax law fluke that forces consumers who win consumer law cases to pay income taxes on parts of the settlements they never see; specifically, the court-ordered fees that go to attorneys. In fact, the attorneys who receive the funds already pay income taxes on those funds. In 2003–2004, Senator Grassley introduced and Congress passed a provision to protect victims of discrimination. The Internal Revenue Code now excludes awarded legal fees from a plaintiff's taxable income in civil rights suits. The End Double Taxation of Consumer Claims Act (S. 3459) aims to provide this protection for consumer victims who successfully enforce consumer laws.

Should victims of consumer law violations be similarly protected from a tax policy that would force them to pay taxes on funds awarded to their attorneys and they do not receive?

A.1. Under current law, the general rule regarding taxability of amounts received from settlement of lawsuits and other legal remedies is Internal Revenue Code (IRC) Section 61. This section provides that all income is taxable from whatever source derived, unless exempted by another section of the code.

IRC Section 104(a)(2), which is the applicable code section regarding an exclusion from taxable income with respect to lawsuits, settlements, and awards, provides that gross income does not include "the amount of any damages (other than punitive damages) received (whether by suit or agreement and whether as lump sums or as periodic payments) on account of personal physical injuries or physical sickness." However, the facts and circumstances surrounding each settlement payment must be considered to determine the purpose for which the money was received because not all amounts received from a settlement are exempt from taxes.

As such, the amount of money plaintiffs are awarded, as part of a successful consumer protection case, is taxed as gross income, unless exempted. However, the money received could also include an amount for their attorney's fees that go to their attorney as compensation, who then would be taxed on the attorney fees it received. "Double taxation."

Therefore, the simple answer is, yes, victims of consumer law violations should be protected from a tax policy that would require them to pay taxes on award amounts that include a portion that goes to their attorney for attorney's fees—who then would be taxed on the attorney fees it received. Double taxing on the same funds is not sensible, and more than likely was not what was intended by lawmakers.

The current law can be harmful to plaintiffs when legal fees, which are included in the amount plaintiffs receive, misrepresent their yearly gross income and make it appear they made more than what they actually earned. As a result, this can potentially restrict taxpayers from being eligible to receive other tax deductions or income-qualifying benefits.

Litigating these consumer claim cases can be time consuming and result in only a small amount recovered for the plaintiff. In certain cases, the money awarded can be even less than the attorneys' fees, making such cases a costly burden for consumers and can also discourage consumers from pursuing such cases.

Several consumer law advocacy groups support the End Double Taxation of Successful Consumer Claims Act to change tax law to make plaintiffs that win consumer law cases no longer required to pay taxes on the amount of the award for attorney fees.

Q.2. Why is preserving access to legal support important to ensuring a fair consumer market?

A.2. Access to legal support is and will always remain important because it provides direct representation to consumers by using the legal system to seek to redress for unfair or deceptive business practices—helping to ensure fair practices and demands that businesses answer to consumers with honesty and transparency.

Oftentimes, many consumers are unaware that they are victims of harmful business practices, such as discrimination, unfair conduct that misleads consumers, or other unlawful practices by businesses. Having access to legal support not only protects victims but serves as a resource to keep consumers informed on what potential harms they should be aware of. This is especially important in Black and Brown communities that have historically fallen victim to predatory practices by businesses, lenders, debt collectors, and so on.

Access to legal support can help Government agencies in its mission to advance racial equity in our consumer law landscape. For consumer markets to remain fair, all consumers must benefit from equal access to the goods and services provided and also be provided accurate information to make well-informed decisions about their choices. Our legal systems can help to protect consumers who fall victim to predatory legal issues like consumer debt lawsuits or fraud; roadblocks that prevent consumers from enjoying the benefits of a fair market.

Access to legal support is a critical part of the larger oversight ecosystem that includes Federal agencies and the courts to hold these businesses accountable. With a Government whose fundamental goal is protecting American citizens, it needs the help of the courts and attorneys to stop bad actors.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR CORTEZ MASTO FROM BRENDAN DUKE

Q.1. There is currently a tax law fluke that forces consumers who win consumer law cases to pay income taxes on parts of the settlements they never see; specifically, the court-ordered fees that go to attorneys. In fact, the attorneys who receive the funds already pay income taxes on those funds. In 2003–2004, Senator Grassley introduced and Congress passed a provision to protect victims of discrimination. The Internal Revenue Code now excludes awarded legal fees from a plaintiff's taxable income in civil rights suits. The End Double Taxation of Consumer Claims Act (S. 3459) aims to provide this protection for consumer victims who successfully enforce consumer laws.

Should victims of consumer law violations be similarly protected from a tax policy that would force them to pay taxes on funds awarded to their attorneys and they do not receive?

A.1. The proper treatment of attorney's fees is more similar to how they were treated before the 2017 tax law—taxing the attorney's fees once by requiring attorneys to pay taxes on the fees as income but allowing consumers to deduct those fees. Congress should find a way to restore that proper treatment by restoring the deduction for attorney's fees while offsetting the cost of that restoration with revenue increases elsewhere.

Q.2 Why is preserving access to legal support important to ensuring a fair consumer market?

A.2. The courts are a key way we police our consumer markets for fraud, negligence, and other anti-consumer behavior by companies. Maintaining proper financial incentives for consumers to file a law suit when they have been wronged is critical for maintaining the integrity of our consumer markets.

The proper treatment of attorney's fees is more similar to how they were treated before the 2017 tax law—taxing the attorney's fees once by requiring attorneys to pay taxes on the fees as income but allowing consumers to deduct those fees. Congress should find a way to restore that proper treatment while offsetting the cost of that restoration with revenue increases elsewhere.