NATIONAL TAXPAYERS UNION

March 24, 2021

Dear Member of Congress,

According to press reports and comments by senior policymakers, the next major policy undertaking by the Congress is likely to be a comprehensive infrastructure and climate package. Addressing our country's ailing infrastructure and transportation system is an important goal, one that the National Taxpayers Union strongly supports. We believe Congress should look toward commonsense, bipartisan solutions, such as regulatory reforms, new funding mechanisms, and efficient spending to improve our country's transportation systems. As you begin to craft and negotiate a package, please know that NTU plans to be an active partner to enact a comprehensive package that boosts infrastructure development whilst also protecting taxpayers.

While details on such a package have yet to be revealed, including the all-important funding and financing mechanisms, it should should be a priority for the Committee to pass legislation that adheres to a set of commonsense principles, such as: 1) prioritizing private investment; 2) public investment must be accountable and results-driven; 3) regulations have to be sensible and flexible; and 4) revenue discussions must begin from a transparent, user-pays perspective. In addition to raising important public safety concerns, outdated infrastructure hampers the ability for American businesses to remain competitive in a globalized world. A modernized infrastructure and transportation system will ensure that individuals and businesses maximize their growth potential.

However, we have grown increasingly concerned over recent weeks that Congressional Democrats would use the filibuster-proof process of budget reconciliation to enact a package that lacks bipartisan support. Worse yet, the Biden administration is reportedly pursuing an aggressive campaign to drastically hike taxes on businesses and taxpayers. While we appreciate the supposed willingness to mitigate the level of debt for such a package, tax hikes will not make our economic situation better, and would run counter to the president's commitment to economic growth.

Specifically, NTU would be opposed to a package that includes any of the following tax increases:

Increase the Corporate Income Tax Rate. President Biden has zeroed on increasing the corporate income tax rate to 28 percent, a significant increase from the current rate of 21 percent. Before the tax reduction contained in the landmark 2017 tax reform law, the U.S. 35-percent federal corporate tax rate was the second-highest among 37 Organization for Economic Cooperation and Development (OECD) nations, making the U.S. less competitive in attracting and retaining corporate job creators. Now, the U.S. is tied for just the 20th-highest federal corporate tax rate among 37 OECD nations. A 28-percent rate would put the U.S. back in the top five in the OECD, making it harder for American businesses and workers to compete in the post-COVID economic recovery.

Ultimately, higher corporate tax rates are passed down to workers and consumers, either through higher prices, depressed wage growth, or fewer job opportunities. According to the nonpartisan Tax Foundation, a 28 percent corporate income tax rate would destroy 159,000 jobs, reduce GDP growth by 80 basis points, and lower wages by 70 basis points. By raising the corporate tax rate, companies will have less cash available on hand to invest in their workers or new equipment, which as a result hurts workers and commerce.

Impose a Financial Transaction Tax (FTT). The House Transportation Committee Chairman recently proposed legislation to tax financial transactions as a funding mechanism for national priorities. Proponents of FTTs claim the economic impacts will only affect so-called "Wall Street fat cats," but in practice this new tax will make it more expensive for all Americans to invest in the market. Over half of American households are invested in the stock market, either directly or indirectly through contributing to mutual funds, 529 College Savings plans, pension plans, 401(k)s or IRAs. An FTT, according to a recent study, could cost a 401(k) holder up to $65,000 in savings over an account's lifespan and delay retirement by three years.

Raise Income Tax Rates. President Biden has stated on numerous occasions that he would like to repeal portions of that 2017 tax reform law, specifically reverting the top individual income tax rate to 39.6 percent, from 37 percent. Raising income tax rates in the midst of the current uncertain economic climate would also have a significant negative impact on small businesses across the country. Since pass-through entities like S-corporations, sole proprietorships, and LLCs typically file under the individual tax code, they are subject to the individual income tax rate, rather than the corporate income tax rate. As such, any increase to the individual tax rates will divert important resources from job creators to government coffers. These resources would be better used to add new workers, increase wages for existing employees, or make investments in their business.

Institute a Tax on Wealth. In response to recently introduced legislation to create a tax on wealth, Treasury Secretary Yellen is on record stating the Biden administration is exploring whether to back such a proposal. A proposed 3 percent tax on wealth above certain thresholds would bring negative economic consequences. Most taxes, such as income taxes or property taxes, are assessed on just a subset of a taxpayer's wealth. Wealth taxes, on the other hand, target the entirety of an individual's wealth, year after year, which gives them an impact far greater than the nominal rate might suggest. Additionally, a wealth tax would tax non-liquid assets, including investments and ownership stakes in businesses. Moreover, the implementation of a wealth tax would require expansive new IRS rules, the hiring of thousands of IRS agents, and significant constitutional and privacy issues.

Implement a Mark-to-Market Tax. Another harmful reportedly under consideration as an infrastructure funding mechanism is a "Mark-to-Market" tax. This proposal by the Senate Finance Committee Chairman would require investors to pay a tax every year they hold a financial investment. This would be a significant departure from the current tax treatment of assets, which are only taxed after the asset is sold for a profit. Changing the system in this way to tax unrealized capital gains on an annual basis would require a significant investment in Internal Revenue Service enforcement mechanisms to ensure accurate valuation and tax compliance. It would also likely have a negative impact on investing, thereby depressing stock trading.

Some recent proposals from the Biden administration and from Congressional Democrats are poorly designed as a way to mitigate deficit spending for a large scale infrastructure deal. Instead of higher tax burdens - which are the last thing the economy needs - Congress should reduce outlays elsewhere in the budget to fund these national priorities. This approach will better serve American businesses and potentially make better use of existing portions of the budget.

Addressing the infrastructure needs of our nation should be a major priority, and one that could be bipartisan. While we would oppose any infrastructure package that contains any of the aforementioned tax increases, we do support other targeted, user-fee models as a way to generate a stable revenue stream for the long-term. Additionally, Congress must include regulatory reforms to reduce the private sector costs associated with the planning, permitting, and construction of federally-assisted infrastructure projects. We hope to work with you on this critical matter to achieve outcomes that benefit taxpayers, your constituents, and others who rely on this infrastructure daily.

Sincerely,

Thomas Aiello
Director of Federal Affairs