June 2, 2025

Open Letter on Tax Policy Changes to House-Passed Reconciliation Bill

Dear Senator:

I write to offer the views of National Taxpayers Union (NTU) as the Senate undertakes consideration of H.R. 1, the One Big Beautiful Bill Act. While NTU strongly supports the legislation passed by the House, we believe additional refinements to the tax section could improve the bill and deliver more taxpayer-friendly achievements. To that end, we encourage you to prioritize the following goals: 1) strengthen pro-growth provisions; 2) simplify the code; and 3) improve fiscal discipline. We believe this formula will ensure we maximize the opportunity to create the strongest economy under President Trump.

After a great deal of constructive consultation and deliberation, the House of Representatives recently passed H.R. 1. Thanks to the efforts of House Leadership, fiscal hawks, and the House Freedom Caucus, the OBBBA that came to the House floor earlier this month contained much stronger budget savings for taxpayers than its initial drafts. These changes included stricter Medicaid work requirements and an accelerated phaseout of Inflation Reduction Act green energy tax credits.

Now that the bill has reached the Senate, NTU urges the following improvements to the House legislation:

Corporate Income Tax Rate. One of the main accomplishments of the Tax Cuts and Jobs Act (TCJA) of 2017 was to bolster our nation's economic competitiveness through the largest reduction to the corporate income tax rate in decades. Studies show that the reduction from 35% to 21% greatly impacted economic growth, investment, and job creation. Congress should look to build on this success by further reducing the rate by as much as possible, and, at the very least, not raise it above the current level. This is one of the most powerful ways to turbocharge the economy. Such reductions should be made while simultaneously reducing or eliminating costly tax provisions that do not promote growth or provide broad economic benefits.

Full, Immediate, and Permanent Expensing. We have previously described full business expensing, sometimes called 100% bonus depreciation, as "the sleeper hit of TCJA when it was enacted." Full expensing in one stroke eliminated much of the tax bias against investment and job creation. Under previous depreciation rules, a business could only deduct a fraction of its actual investment outlays in a given year. If a business bought a $100,000 piece of equipment, for instance, it could only deduct $12,500 a year; it would then pay tax on the remaining $87,500 as phantom "profit." As the Tax Foundation writes, "full expensing fixes a bias in the corporate tax." Full expensing became effective at the end of 2017 until the end of 2022, when it began phasing out under TCJA's temporary provisions. It is interesting to note that U.S. private net domestic investment also began rising in 2017 and (aside from a pandemic drop) hit a peak in 2022 before declining. The House version of OBBBA includes a provision to bring back full expensing, but the measure sunsets after five years. Since this sunset hurts potential economic growth, we recommend that the Senate find a way to make this measure permanent, which would yield real GDP growth within the 10 year budget window.

Research and Development Tax Deduction. For over six decades prior to the TCJA, companies could deduct R&D expenses in the year that they are incurred, freeing up capital for the business to use elsewhere. The TCJA changed this to require amortization of R&D expenses over five years, starting in 2022. Amortizing R&D over time instead of fully expensing the cost when it is incurred raises the cost of innovation, which both hurts the U.S. economy and makes American research-intensive industries less competitive internationally. While the House version of OBBBA brings back full immediate deduction of domestic research expenses, the measure sunsets after five years to limit costs. The benefits to the taxpayer in terms of likely economic growth both within and outside the 10 year window outweigh the limited revenue impact of making this measure permanent.

State and Local Tax Deduction. TCJA imposed a new $10,000 cap on SALT deduction claims in an effort to make the tax code simpler and fairer. SALT greatly benefits those at the very top of the income spectrum and is concentrated in high tax, high spending states such as New York, California, and New Jersey. Unfortunately, OBBBA backtracks on good tax policy by quadrupling the deduction to $40,000, which is estimated to give a $321 billion handout to only a few percent of taxpayers. The deduction should be reduced, or better yet, eliminated entirely, and be used to deliver more broadbased tax relief to all filers.

Top Income Tax Rate. TCJA lowered income tax rates across the board, including dropping the top marginal rate from 39.6% to 37%. The reduction has kept more money in the pockets of small business owners who often pay tax via the individual side of the code rather than the corporate. Efforts to raise the rate will ultimately harm small businesses that are the lifeblood of the American economy and will further demonize the successful. Lawmakers should continue to hold the line against higher taxes and support policies that lead to lower tax burdens for all.

Inflation Reduction Act Tax Credits. The House bill includes the repeal of the market-distorting green energy tax credits from the Inflation Reduction Act. Tax credits in the law were geared toward clean and renewable electricity, fuel, residential energy, and vehicles to incentivize the transition of the power grid and consumer preferences away from traditional fuels like coal, gas, and oil. It's estimated that the House-passed bill's clean energy rollbacks will save hundreds of billions of taxpayer dollars. It is important for lawmakers to keep the phased elimination of these tax credits in the final bill.

Corporate Book Tax. The IRA imposed a massive $313 billion tax on public companies through a new 15% alternative minimum tax on "book" income whose complexity has made it nearly unadministrable. The Joint Committee on Taxation estimates the manufacturing sector bears 50% of the total tax burden, which directly undermines economic growth in critical parts of our economy. While the House-passed bill does not include a repeal of this tax, we encourage the Senate to eliminate it in the final bill.

Stock Buyback Tax. The IRA included a 1% excise tax on corporate stock repurchases, effective January 1, 2023, which is estimated to raise about $7.4 billion annually. This tax discourages publicly traded companies from allocating their capital in the most efficient way possible after investments, hiring, or employee raises. By taxing share repurchases, it also harms investors, retirees, and pension funds who would benefit from additional buybacks rather than companies having to pay more tax to the Treasury. The repeal of this tax was not included in the House-passed bill, but we encourage the Senate to include it in the final bill.

International Provisions. We are well aware of the time and capacity constraints the Senate faces in modifying or adding provisions affecting taxpayers with international income situations. For this reason, we believe the Senate could focus on a few key improvements. While we support the House bill's approach to preventing an increase in the rates prescribed under GILTI, BEAT, and FDII, we would urge the Senate to modify BEAT so that it minimizes situations such as falling upon payments to high-tax countries, or situations where CFC payments are already being taxed through GILTI/Subpart F. For reference, these and other types of specific BEAT modifications, which are designed to correct obvious flaws in that portion of international tax policy, are proposed in larger separate legislation, S. 1605 sponsored by Sen. Tillis. Finally, the Senate could consider including legislation from Rep. LaHood (H.R. 10468, 118th Congress) creating elective residence-based taxation for Americans abroad. All of the limited proposals NTU discusses here would have a relatively modest revenue impact.

Tax on Private Foundations. The House-passed bill increases excise tax rates on foundations with endowments over $50 million. The rate increases with the size of the endowment, with the largest rate of 10% of income on endowment assets over $5 billion. Without significant additional refinement, this could harm the valuable services and education that foundations provide to the nation. NTU urges removal of this provision.

Inflation Indexing. While much of the tax code is already indexed for inflation, there is more work to be done in this space. The House legislation wisely indexes the size of the Child Tax Credit, beginning in 2028. To better protect taxpayers, the Senate should follow suit and look for opportunities to go further, for instance, by indexing capital gains.

Provisions That Add Complexity. We believe that the revenue dedicated to the "no tax on tips," "no tax on overtime," and "no tax on auto loan interest" measures will only benefit relatively narrow portions of the tax filing population. Instead, this revenue should be used to further increase the standard deduction, thus providing across-the-board tax relief to all workers regardless of their line of work, or to permanently increase the child tax credit. The House-passed provisions will also make the code more complex and be counter to what was accomplished in TCJA.

As NTU's House Vote Alert noted, we strongly support H.R. 1 as written, but there remains plenty of room for pro-taxpayer improvements. We hope the Senate will find this guidance on tax policy useful in the coming weeks as you refine this important legislation. NTU looks forward to continuing our work with senators as OBBBA nears floor action. Thank you for your consideration.

Sincerely,

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