NATIONAL TAXPAYERS UNION

October 6, 2021

The Honorable Don Beyer
Chair, Joint Economic Committee
G-01 Dirksen Senate Office Building
Washington, D.C. 20510

The Honorable Mike Lee
Ranking Member, Joint Economic Committee
G-01 Dirksen Senate Office Building
Washington, D.C. 20510

The Honorable Martin Heinrich
Vice Chair, Joint Economic Committee
G-01 Dirksen Senate Office Building
Washington, D.C. 20510

The Honorable David Schweikert
Senior House Republican Member, Joint Economic Committee
G-01 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Chair Beyer, Vice Chair Heinrich, Ranking Member Lee, Representative Schweikert, and Members of the Joint Economic Committee:

On behalf of National Taxpayers Union (NTU), the nation's oldest taxpayer advocacy organization, I write to you with some of NTU's views and considerations for the Committee's October 6 hearing, "Building Back Better: Raising Revenue to Invest in Shared Prosperity."[1] While we appreciate that the Committee is holding a hearing on the impacts of proposed tax increases in President Biden's Build Back Better agenda, we wish to express our strong conviction that tax hikes that fall in part on low-income and middle-class households will not help lawmakers' stated goal of "shared prosperity." Instead, lawmakers should consider pro-growth adjustments to the tax code that create jobs, increase wages, and grow the economy.

Many Current Tax Proposals Would Harm Low-Income and Middle-Class Workers

While the components and details of the Build Back Better tax agenda are still very much in flux, an existing set of proposals advanced by the House Committee on Ways and Means do not indicate that many households would, on net, share in the government's significant new collection of tax revenue by 2027. Analysis from the Joint Committee on Taxation (JCT) indicates that, in 2027, households making $30,000 per year or more will see a net tax increase from various provisions of the Ways and Means legislation.[2] While the difference in taxes paid for some low-income households may be nominal, households making as little as $75,000 per year could see tax increases totaling hundreds of dollars per year on average, according to NTU analysis of JCT's work.[3]

[1] Joint Economic Committee (JEC). "Building Back Better: Raising Revenue to Invest in Shared Prosperity." October 6, 2021. Retrieved from: https://www.jec.senate.gov/public/index.cfm/hearings-calendar?id=0A62ACFC-7B45-406F-A53A-EC990F96A3EC (Accessed October 6, 2021.)

[2] Joint Committee on Taxation (JCT). "Distributional Effects Of The Estimated Budgetary Effects Of Subtitle B And An Amendment In The Nature Of A Substitute To The Revenue Provisions Of Subtitles F, G, H, And I Of The Budget Reconciliation Legislative Recommendations By The Committee On Ways And Means." September 14, 2021. Retrieved from: https://www.jct.gov/publications/2021/jcx-44-21/ (Accessed October 6, 2021.)

[3] Lautz, Andrew. "Official Analysis Shows Ways and Means Proposals Will Increase Taxes on Middle Class by 2027." National Taxpayers Union (NTU), September 15, 2021. Retrieved from:

Part of this, of course, is due to timing choices policymakers are contemplating for the Build Back Better agenda. Perhaps the most significant tax cut in the Ways and Means legislation is the extension of the expanded Child Tax Credit (CTC). Just four years ago, the CTC was a $1,000, partially refundable credit.[4] Today, lawmakers are contemplating a three- or four-year extension of a greatly expanded CTC that is $3,000 per child (or $3,600 per child under 6) and paid out to parents monthly.[5] This sets up an undesirable policy and political cliff that masks the true cost of CTC expansion for taxpayers by as much as **$1.2 trillion**[6] and puts the federal government on the path to spend far more on the Build Back Better agenda than it is taking in.

As NTU has written, lawmakers ***could*** -- without increasing deficits -- extend the expanded CTC for a longer period of time, and ensure it is a true anti-poverty benefit, by limiting the CTC to parents that truly need the support.[7] In 2018, more than 30 percent ($35.4 billion out $117.7 billion) of CTC dollars went to households making six figures or more.[8] We see no reason for this to continue, nor for an expanded CTC to overlap with complex, ineffective, or regressive tax and spending programs that could be eliminated to help pay for extending the CTC.[9]

Instead, lawmakers are contemplating a dizzying array of business tax increases that economic experts agree will fall in part on low-income and middle-class families.[10] Our analysis of JCT's report on corporate income tax rate increases alone indicates that a 28-percent corporate rate could raise taxes on households making less than $100,000 per year by **$100 billion** from 2022-2031.[11] That analysis does not even include the potential incidence of the following tax hikes, all of which may fall in significant part on low-income and middle-class households:

- Changes to U.S. taxation of U.S.-based multinational companies' income earned abroad (Global Intangible Low-Taxed Income, or GILTI) and income derived from exports (Foreign-Derived Intangible Income, or FDII) that, on net, will increase taxes on U.S. companies by **$232 billion** over 10 years;[12]

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https://www.ntu.org/publications/detail/official-analysis-shows-ways-and-means-proposals-will-increase-taxes-on-middle-class-by-2027

[4] Crandall-Hollick, Margot L. "The Child Tax Credit: How It Works and Who Receives It." Congressional Research Service (CRS), January 12, 2021. Retrieved from: https://crsreports.congress.gov/product/pdf/R/R41873 (Accessed October 6, 2021.)

[5] House Committee on Ways and Means. "Section by Section Subtitle F, G, H, & J." September 2021. Retrieved from: https://waysandmeans.house.gov/sites/democrats.waysandmeans.house.gov/files/documents/Section%20by%20Section%20Subtitle%20F%2C%20G%2C%20H%2C%20%26%20J.pdf#page=30 (Accessed October 6, 2021.)

[6] Lautz, Andrew. "Timing Tricks May Make Build Back Better Appear Less Expensive Than It Is." NTU, October 5, 2021. Retrieved from: https://www.ntu.org/publications/detail/timing-tricks-may-make-build-back-better-appear-less-expensive-than-it-is

[7] Lautz, Andrew. "How to Make the Child Tax Credit a True Anti-Poverty Measure, While Protecting Taxpayers." NTU, July 16, 2021. Retrieved from: https://www.ntu.org/publications/detail/how-to-make-the-child-tax-credit-a-true-anti-poverty-measure-while-protecting-taxpayers

[8] Crandall-Hollick, Margot L. "The Child Tax Credit: How It Works and Who Receives It." CRS, January 12, 2021. Retrieved from: https://crsreports.congress.gov/product/pdf/R/R41873#page=13 (Accessed October 6, 2021.)

[9] For example, see: Senator Mitt Romney. "The Family Security Act." Retrieved from: https://www.romney.senate.gov/sites/default/files/2021-02/family%20security%20act_one%20pager.pdf (Accessed October 6, 2021.)

[10] Barthold, Thomas A. "Revenue Estimates and Distributional Analyses." JCT, August 3, 2021. Retrieved from: https://www.finance.senate.gov/imo/media/doc/jct_analysis_on_corporate_tax_increase.pdf (Accessed October 6, 2021.)

[11] Lautz, Andrew. "Biden's Corporate Tax Increase Could Be a $100 Billion Tax Hike on Taxpayers Making Less Than $100K." NTU, August 12, 2021. Retrieved from: https://www.ntu.org/publications/detail/bidens-corporate-tax-increase-could-be-a-100-billion-tax-hike-on-taxpayers-making-less-than-100k

[12] JCT. "Estimated Budgetary Effects Of An Amendment In The Nature Of A Substitute To The Revenue Provisions Of Subtitles F, G, H, I, And J Of The Budget Reconciliation Legislative Recommendations Relating To Infrastructure Financing And Community Development, Green Energy, Social Safety Net, Responsibly Funding Our Priorities, And Drug Pricing, Scheduled For Markup By

- Significant increases to excise taxes on tobacco products, along with new taxes on vapor products, that will raise taxes by **$96.8 billion** over a decade[13] and fall disproportionately hard on low-income consumers of tobacco or vapor products;[14]
- A proposed minimum tax on corporations' "book" profits -- which could undercut bipartisan provisions of the tax code like the treatment of losses, accelerated depreciation for capital investments, and business tax credits -- that could raise taxes by anywhere from **$148 billion**[15] to **$700 billion**[16] over 10 years, depending on how designed; and
- The misguided effort to repeal cost recovery provisions afforded to U.S. energy companies, such as expensing for intangible drilling costs (IDCs), which are uniquely important to independent energy producers and would disproportionately affect those companies and workers if repealed.[17]

All of the above proposed tax increases would, in effect, raise taxes on low- and middle-income households. They could also threaten small businesses that organize as C corporations[18] and businesses that take net operating losses to invest in their workers and growth.[19]

More puzzling yet is that some lawmakers are pushing for an $85 billion per year[20] suspension of the $10,000 cap on the state and local tax (SALT) deduction, a highly regressive tax benefit. The Tax Policy Center (TPC) estimates that nearly 90 percent of the benefit from uncapping SALT would flow to the top 10 percent of households in 2022.[21]

We do not believe that trillions of dollars in tax increases -- hundreds of billions of dollars of which may fall on low- and middle-class households -- and potentially hundreds of billions of dollars in tax cuts for the top 10 percent under the SALT deduction makes for "shared prosperity." Instead, we encourage you to consider a few pro-growth changes to the tax code that would lift wages, create jobs, and grow the U.S. economy.

The Committee On Ways And Means On September 14, 2021." September 13, 2021. Retrieved from: https://www.jct.gov/publications/2021/jcx-42-21/ (Accessed October 6, 2021.)

[13] *Ibid*.

[14] Boesen, Ulrik. "House Tobacco Proposals Defy Biden's Tax Pledge and Undermine Harm Reduction Efforts." Tax Foundation, September 13, 2021. Retrieved from: https://taxfoundation.org/house-tobacco-proposal-bidens-tax-pledge/ (Accessed October 6, 2021.)

[15] Department of the Treasury. "General Explanations of the Administration's Fiscal Year 2022 Revenue Proposals." May 2021. Retrieved from: https://home.treasury.gov/system/files/131/General-Explanations-FY2022.pdf#page=110 (Accessed October 6, 2021.)

[16] Senator Elizabeth Warren. "Senators Warren and King, Representative Beyer Announce Legislation To Prevent The Biggest And Most Profitable Corporations From Paying Nothing In Federal Taxes." August 9, 2021. Retrieved from: https://www.warren.senate.gov/newsroom/press-releases/senators-warren-and-king-representative-beyer-announce-legislation-to-prevent-the-biggest-and-most-profitable-corporations-from-paying-nothing-in-federal-taxes (Accessed October 6, 2021.)

[17] Lautz, Andrew; and Aiello, Thomas. "What's the Deal With Energy Taxes?" NTU, September 20, 2021. Retrieved from: https://www.ntu.org/publications/detail/whats-the-deal-with-energy-taxes

[18] In 2015, over half of C corporations had fewer than five employees, while 99 percent of C corporations had fewer than 500 employees. See: Keightley, Mark P. and Hughes, Joseph S. "Pass-Throughs, Corporations, and Small Businesses: A Look at Firm Size." CRS, March 15, 2018. Retrieved from: https://sgp.fas.org/crs/misc/R44086.pdf#page=7 (Accessed October 6, 2021.)

[19] Keightley, Mark P. "The Tax Treatment and Economics of Net Operating Losses." CRS, October 19, 2020. Retrieved from: https://sgp.fas.org/crs/misc/R46377.pdf (Accessed October 6, 2021.)

[20] Committee for a Responsible Federal Budget. "SALT Cap Repeal Would Be a Costly Mistake." September 10, 2021. Retrieved from: https://www.crfb.org/blogs/salt-cap-repeal-would-be-a-costly-mistake (Accessed October 6, 2021.)

[21] Tax Policy Center. "T21-0059 – Repeal of $10,000 Limit on Deductible State and Local Taxes, by Expanded Cash Income Percentile, 2022." April 22, 2021. Retrieved from: https://www.taxpolicycenter.org/model-estimates/limit-deductible-state-and-local-taxes-salt-april-2021/t21-0059-repeal-10000-limit (Accessed October 6, 2021.)

Pro-Growth Alternatives Could Grow Jobs, Wages, and Economy

The Tax Foundation has recently modeled dozens of tax policy options and estimates the impact each option would have (in isolation) on gross domestic product (GDP), job creation, wage growth, and federal government revenues. We point to three options that are both strongly pro-growth and feasible from a revenue perspective (given the need for policymakers to address America's long-term deficit and debt challenges):

- **Make full and immediate expensing for short-lived assets permanent**: The Tax Cuts and Jobs Act (TCJA) allowed U.S. companies to fully and immediately recover (expense) the costs of capital investments in short-lived assets, such as machinery and equipment. Unfortunately, this provision begins to phase down in 2023. The Accelerate Long-Term Investment Growth Now (ALIGN) Act, from Sen. Pat Toomey (R-PA) and Rep. Jodey Arrington (R-TX), would make these full and immediate expensing provisions permanent.[22] Tax Foundation estimates that this policy would grow GDP 0.5 percent, grow wages 0.4 percent, and create 86,000 full-time equivalent (FTE) jobs.[23]
- **Permanently allow full and immediate expensing for research and development (R&D) costs**: TCJA also scheduled the cancelation of full and immediate expensing for companies' R&D investments starting in 2022, moving instead to five-year amortization. This impending change will increase the cost of R&D for U.S. businesses, making them less likely to pursue the bold investments needed to create economic and societal innovations for years to come. Bipartisan legislation from Reps. John Larson (D-CT) and Ron Estes (R-KS) in the House,[24] and Sens. Maggie Hassan (D-NH) and Todd Young (R-IN) in the Senate,[25] would permanently allow for R&D expensing. Tax Foundation estimates that this policy would gross GDP 0.1 percent, grow wages 0.1 percent, and create 20,000 FTE jobs.[26]
- **Move towards full and immediate expensing for buildings and structures**: NTU also believes that U.S. businesses should be able to immediately recover the costs of investing in structures, like factories, that will require and enable them to grow and hire more workers. That said, we are sensitive to the current debt and deficit load of the U.S. government and acknowledge that full and immediate expensing for structures would reduce revenues by hundreds of billions of dollars over a 10-year window. Tax Foundation has proposed an innovative neutral cost recovery system (NCRS) that would carry many of the economic benefits of full and immediate expensing for structures without the significant revenue hit to U.S. Treasury coffers. The group estimates that implementing NCRS would grow GDP 1.2 percent, grow wages 1.0 percent, and create 231,000 FTE jobs.[27]

Each of these options would create shared prosperity by creating jobs and growing wages. We also hope lawmakers consider significantly limiting new and expanded programs, like the CTC, so that they target Americans who truly need taxpayer-funded financial assistance. This would have the added benefit of reducing the costs of the Build Back Better agenda, which currently numbers in the trillions of dollars.

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[22] Arnold, Brandon; and Lautz, Andrew. "ALIGN Act Would Accelerate America's Economic Recovery." NTU, April 16, 2021. Retrieved from: https://www.ntu.org/publications/detail/align-act-would-accelerate-americas-economic-recovery

[23] Tax Foundation. "Options for Reforming America's Tax Code 2.0." April 19, 2021. Retrieved from: https://taxfoundation.org/tax-reform-options/?option=7 (Accessed October 6, 2021.)

[24] Lautz, Andrew. "New Bipartisan House Bill Would Boost R&D Confidence in U.S." NTU, February 25, 2021. Retrieved from: https://www.ntu.org/publications/detail/new-bipartisan-house-bill-would-boost-rd-confidence-in-us

[25] Lautz, Andrew. "Bipartisan Senate Bill Would Boost R&D Investments in U.S." NTU, March 17, 2021. Retrieved from: https://www.ntu.org/publications/detail/bipartisan-senate-bill-would-boost-rd-investments-in-us

[26] Tax Foundation. "Options for Reforming America's Tax Code 2.0." April 19, 2021. Retrieved from: https://taxfoundation.org/tax-reform-options/?option=9 (Accessed October 6, 2021.)

[27] *Ibid*. Retrieved from: https://taxfoundation.org/tax-reform-options/?option=8

In short, regardless of the intention of policymakers, raising taxes by trillions of dollars is not a way to create "shared prosperity" or build back better. Even if policymakers levy new taxes on politically palatable targets, such as large U.S. corporations, the economic incidence of these taxes will no doubt fall in significant part on the very households policymakers are trying to help.

A better way forward would be to reduce the size and scope of the Build Back Better agenda, target programs and initiatives at Americans who truly need the help, and reject tax increases that will affect Americans across the income spectrum.

Should you have any questions I am at your service.

Sincerely,

Andrew Lautz
Director of Federal Policy

CC: The Honorable David Trone
The Honorable Joyce Beatty
The Honorable Mark Pocan
The Honorable Scott Peters
The Honorable Sharice Davids
The Honorable Amy Klobuchar
The Honorable Maggie Hassan
The Honorable Mark Kelly
The Honorable Reverend Raphael Warnock
The Honorable Tom Cotton
The Honorable Rob Portman
The Honorable Bill Cassidy
The Honorable Ted Cruz
The Honorable Jaime Herrera Beutler
The Honorable Jodey Arrington
The Honorable Ron Estes