Joint Economic Committee on 2025 Tax Policy Debate

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Rep. David Schweikert (R-Ariz.)

Get going I need to extend everyone. I just got my voice back like yesterday so if at some point you hear me groveling at you. It's um I'm a fairly severe asthmatic and get these weird chest colds so I'm not ignoring you. I'm just preserving what little voice should I also be worried last week I had no voice and my wife said it was one of our best weeks of our marriage.

Somehow I thought that'd be funnier.

Rep. David Schweikert (R-Ariz.)

All right, let's have at it. This hearing will come to order, I would like to welcome everyone to today's Joint Economic Committee hearing, titled building on the success of TCJA, the 2025 tax policy debate, today's hearing will begin with five minute opening statements from myself Senator Heinrich, or Senator buyer or buyer, whoever shows up. And then we'll proceed to questions alternating between parties. As members arrive, we will have a number of members who are going to be coming and going, because we've sort of sandwich this into a day of chaos.

I'd now like to introduce our two distinguished Republican witnesses. And going a little off script person who probably at least in my time in Congress had more effect on my life, because of his willingness to sometimes listen to the intellectual chaos I was trying to bring to him and the previous Chairman of the Ways and Means Committee, but also someone who also sat on the Joint Economic Committee for how many years? Quite a bit. And then, of course, Dr. Holtz-Eakin, who has been an incredible asset, I'm way off script to someone like myself when I had ideas, and his willingness to explain to me why it doesn't work, has always been very, very helpful to me intellectually, but also the willingness to take us down rabbit holes, of trying to be brutally intellectually honest, of why some things work and don't work and their effects into society.

I was gonna let Congressman buyer, why don't we we're gonna play a little bit of a game here, just so I'm being respectful. We're going to start with opening statement, our opening statement. And then if this buyer shows up, I'll have them introduce the Democrat witnesses. Not you're stuck with me.

Chairman Brady, five minutes. Great. Thank

Kevin Brady

You, Vice Chair, distinguished members of the Joint Economic Committee, it's nice to be back. And it's really honor to participate in this hearing. And I know from sitting on your side how important role JC plays. This is the counterweight to the President's Council of Economic Advisors.

And the role you play on economic policy is really key. So just so you know, in my post Congress life, I serve as the strategic advisor to the Alliance for competitive taxation Act, which was formed to in 2013, to form or to promote US jobs investment, sustain rising incomes for American families, their seeking voice is globally competitive taxes are one where American companies can compete when anywhere in the world, including here at home, one that makes the US the premier destination for new investment and innovation in manufacturing, and promotes economic growth. These are the tax directors from 49 of America's leading businesses that employ more than 3 million workers. I also served as a senior consultant with the global law firm Aiken, and as a volunteer, I'm pleased to serve on the board of the American Action Forum.

And as well as the Tax Foundation, I'm not a registered lobbyist. My views are my own today. So why did we do tax reform? As you may remember, tax reform became urgent, because America's code was horribly outdated, the highest corporate rate nearly in the world, in an international system so competitive and as a relic of the Kennedy administration.

So as a result of for a decade before tax reform, America's economic growth was unusually slow, averaging maybe one and a half percent a year. paychecks were essentially flat for a decade. And on average about every other month, new US company was moving its headquarters overseas, often taking its manufacturing research investment in intellectual property with it, which left 1000s of Americans in their communities behind all because we had an obsolete tax code. Some economists tried to convince Americans that that was the best we could do.

That was the new normal. We knew better and through policy work over eight years, through over 40 congressional hearings. Bipartisan working groups, comprehensive drafts, as Ways and Means Committee pursued the reform of America's outdated tax code in preparation for President willing to lead on this challenging issue. In 2017.

If you may remember, and several of you were here. We sought to create a tax code built for growth, growth of jobs, paychecks in the US economy. We wanted to leapfrog America to the most competitive economy on the planet. Position s is that premier destination for innovation and investment in the insurer competitiveness both for workers in For our businesses, the tax cuts and Jobs Act led by President and signed by President Trump achieved his goals.

The Trump tax cuts were a boon for American workers. It spurred business investment in innovation technology, software, equipment facilities, restored America's corporate international competitiveness. And by dropping the rates from 20 to 21%. From 35.

Congress set off an economic boom, coupled with the modern international code, that TCJA's rate cuts through more investment research and property back to the United States. It stimulate us investment by an average of 20% r&d increased, many companies repatriated brought back their intellectual property to America, more importantly, developed and kept it here in the first place. So if you look at within America's companies that compete, here and abroad, if you look at jobs, capital expenditures, total sales and r&d spending, all grew faster in the US than in than in their overseas markets. In other words, they were investing more in all of that, because the tax code allowed it and encouraged it.

And that increased activity here at home was worth more than $11 billion and 1 million jobs. To make long story short, the reforms that we made are not permanent. They will take concerted effort by Congress to both retain those pro growth incentives, but find ways to improve them. as well.

We knew the moment we signed tax cuts and Jobs Act, there was plenty room for improvement. But I think the key thing is locking in the competitiveness and growth and keeping the rates low in such a way that you drive workers paychecks up, and I'll tell you in three years after TCJ became law, the 9% average 9% A real wage growth for Americans is the largest wage growth. Since we began recording data at the end of the day. My advice is to not simply extend it or make permanent, but look for ways to build on that growth and prosperity.

Thank you, Mr. Vice Chairman.

Douglas Holtz-Eakin

I think that's unwise. Thank you, Mr. Vice Chairman, Carson, Byard members of the Committee, it's a pleasure to be here today and appreciate the opportunity to weigh in on important tax policy issues you face in 2025. To my eye, America has two preeminent economic problems. It has a growth problem.

And that growth problem, I summarize my testimony by pointing out that in the 20th century, GDP per capita, a crude measure of the standard of living income per person grew at an average annual rate of 2.3%. And at that pace, the standard of living doubles every 30 years, roughly one working career. In the 21st century, that growth rate has slowed to 1.4%. And at that pace, the standard of living doubles every 51 years.

And all of us have seen evidence in polling and other sources of the discontent in America about access to the same opportunities that someone's parents had and just don't have the same chances. I think that growth problems at the root of that discontent is something that should be a focus of policy for Congress and the administration. The federal government has a debt problem right now, that is roughly 100% of GDP $36 trillion. It is on a trajectory that will send it ever northward reaching something like 122% of GDP in 2034.

And Continuing north, that is literally unsustainable, and something that Congress must grapple with in its deliberations so that the this debate takes place in that context. Second point that I'd like to make is that tcja has a proven track record of addressing the growth from I'll echo the things that the Chairman said in his opening remarks. But we know that we got an enormous acceleration in investment in the United States relocation of intellectual property into the United States. Choices of headquarters no longer being outside United States, but in the United States, we have not lost a single headquarters since the passage of the 2017 Act.

It spurred an enormous increase in economic growth in the US and the worst thing we could do would be to let it sunset and do a u turn on a very effective tax reform. And the right thing to do is to build on that tax reform there are things that one can do better and improve on the quality of the growth incentives. Some simple ones would be to make all equipment investment fully expensed like all r&d Fully expensed, which you'd like to have is a situation where if you incur a cost to improve the productivity of your operation, you get to fully expense it. And then however you improve your productivity is on a level tax playing field, you buy some equipment, it's the same as training your workers, it's the same as investing in innovation.

You want the tax code out of those kinds of decisions. Those are things that the Congress can do next year, there'll be big improvements. But I think the one that really focus on is to focus on pass through taxation. It is now the case that more than one half of all business income is taxed as individual income tax returns as passed through income.

For that reason, all of the things typically thought of as individual rate considerations are business tax issues, and getting a combined corporate and pass through regime that efficiency, efficiently allocates capital across sectors to store see, you can economic decisions as little as possible, let people run their businesses for business purposes. That should be a big objective. And what really stands out to me in the 17 Act is that an act that produced an enormous amount of simplification also contain the greatest complication, which is the second 199, a Astor regime. I'm not here to lobby for a particular outcome, I put one in my written testimony that is so simple, it's ridiculous.

I'm just pointing out that there are lots of ways to do it. And that we can do better on that front, I'd encourage some attention on that. The final point, I want to make this just where does debt enter and all of this, it's not like it's not 2017 anymore, we have a deficit of 6.3% of GDP. For an economy that's at full employment, not a war, there is no reason for deficits to be this large, they are a an active threat to the capacity of this economy to grow and deliver on the promise of a higher standard of living.

So if you think about the tcja decisions, think growth, but as a starting point, don't make the problem worse. So one way to think about it is you could extend tcja. And that will keep current policies in place. And anything you did in addition to that, above or below, you should offset.

And that'll be a current policy baseline, with a deficit neutral reform around it. That's that, to me would be the minimum that you should aim for the gold standard would be to do a deficit neutral reform from the current law baseline, which would do two things, it would allow you to make some progress on the fiscal problem, which is real, and won't be solved with taxes as long as you have to deal with the spending part. But it would also allow you to make the tax policy permanent, and thus much more effective. And so I appreciate the chance to be here today to discuss these issues and look forward to your questions.

Rep. Don Beyer (D-Va.)

Mr. Chairman, thank you very much. I'd love to introduce Ms. Jacoby, who is the Deputy Director of federal tax policy at the Center for Budget and Policy Priorities, and a UPenn Law School graduate and MPP at American University. And we're delighted to have you with us, so the floor is yours.

Samantha Jacoby

Thank you, Representative buyer Vice Chairman Schweikert and distinguished members of the Committee. Thanks for the opportunity to testify today. I'm Samantha Jacoby, Deputy Director of federal tax policy at the Center on Budget and Policy Priorities. Today, I will focus on three points.

First tax cuts in the last 25 years gave large benefits to households in the top 1% and corporations. These tax cuts have largely failed to trickle down to workers and families. Second, these large tax cuts caused significant federal revenue and added trillions to the national debt, increasing economic risks. Extending the Trump tax cuts that expire next year would further expand benefits for the wealthy while adding considerably to the deficit.

More revenue is needed to make our commitments to seniors to address future challenges and to improve our fiscal outlook. And third, instead of doubling down on failed trickle down tax cuts, policymakers should prioritize investments like the child tax credit that would yield short and long term benefits to people, communities and the economy as a whole. The 2017 Trump tax cut delivered a $60,000 annual tax cut to households in the top 1% and a $250,000 annual tax cut to the top 1/10 of 1%. This tilt to the top is largely because of a few costly provisions.

The dramatic cut in the corporate tax rate down to 21% Mostly benefits wealthy shareholders, despite claims from the Trump administration that it would boost household incomes by $4,000 JCT and Federal Reserve economist found that workers in the bottom 90th percentile saw no change in earnings from the corporate rate cut and who did benefit executives and highly paid for managers. Similarly, the special deduction for pasture businesses, including many real estate funds, financial firms and oil and gas companies, for example, gives millionaires more than half the benefit at a cost of $70 billion A year. The pass through deduction has not boosted wages investment or broader economic activity. But it has created opportunities for high income business owners and their tax advisers to game the deduction through both tax avoidance and illegal tax evasion.

Continuing on this path by extending the expiring Trump tax cuts would be irresponsible, it would deliver a $48,000 annual tax cut to households in the top 1%, but only about $500 For the average household making less than $100,000. And imposing broad based tariffs as an offset would double down on the 2017 laws. regressivity increased taxes increasing taxes on low and moderate income families, raising the cost of living for families and posing significant short and long term economic risks. Together, the bush and Trump tax cuts have eroded our revenue base undermined our ability to finance high value investments and driven up deficits and debt increasing future economic risks.

Without these tax cuts, the deficit would be half its current size, and the debt ratio would be much lower. continued growth in the debt ratio poses potential future risks to the economy and fiscal policy. interest costs are higher now than in the 1990s and are expected to keep growing. Making the Trump tax cuts permanent would cost $4 trillion over 10 years and adding further business tax breaks like expensing for equipment, and cutting taxes on multinationals foreign income would add another trillion dollars to the cost.

These tax cuts don't pay for themselves. CBO projects that extending the Trump tax cuts would raise debt by more than 30% of GDP over the next 30 years. The country needs more revenue, not less. And those new revenues should focus on those who have gained the most over the last four decades.

Since the 80s. Incomes among the top 1% of households grew three times as fast as that a middle income families. Instead of doubling down on failed trickle down tax cuts, there are opportunities to make investments that make the economy work for everyone. Child poverty in the US is higher than in other wealthy countries due to our weaker support for families with kids.

Investing in kids through policies like the child tax credit has long term payoffs for the entire country. Infants and families with lower incomes, who receive more support from child related tax benefits go on to have higher test scores, higher high school graduation rates and higher earnings into young adulthood. All of that supports a stronger economy. And policies to support workers can also yield significant benefits to communities and the economy as a full 6 million workers in low wage jobs are taxed into poverty every year or deeper into poverty.

Expanding the earned income tax credit for those workers can help them afford rent and the rising cost of other basics, which are essential for maintaining a steady job and participating in the economy. Thank you again for having me to testify today. And I welcome any questions you have.

Rep. Don Beyer (D-Va.)

Thank you, Mr. Comey very much. Before introducing Mr. Harris Meyer would like to note and offer for the record if there's no objection. An article from Alicia Wallace a CNN submitted by Mr. Arun Kumar. No, thank you very much.

And with that John Aaron's Meyer is the founder of Small Business Majority. I met him a couple of decades ago, we've been working for a long time pulling together the great needs of small business and how government can most effectively react, respond and lead returns My thought is yours.

John Arensmeyer

Thank you. Thank you, nerves under buyer, also Vice Chairman schweickert, and members of the Committee. Thank you for inviting me to speak about the importance of ensuring that we have a tax code that supports a robust, innovative and inclusive economy anchored by our nation's 34 million small businesses. We're a national small business organization that empowers Americans entrepreneurs to build a thriving and equitable economy.

Prior to launching Small Business Majority nearly 20 years ago, I was the founder and CEO of an award winning interactive communications company that I ran for 12 years. As Small Business Majority, we engage our network of more than 85,000 small businesses and 1500 business and community organizations to advocate for public policy solutions and deliver resources to entrepreneurs that promote equitable small business growth. For two decades, we have examined the reality of how taxation affects America's small businesses and have advocated for tax policies that maximize entrepreneurial growth and level the playing field with large corporations. Our work is bolstered by scientific research into small business needs alongside the voices of Americans entrepreneurs.

To be clear, the current tax code is not working for Main Street. Most recent national our most recent National Opinion polls small businesses found that more than three quarters believe that the current tax system favors large corporations over small businesses, that wealthy individuals and large corporations don't pay their fair share of taxes, and that Congress should create a bottom up simplified tax system that better delivers for America's entrepreneurs. Specifically, the expiration of the tax cuts and Jobs Act presents a golden opportunity for Congress to reform section 199 A pass through tax deduction as a way that they benefits Main Street based on Tax Policy Center data almost 70% of all 199 A benefits flow to the wealthiest 4.5% of pass through business owners. All the reference entities claim an average deduction of over $1 million in 2021.

Those who have incomes below $100,000, so common average deduction of less than 2000 and as Jacob he has pointed out half of the benefits of 199 a go to business owners earning more than a million dollars. Moreover, the 199 a deduction has also widened racial disparities with black and Hispanic owned businesses receiving just 7% of the benefit. One possible solution that we're advocating is to allow entrepreneurs to deduct the first $25,000 of business income, something that would benefit the vast majority of mainstream enterprises and approach that 2.5 times more small business owners support and oppose in our recent poll. As many of you on both sides of the aisle have said any tax package must address the growing deficit, while ensuring that there is adequate funding for targeted government programs to support our nation's entrepreneurs.

Increased revenues can be achieved by the following four ways, increasing the corporate tax rate, only 5% of small businesses or C corporations paying the 21% corporate tax rate, raising the rate to 28%, something supported by a majority of business owners on our most recent poll would generate $700 billion in revenue over the next 10 years, and better level the playing field before between large and small enterprises. Second, bring the capital gains rate to more in alignment with ordinary income tax rates, something that's supported two to one by our small business owners in our recent poll. Three maintain the current level of IRS funding can maximize revenue and serve small businesses something that our polling showed is supported by more than 80% of small businesses. And we'll close the annual tax gap of $700 billion and forth closing tax loopholes favoring offshore income something supporting our polling why three quarters of small business owners.

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

Finally, small business owners are already hunkering down to weather the painful impact of a potential trade war, including stocking up on inventory and thinking about moving operations offshore to manufacture for the export market. At the most recent convening of our National Small Business Council, increased tariffs were the single biggest concern. The business owners comments are in my written testimony. In summary, 2025 offers a chance to address the shortcomings of the current tax code and lay the foundation for tax policies that better serve small businesses.

Thank you.

Rep. David Schweikert (R-Ariz.)

Thank you. One of the ways we're going to do this is Mr. Behrman have you do an opening statement? And I'm going to turn to Ms. Malliotakis task and public questions because she needs to leave in a moment. So I'm gonna try to balance this so everyone can reach you rather than showing First, your opening statements are always very short.

Rep. Don Beyer (D-Va.)

Five minutes, right. Well, my Chairman striker, thank you very much. And thank all of you for being here today. Chairman Brady, welcome back.

I very much enjoyed my couple of years on ways and means with with your leadership. And Dr. Deborah whole Tekin. You're a regular contributor here. It's good to have you back.

I'm thrilled to have my friends Mr. COVID. Mr. newswire? As we just discussed what direction the tax debate should take next year, we really need to look through the tax record. And because we know we all want growth, we all want this economy to grow as quickly as it can.

And we all know that tax policy is a big part of that. And the question is, and that debt is a big part of it, too, as Mr. COVID mentioned, and so the question is, how do we do this? Chairman Brady, I very much respect your great pride in the TCJA I think love it or hate it. It was the accomplishment of Trump won.

And you were the one that led all that. So I Hope I didn't hurt your feelings. But I've already put in perspective on the numbers you ran out there, because economy did grow at almost 3% in 2018 2.97%. But it grew at 2.95%.

In 2015. Under Obama, it grew at 2.47% in 2019, the second year, the same as in 17, the or the Trump inherited from Obama, and the same as in 2014, under Obama, and then it dropped, you don't count 2020 and 21, with the huge drop in the huge surge, but 2022 back to 1.94 23 2.5. for job growth, again, if you look at all the last 10 years, basically the same every year, even after TCJA, except that it dropped to three quarters of 1%. Now two thirds 1% in 2018, the second full year TCJA.

So in fact, the International Monetary Fund and the crypto Research Service, both found that the law, according to them had very little to do with the growth. And this growth didn't even come close to paying for the cost of the tax cuts. The Kristen Research Service estimated that we only had to see growth rate of over 9% or so in 2018, to be on track for that goal. So what did happen?

Well, as Ms. Jacoby said very well, most of it went to the richest 80% to the richest 10% billions of dollars in tax giveaways to the big businesses. We just come off an election where at least part of the results were that so many Americans felt left behind that their incomes have not kept up. My friend Ian Shepherdson from Pantheon pointed out that a blue collar worker in 2023 is not making what he made in 1972, in constant dollars. So while we want it to happen, and yet we have more than 1000 billionaires, and no lots and lots of people with very high incomes, we've grown our upper middle class dramatically.

But we've left an awful lot of people behind. I know the intent of TCJA was to pull them along, but it hasn't worked. What has worked well. That is the Child Tax Credit, which we're very proud of as in the American rescue plan.

It wasn't the only thing that brought child poverty down because the the economic impact payments due on unemployment benefits. But let's face it, it was 5% or five point X percent the lowest in American history. And we got rid of it went back up to 12.7. I think it's 13.7%.

Last year, we know how to reduce child poverty, we have decided child poverty is a political choice, a public policy choice, and we've made the wrong choice. One of the big challenges in this last election was housing costs, people across the country, there's too few houses we can't afford to get in and rents are sky high. You know, the one public policy thing we've brought forward on that is the Low Income Housing Tax Credit, which we haven't been able to pass yet despite lots of bipartisan support. By the way a shout out to widen Smith, our current Republican Chair of voicing means and Ron Wyden brought back a limited Child Tax Credit passed out of our Committee 40 to three, and it's stuck in the Senate right now.

But, you know, we're coming together around that. And then there's the national debt. You know, we're all guilty of it being 100% right now. But the my great fear as we move into this next two years is that we're going to make it worse.

Or even worse, we're going to pretend that tariffs are going to pay for the national debt. And when we know that, nobody, no economist actually believes that there are a lot more effective ways we could do this. If we focus on lifting children out of poverty, people getting a quality education, working on a broken healthcare system, making all the solutions a reality. And by the way, I don't want to say blanket everything in TCJA is wrong.

I've seen great studies that show the instantaneous deduction depreciation actually did a lot to spur growth. If you're you know, I was in business for 46 years. And if you can buy the new car wash and write it off the first year, you're more likely to buy that new car wash. But we think we need to be really careful as we look at re at readdressing.

All the things that expire, that we focus on ways to run out of time to make sure that it's lifting up the people that need it the most, rather than the people that need it the least. And with that, I yield back, Mr. Chairman.

Rep. Nicole Malliotakis (R-N.Y.)

Thank you, Mr. Chairman. I want to thank you all for coming today, I think for wasn't on the Committee in 2017. I'm very excited about the opportunity to extend and make better what I thought was a good product. I think if you look at the results, it did create millions of jobs.

It did lift people out of poverty, it did double the child tax credit and the standard deduction, allowing for families keep more of their money in their pockets. It did lift wages, and it did bring unemployment down to record levels, particularly for women and minorities. And I think that's all one are full and we should be applauding the success of this. And I think that there's also, I guess, obviously, what we're looking for here is how do we expand on this?

How do we build upon the successes of the TCJA? I think one of the things that I've observed in speaking with people is, obviously you want people to invest, you want people to expand their businesses grow their businesses create jobs, but they need some type of certainty for that. Right. And I think that some of the concerns are that the provisions have expired.

And like the difficulty we're having now renewing some of those provisions like r&d, and the bonus depreciation that's begun to sunset. So Mr. Brady are Chairman Brady, I would love to ask your opinion on what do you think about maybe longer term provision some type of permanence that can give businesses more certainty so they feel comfortable to expand and invest? Constantly?

Kevin Brady

So short answer is the greatest growth you get the greatest certainty to invest in the United States, whether you're bringing investment manufacturing backward deciding where to do it, is locking in the pro growth provisions permanently of the tax code you have within the corporate rate, which is one of the reasons I think it drove like will real wages. 2017 2018 went up more than $6,000 the greatest again, more than the previous 10 years combined. unemployment rate fell, child poverty fell significantly the fastest rates since the 1960s. So making sure you lock in the pro growth provisions like the corporate rate now, I would continue to lock in those lower marginal rates for families and small businesses, certainly, as they come out, have an epic period of inflation, very key that we keep that going, I will extend and simplify the small business tax deduction.

20%. For pastors, they do employ half of all the workers in America, that deduction has been supported more than two and a half million jobs and grown Main Street, I think, a beautifully. So I would also continue try to make permanent incentives for innovation for expansion, dispensing for r&d. The past definition for interest deductibility, because they're so important to job opportunities and rising paychecks.

Rep. Nicole Malliotakis (R-N.Y.)

I know President Trump has said he wants to also focus on manufacturing and bringing our domestic supply chain home. And I think, you know, one thing that didn't happen in 2017, was COVID. It came afterwards. And I think it opened up all our eyes on the reliance on foreign countries, particularly Communist China for pharmaceuticals, 80% of APIs being manufactured their medical devices now technology, I've legislation that would repatriate a lot of this and incentivize businesses to come back to Puerto Rico, for example, pharmaceutical infrastructure that they had there in the 90s.

What are your recommendations of what we can do there? And should we offer a lower tax rate if if a for for repatriating manufacturing here or creating a new facility here that could provide jobs and also address those national security needs?

Kevin Brady

Yes. So you won. You're you're thinking the right way. And I think, first, you've already taken a big step to lower corporate rate.

The modern international rate incentives on innovation, research, manufacturing, produce real results for manufacturing jobs that were created, first two years after tax reform were the highest growth we've seen in a long, long time. Secondly, I think the deregulation role, President played played another key role for making American companies very mainstream to the largest, very competitive, keeping it to here as well, I think you can look at I would not single out certain industries for for incentives, but do the broad based incentives of for example, if you look at businesses, I think one of the reasons our economy has prospered well, here over the last four years, is the tax code, allowed companies invest in new supply chains. One of the biggest expenses for repatriating is, is the cost of the building cost equipment in it, the the software technology that goes with it. I know, you've been thinking about how do we create incentives to do that, I think create it within the existing provisions and do it broad based enough that you're not picking one winner over another, but you're doing it broad based so that we can, again become medically independent, you know, crucial critical mental minerals, all the things you're thinking about for a stronger economy for the long term.

Thank

Rep. Nicole Malliotakis (R-N.Y.)

You very much.

Rep. David Schweikert (R-Ariz.)

Okay.

Rep. Katie Porter (D-Calif.)

Thank you very much. Vice Chairman Schweikert. My Republican colleagues supply In today's hearing to talk about how great they think President Trump's 2017 tax law was ahead of many of the provisions expiring next year. I want to focus my time on one piece of the Trump tax law that I strongly opposed, which is the deduction, the cap on the deduction of state and local taxes, which is also known as salt.

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

Samantha Jacoby

Sure, thank you. Representative. Yet, the this the salt on the salt cap refers to a $10,000 cap on the amount of state and local taxes that a taxpayer can deduct from their taxes.

Rep. Katie Porter (D-Calif.)

And this salt deduction is not a new concept. It was in our tax code, since the inception of the federal income tax in 1913. And its purpose is to prevent Americans from being double taxed. If you earn $50,000 And you pay $5,000 of that in tax to state and local government, you don't have that income available anymore.

So it effectively allows you to be taxed on the remaining 45,000. That's the effect of the deduction. Why does this deduction? Why might this deduction be important to families California families in particular?

Samantha Jacoby

I think that the understanding among many, many households is that they are not fully able to benefit from all of that tax, that they're not able to deduct on their federal taxes. Right.

Rep. Katie Porter (D-Calif.)

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

My office issued a report five years ago showing that nearly half of the constituents in my district use the salt to state local tax deduction with an average deduction of more than $22,000 per household, and the Trump tax law cut that deduction and more than half capping it at $10,000. And this hurt many middle class families whose communities are investing in public services. And we want states and localities to provide services to people we think they're closer to communities than the federal government. And that's that salt cap also made it harder for homeowners and would be first time homeowners to buy houses because the property tax they will owe would not be fully deductible.

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

There are concerns about whether the state and local tax deduction benefits those at the highest, the highest part of the income spectrum. So I have a solution. The very first bill introduced this Congress was my assault act, it would eliminate that state and local tax deduction cap for families that make under $400,000. In annual income for filers making 400,000 and above, the salt cap would start at $60,000 be kept as Trump did, and would taper as you climb, so that people earning taxpayers earning a million dollars or more couldn't claim the deduction at all.

With the revenue raised from that change, my legislation would create enough funding to provide hearing and vision coverage for every Medicare recipient. This shows we can fund the right priorities when we enact the right tax policy. At a time when the cost of housing is sky high and too many Americans cannot save enough to afford a home. Congress shouldn't make homeownership even more unaffordable for working and middle class families by extending this harmful assault cap.

We heard from voters across the country that costs are too high. So we need to lower their taxes their federal taxes by restoring the salt deduction. The Republican party controlled the House the Senate Then in the White House were enacted the Trump tax law that punish Californians. They have a governing Trifecta next year.

And I urge them to use it to receive to fix the state and local deduction tax cap. I yield back.

Sen. Eric Schmitt (R-Mo.)

Thank you, Mr. Chairman. I think when this was enacted, and you know, in 2017, this was a big move forward, I think in helping working families and small businesses. I think that that the essentially, unless you're organized as a C Corp, many these tax cuts would have never helped you. Unless if you had the, you know, the flow through the you know, the closely held the LLC LLP is they were able to realize those small businesses that put that money back into their businesses or hire more people, I think that was one of the one of the brilliant moves of the 2017 legislation.

I wasn't, I wasn't here, then I'll be here next year, to work on some of these things. And I guess my first question for you, Chairman Brady, in addition to thanking you for all the work you did with the congressional baseball team, we stand on the shoulders of giants, soldiers of jazz, thank you for that work, but your work as Chairman of the Ways and Means Committee and the work on this. If you were, if I were going back home this weekend, and somebody asked me, you know, why is this important? Why why is it important?

Extending? What are the couple of statistics that you would point to?

Kevin Brady

You know, when Senator, thank you for kind words, and thank you for your baseball prowess as well on the field I've seen up front. So without a question. This tax code, which is now built for growth, had its greatest impact on workers paychecks without a question, and that came from the pass through rate that we lowered for main street businesses to try to create parity for the corporations, they are taxed at a large level, we essentially got it closer to even there, and created the investment that our main street businesses the incentives for growth, and but paychecks are a big way. There's no question that growth, the three years after TCJA, the 9% real wage, people were getting hit every month, every month, it was outpacing inflation significantly, I think that's the main reason to lock in these low rates, to continue the growth and competitiveness.

And there, I think we saw child poverty, reduce the fast rates since the 60s, not by sending them government checks. But by getting their parents ample opportunities for jobs in rising paychecks, we saw that done in a sustainable way that you can walk in as well as you as you move forward to unextended V's, I think, too, we live in a world where a lot of our companies have income that's mobile, you want them to choose the United States to invest in that new plant down the road, the new research, the jobs along Main Street, this this tax code is built for growth of Main Street in a major way, in the US in a major way, our goal was not to level the playing field, it was to tilted our direction.

Sen. Eric Schmitt (R-Mo.)

Now, just ask another question. And also for your doctor to you mentioned inflation. So I think all the savings and you had you know, people's income, no matter what your your race, your gender line of work, whatever went up after this. And that was the goal.

And I think that happened and and I come from a working class family in a working class neighborhood, and people felt that and then of course, you've got the Inflation Reduction Act, you've got the American Recovery Act of 1.4 trillion pumped into the economy and and then you know, there's energy issues, and all of a sudden everything costs a lot more. So whatever those gains were were certainly eating into by inflation. So knowing those set of circumstances, what happened before the the amount of spending that took place after this one into place? What are the what are the best areas to sort of double down on or do more of or do loss of I guess, if you were to recalibrate this for expanded growth next year, what would it be a couple of things you would identify?

Golf both of you, please.

Kevin Brady

So I would to echo Doug Holtz-Eakin's initial points, I would find a way to simplify that small business pass through tax cut. It does good work. I don't think the economy captures the growth that comes from that provision. It's it's meaningful, but I think it's actually bigger than we believe.

It is an awfully complicated and the day was signed, I knew it was too complicated. I think we can make that work much better. I would continue, you know, tax rates on corporations may or may not be positive or popular, but it drives so much the paycheck and incentives, whatever. If you can lower the That rate, whatever it's tied to r&d, it makes better innovation and makes better manufacture.

It is sort of that crown jewel that drives growth sort of throughout the economy. And one of the points Senator I would make is we didn't lower rates for corporations. We lowered it on them to drive the growth and the paycheck increases we wanted, then they corporations paid for more than 80% of their own tax cut, because they knew one, we needed to do that to balance the provisions there. But they believe they would have a stronger economy for the workers and their customers, and they do.

Douglas Holtz-Eakin

Briefly, I'd say the key is to have a fiscally disciplined focus on supply side setups. Supply side incentives give you growth without the price pressures, and undisciplined approach will scare bond markets drive up rates, and it would be counterproductive when you're trying to improve incentives to invest so a fiscally disciplined supply side approach is what you're going to need.

Sen. Maggie Hassan (D-N.H.)

Thank you very much. I appreciate this hearing. And thanks to you and the Chair for holding it to our witnesses. Thank you all for being here today.

I want to start with a question to Mr. Arens Mark and Miss Jacoby in communities across New Hampshire, it's increasingly difficult for workers to find affordable places to live. And I'm sure we've all all of us have constituents who are struggling with this. The housing shortage drives up costs for workers and makes it harder for small businesses to hire the workforce that they need. So Mr. Arens Meyer, can you talk about the drag that housing shortages are having on the economy, particularly when it comes to small business growth?

John Arensmeyer

Housing, Senator House, housing has not been something we have focused directly on clearly, like other costs in the economy, we focus mostly on costs of supplies and just inability to potentially raise prices to match to match the increase in costs. Housing is absolutely, you know, part of that. And certainly, if that if housing stagnates, there are a lot of small businesses who work in the housing, space construction and otherwise. So there is an indirect effect on on a slowing housing market with with small businesses.

So yeah, I'm like, like, it's a huge part of our economy. And absolutely any any drag is going to impact small businesses, for sure. Well,

Sen. Maggie Hassan (D-N.H.)

In my state, one of the things that's really impacting his recruitment of employees, we have we have businesses that can't find employees because employees can't move to New Hampshire, they even high income employees can't find a place to live. So it is the number one priority I hear about from businesses, most of which are small in my state. I'm Ms. Jacoby, how can the federal government better incentivize the development of housing that workers can afford to the tax code in ways that work for smaller states like New Hampshire that may have really rural communities? You know, 100 unit, multifamily housing is not going to work in some of my communities.

Samantha Jacoby

Thank you for that question, Senator. Yeah, I think you know, others have mentioned but increasing housing supply through proven measures with like the Low Income Housing Tax Credit. That's an important way to increase housing, supply and reduce costs. Another thing that I think often gets left out of the conversation is the importance of rental assistance.

Tax tax incentives for increasing housing supply often leave out the lowest income workers who cannot even afford housing at sort of mid level, mid levels. And so increasing the availability of rental assistance through vouchers is also very important.

Sen. Maggie Hassan (D-N.H.)

Thank you very much, Dr. Holtz Eakin. It's nice to see you. I've worked with my colleagues on both sides of the aisle to restore the full and immediate research and development tax deduction, which is you all know, expired in 2022. Restoring the full deduction is vital to our national security and our economic development.

When American companies invest in r&d to develop new products and technologies that obviously stimulates our economy, promotes job growth, and helps us out compete countries like China. The Chinese government currently provides a 200% super deduction for r&d, effectively giving firms an immediate $2 million deduction for every 1 million invested in r&d. Meanwhile, American businesses can only immediately deduct $100,000 for $1 million in r&d development. So how does the current r&d deduction impair American business's ability to plan and make investments going forward?

I

Douglas Holtz-Eakin

Think there are two main channels it's a really important question because this is central to our strategic competition with China and to America's future in general. on one channel is that it says if I have a choice between something I can fully deduct and my r&d I do the other thing and so you're you're skewing the composition of business activities away from the innovation we need. The second is especially important for smaller businesses that the fact that they can't expensive, and they have, they can only deduct it has huge cashflow implications for the small businesses. Right.

And this was this was a disaster for them, quite frankly. And, and reversing it, I think, would be very, very important very quick.

Sen. Maggie Hassan (D-N.H.)

And obviously, I think you you just mentioned this very important in our strategy outcompete China, right. To miss Jacoby, the child tax credit is a critical lifeline for hardworking families. Over the past year, members of both parties have expressed strong support for expanding and strengthening the Child Tax Credit. As we look to next year, any tax package should prioritize cutting taxes for hardworking families, which would lower costs and lift children out of poverty.

What changes should Congress consider to the child tax credit to reach more hardworking families, including changes that have had bipartisan support?

Samantha Jacoby

Yes, thank you. So the most important thing that the child tax credit can do is better reach the 19 million children who are currently left out of the credit, or don't receive the full credit, that change would would ended in 2021. Reduce child poverty, to historically low levels. So that's the most important change.

But any any any change to the child tax credit should prioritize those kids that widen Smithville that, that my colleagues worked very hard to, to study and analyze. And that would have made the child tax credit more available and helped lift 500,000 children out of poverty.

Sen. Maggie Hassan (D-N.H.)

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

I love being here. We are doing all sorts of live quorum calls. So I'm going to dash but thank you very much. Thank you.

Rep. Lloyd Smucker (R-Pa.)

Thank you, Mr. Chairman. And I was I came, first took office in 2017 was so was here during the passage of the tax cuts and Jobs Act was really proud of the impact that had on my constituents who really saw and felt that increase in the average household income. And, you know, it's remarkable how different they feel now. And I think you saw the results of this election, partly due to that, after the economic policies of this administration compared to the first few years of the Trump administration.

So I was very proud of the work we did. And I think the statistic that I'm probably most proud of is that we had the lowest poverty rate than at any other time in our history. So we lifted more people out of poverty than any other time. This is a different time, though.

And I want to get back to some of the comments you made Dr. LTQ. And then maybe Chairman Brady, as well. And by the way, Chairman, Brady's leadership is why we got the tax cuts and Jobs Act. So I was really proud to serve with you at that time.

But we now have 36 trillion in debt, as of today, adding $2 trillion per year. One of the ways and my belief is that's one of the greatest threats that we're faced with where it's a predictable crisis, we're gonna have a sovereign debt crisis within the next 1020 years, probably, if we don't change the trajectory, one of the ways we get out, not not the only way, but it's important to have strong economic growth back to your point, doubling income every 20 years, every 2550 years. And so we have to get the tax code. Right.

And that's why I think, you know, we've heard from Mr. Byer, you believe as well, it's important, we put growth policies in place, but I also believe that we can add to the debt with what we're doing at this particular time. I think it's very, very important. So how do you square that? It's impossible to do that, can we extend the provisions of the tax cuts and Jobs Act that I think are so important to driving a growing economy and do that without adding to the debt like to get your thoughts on that?

Douglas Holtz-Eakin

There's a very, I think, confused and confusing public discussion of this. simply extending the tax cuts and Jobs Act keeps us at the current policy, and the current level of deficits and debt, debt and debt growth. So last year, we had $1.8 trillion in deficits 6.3% of GDP over trillion that was interests. So it should be a warning sign but but to simply continue doing that is we would have to trade our deficits and we'd be on the track During that I wanted to be any of my testimony.

So that it's not that we want to cut taxes, we're just going to continue with the current level, if we just extend, you can do better than that you could close the gap and improve the growth in the House. And as I mentioned, I think the gold standard would be to have a deficit neutral tax reform that would allow you to do the tax reform that Mr. Brady could design, and which would be permanent because it would not produce deficits, you wouldn't have to sunset. Permanent incentives are always better than temporary incentives. That's, that's the gold standard.

That's where you want to go. Realistically, to do that you have to bring in the spending side of the federal budget, there is no way to solve the fiscal problem without addressing the spending. I can do that at great length. But I don't want to use up all your time, but Social Security or Medicare, or over 50% of non interest spending over the next 10 years.

Yeah, and they're growing faster. 5.5 for security, and seven for Medicare than any revenue base is gonna grow. They're gonna grow at

Rep. Lloyd Smucker (R-Pa.)

About four. Yeah, I don't want to give Chairman where you just go with that? Yeah, we'll talk a lot more I'm sure. But, like, I 100% agree.

And I think we have to go to the spending side, spending at about 26% of GDP is at the highest level ever. So we've got to get to it. But Tom Brady, I'd just like to only have another minute, but I'd like to get your reaction to that as well.

Kevin Brady

I think permanence is so important to the tax code for so so many reasons. And I know you're going to have a pretty spirited debate about how much how much this will be paid for going forward. But all I know is finding pay fors are hard. If you remember, in 2017, we had five and a half trillion dollars of tax cuts.

We paid for $4 trillion of it upfront. So 72% of those tax cuts were paid for when President Trump signed that bill since then, we've had significant revenue growth somewhere between half 1,000,000,000,001 trillion. So we've raised that, that a cover significantly as well. It is it is terrifically hard to do pay for it.

But it is part of the process of trying to make permanent, you know, the provisions of most lift wages and most most give you growth in in competition and innovation. Yeah, it is it is worth pursuing that permanence.

Rep. Lloyd Smucker (R-Pa.)

Thank you, Mr. Chairman. I know I'm out of time. But I do want to submit for the record, if I may wanted to my next question was about 199. A, I'd be very interested in hearing some of the ideas to simplify it.

I think it's really important to our main street businesses. And I have a study about the economic activities supported by the section one nine a and a junction I'd like to submit for the record. Thank you.

Rep. Gwen Moore (D-Wis.)

Thank you so much, Mr. Chairman. And, you know, I'll just kind of pick up for you, Mr. Smucker, where you're left off. That's okay. I have the exact same question that you have.

How to resolve squared this all? First before I do, just let me say to Mr. Brady. I really miss you. I've been here for a minute now.

But I remember when I first came in naive, wanting to be on the Ways and Means Committee. And you know, everybody, particularly Nancy Pelosi told me what a lunatic I was to even think that. And I actually was so dumb. I think the first person on the Ways and Means Committee that came to see if I could get on the Committee was you.

I'm a Democrat just shows you, you know, where desperation will lead you.

Kevin Brady

You've done a great job, listen,

Rep. Gwen Moore (D-Wis.)

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

And you said we had a growth problem, because even though the economy is growing, which is a good thing, is not growing enough, or in the right ways to have people meet their basic needs, you know, and I guess I'm sort of setting this up. Before I ask my question. We got a growth problem and a debt problem. So question one, is as we think about extending these tax cuts, for the sake of growth, you know, do we need to think about ways maybe like the 199 resort or reforms that we need to make since that costs so much money, that'd be like $684 billion over 10 years, just to not close that gap.

But should we do something like that? Because what I worry about is the notion of If we if we extend all these tax cuts for 4.6 trillion more dollars to the debt, and then we are we have a president to his assistants that are talking about cutting $2 trillion of waste and all that. At what point are we going to be cutting into bone and marrow and I think my colleagues already mentioned Social Security and Medicare. I wasn't gonna go that far.

I was just gonna say if you don't like food stamps, and, and Headstart, but at what how do you support? Raising these taxes, maintaining the corporate tax cuts? Spending 4.6 trillion more dollars? How does that square about the barrel?

Mr. Smuckers? jargon, how does that square with us really not sending the economy in a tailspin? Considering that people would not, you know, pile on top of that tariffs? And so just share with me, maybe I chose Mr. Arason.

Meyer, I mean, have I? How does how does this square I've sort of shared what they said.

John Arensmeyer

Well, Congresswoman, I, you're all gonna need to decide how much you will continue to increase the deficit with this tax code. Our position is, yeah, we need tax incentives in Medina is a perfect example. But they need to be designed in a way that is going to be the maximum impact. And it's going to level the playing field and our whole point on 199.

A is to use that as an example. Is it right now, it's very skewed toward the businesses that probably don't need it as much that they said in my testimony, 70% of the benefit going to 4.5% of pass through businesses. So then we come back and say, Okay, you can redesign this bottom up, we're suggesting $25,000 deduction bottom up, you can pick, pick a number, but it's obviously not free. And but ultimately, whatever you decide to do within the framework of a manageable deficit, it should be targeted to where economic need is the greatest.

And our our point is that that is the smallest businesses in this country who are generating

Rep. Gwen Moore (D-Wis.)

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

John Arensmeyer

When I think the numbers are what they always

Rep. Gwen Moore (D-Wis.)

Miss Jacoby?

Samantha Jacoby

No, definitely not. Okay.

Rep. Gwen Moore (D-Wis.)

With the indulgence of the Chair, I'll just finish my sentence. I just want to thank you all for your testimony. And I just, I do want to look at this, you know, in a very serious way, not in a kind of a partisan way, because I think we have to make some choices about the tax cuts that we continue to provide, because growth is only one aspect of it, as Dr. Holtz-Eakin said, You got to be concerned about it actually trickle trickle down because this the wages that have been increased, have not come from the TCJA. They've come from states and cities and places where the minimum wage has been raised.

Am I right about that? Ms. Jacoby.

Samantha Jacoby

There is solid academic research that that found that the corporate tax cuts specifically did not increase wages for most workers.

Rep. Gwen Moore (D-Wis.)

Right. And so we got to be more mindful of how we grow our economy. So there are benefits everybody and not just the top. Folks, thank you so very much.

Thank you, Mr. Chairman, for that indulgence.

Rep. Jodey Arrington (R-Texas)

Thank you, Mr. Chairman, to my friend and fellow Texan, an exceptional leader, whom we all dearly miss. Thank you for being here and for your contributions to our beloved country. And we've got to we've got to get back to those policies that incentivize investment and growth and unleash prosperity again, and we're in a in a quite a predicament on at this stage. We are on a to say it's an UNSUSTAINABLE fiscal path as it relates to deficits and debt is the understatement of the of the hour.

So things have changed and and the fiscal health of the country is in rapid decline. And so we have to face this opportunity For the country, clear eyed and sober minded, and in an in a way that I think balance is the two key ingredients, which is simply to reduce spending and increase growth. I think there's some, there's myths, and I want you to respond to this. But I think there's a myth by some of my Republican colleagues that we can just grow out of the $36 trillion 125% debt to GDP hold that we're in that will get only exponentially worse 22,000,000,020 2 trillion rather trillion dollars over the next 10 years.

And and then it gets just, you know, we'd never get there in the 30 years, which is about 130,000,000,000,095% to 98%. Of that are two programs that you mentioned, Mr. Holtz-Eakin earlier. So it just, it just it we go off the cliff at some point, whether it's five years, 10 years, 15 years, the scary thing is, I don't know that we can predict it. And once it happens, and it turns on us, I don't think there's a way out of it.

So we have to feel that sense of urgency now. And we have to take on this opportunity to rein in spending and, and put back the incentives that will balance the supply and demand that has been out of whack and has created this, this record inflation and an economy that's, I think, fragile, quite frankly. So. So when I when I think about one of the fundamental questions will be dynamic scoring.

I think that has been underscored undervalued, underestimated, the yield of, of growth, people coming off of welfare and onto payrolls, people investing and the revenues coming into the treasury coffers. But I'm not convinced that all tax cuts pay for themselves. I just, I don't believe it. I've never heard any thoughtful person that's been an expert in this area say that it is the case.

But we also have trillions of dollars in opportunities for direct spending savings, and we've been talking about him for decades. What's the right approach? Chairman Brady and m&s Doug, also to opine on this. What's the right approach here?

How much credence should we get CBO has gotten it wrong. JCT has gotten around both on the downside of underestimating it. But, again, I think it's a stretch to get to a place where we just think it's somehow going to pay for every nickel and dime that we you know that it would cost in any in any cost estimate? What are your thoughts on that?

Am I wrong or

Kevin Brady

So Miss Jim one, for as long as I've known you. You wake up every morning, worried about the debt and deficits because of because the impact on our communities on our family's on our country as a whole. I think about 10 years ago, this Committee held a hearing about debt ceiling, what's the real debt ceiling, we invited, I think four or five economists from across the broad spectrum of philosophies. But they agreed they disagreed a lot that they agreed on three things.

One, we don't know when that real debt ceiling when we hit it, two, it's sooner than you think. And three, you don't want to find out. So my belief has been that you've got got to have growth and guardrails around spending, you've got to right size the federal government in his spending habits to get it to a sustainable level so that it doesn't help last year that our revenue growth was 11%. Our spending was higher than that these are huge numbers for growth, yet.

We're not able constrain the spending. The deepens the deficit. No, not all tax cuts pay for themselves. But tax reform can, which is in 2017.

What we did a big took a big step two, which is eliminating provisions to fund the growth and fund those rights. Not totally, but significantly that direction. I know there was that number 4 trillion. So 4 trillion Yes.

And which was 72%. At the get go plus the new revenue and corporate corporate revenue this year will be the highest level percentage of GDP. Some of that is from the reforms we did back in 2017. You did that are continuing to grow the revenue significant way but you've got you've got to have the fiscal constraint, whatever that mechanism is to avoid that debt ceiling crash.

Rep. Jodey Arrington (R-Texas)

Thank you. Can I apologize? Would you mind if Mr. Harrigan response? Thank you, Mr. Chairman.

Douglas Holtz-Eakin

So so let me repeat some things. The Chairman said in my own words, I mean, if you want to get the best growth out of the tax policy, it's Only 25 have to be permanent, have it be structured toward increasing the supply of skills and innovations and capital in the economy and this economy tilt the playing field as as was done before. And when you get to the hard job of balancing that against the imperative that you take away the debt headwinds to growth, which are real, and particularly dangerous if financial markets lose confidence in the United States, you begin by first broadening the base, the rule of tax reform as broaden the base, lower the rates, in this circumstance, you may need to raise some some revenue, broader basis, the solution to that and is will not be as anti growth is jacking up the corporate rate, which seems to be everyone's reflex, that'll be a disastrous mistake, in my view, to first go there. You don't want to Jack up rates in small businesses, that's not gonna be helpful.

So you know, that's it. And then you're gonna run out of the capacity to do that without solving our fiscal challenges. And you will have to turn to the spending side and develop a strategy to get to the point where our large mandatory spending programs grow at the same pace as the economy not faster. Once you can do that, you can actually then the debt to GDP ratio south, if it goes south, even infinitesimally financial markets be like, okay, they're good.

You take off the table, the disastrous thing those economists were were trying to avoid. And then you go about solving the other real problems that the country faces, but these are the big ones right now. And that's how I think about challenging.

Rep. Jodey Arrington (R-Texas)

Grateful for your insight. Thank you.

Rep. David Schweikert (R-Ariz.)

Let's direct questions.

Rep. Don Beyer (D-Va.)

Mr. Chairman, thank you very much. First of all, I want to pile on with my friend, Mr. Arrington, that I to worry a great deal about our rapid fiscal decline. The the MS. Jacoby mentioned that Dr. Holt seek and again, and just point out that just the tax cap alone is estimated between four and 25 billion on the low side per year and a trillion on the high side, I saw a number coming out of the transition yesterday that put it north of $800 billion a year, which is one of the reasons why we fought so hard to put money into the IRS to go get that it wasn't a matter of pumping up people with guns to go on small businesses to take.

Because we know that people that have tender any nines and WTS 99% of them fail it is the people that don't that we're trying to get there. And Mr. Halsey conductor holds economic say, when you say quote, deficit neutral tax reform, we're in the minority we have facing a trifecta that will be our number one goal, or at least my number one goal is, as we redo TCJ a through reconciliation that if it can be deficit neutral, that would be a great step forward. Chairman Brady, I don't want to put you on the spot too much. But the President Elect on September 17, posted on Kruth, social, he was going to get salt back, quote unquote, and lower your taxes.

Any idea what to expect in these next couple of months?

Kevin Brady

You know, on that provision? I don't I know that. You know, he had concerns about it in during tax reform, coming from New York, obviously, a tax estate with very high taxes. But how as we explained to him when we dug into the salt tax issue, it's the single biggest subsidy individual code, and goes predominantly more than half to families making more than million dollars.

What was worse was rural communities, subsidized cities, low and moderate income, the wealthy, blue, red states, blue states, nine atomizers atomizer. So we concluded why doesn't everyone just pay their own state and local taxes? And when we choose where we live and work, we have a choice and who Alexis, why does my neighbor have any obligation to pay my state local taxes? Why am I obligated to pay others?

So what we did was took the average salt deduction across America doubled it to create the marriage issue there to help with joint filers. And we use the money to lower tax rates for middle class families and small businesses. So I still believe that philosophy and concept is correct. Certainly the president in some of our members in Congress in those states where it is a very sensitive political issue, Mr. Chairman, are obviously going to be visiting.

Let me

Rep. Don Beyer (D-Va.)

Move on because I'm running out of time. Ms. Jacoby, you know, looking at how we're paying for this, I was impressed that Viva Gramma Swami said, we can just take every federal employee Social Security, Mr. Encina, even number and fire all them and then that cuts you by 50%. But that may not be realistic, but they are talking very seriously right now about cutting snap programs and then judicial programs, taking well the health Hear the Affordable Care Act subsidies? What does that do to growth in our economy, when you make families hungry, and when you take away health care from people?

Samantha Jacoby

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

Rep. Don Beyer (D-Va.)

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

John Arensmeyer

Well, Congressman, our position is not to get rid of one nine is to reform it, it is to make sure that the benefits are going to the smallest businesses who need the help the most. And our whole economy in particular, small business economy depends on as much money in the in the economy, particularly at the community level as possible. So it's about it's about where do we need the what's going to do the most good for the economy? And what's going to be the fairest what to do.

And right now with 44% Getting 70% of the benefit that's not equitable, or particularly stimulating to our our small business economy. Thank

Rep. Don Beyer (D-Va.)

You. I yield back, sir.

Rep. David Schweikert (R-Ariz.)

Thank you, Mr. Buyer. And now for the great joy of holding the gavel. You can all leave, I'm there my doctor holds he can, somewhere in one of my binders. I have a study that actually looked at the corporate tax rate.

And within that study, it was claiming about 67% of that ultimately flowed through to workers, yes. How can that be true? And then some of the things being said on the other side.

Douglas Holtz-Eakin

They can't all be true simultaneously. We know that as a matter of process of elimination, the corporate, any corporate tax will be paid for by either the workers, the shareholders or the or the consumers. Because that tax will be passed on in some form, the ultimate burden will be shifted. There's a lot of empirical research on corporate taxation in general to try to find the the incidence without conclusive evidence, I think it's a fair reading of that literature.

And there have been some specific studies of tax cuts and Jobs Act, some which have concluded that it had a big impact on the investments and that we passed on in terms of higher productivity to wages. So

Rep. David Schweikert (R-Ariz.)

If I remember, right, we are if I remember my elementary school economics class, wages only go up functionally, really two things inflation, which means you're just pedaling, treading water, or productivity and productivity is your primary driver wages. Do you think that's where there's the formulary problem on particularly the way the left likes to calculate this number? Is that wage growth was substantial because of investments in capital equipment, that you're not getting that plug back into the wage growth? I

Douglas Holtz-Eakin

Think in the biggest problem with the tcja studies, are the time periods too short, you have this very important reform, a couple of years of clear sailing a pandemic. And then now we're come out of it. We've got maybe a couple more to pass on, on the basic mechanism of having investment having the United States have a generate higher productivity, have that show up in the form of higher wages. That's something that I'm quite confident as time goes on.

And we look back we'll say that was a good reform.

Rep. David Schweikert (R-Ariz.)

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

Douglas Holtz-Eakin

Those are very important provisions. And I was disappointed to see them begin to sunset and phase out because that was, I thought, an unnecessary headway. into growth in United States, I would have tried to find some way to have those remain full expensing is for as long as possible. Well, it's

Rep. David Schweikert (R-Ariz.)

An how much of that benefit from let's just use expensing and purchasing capital equipment, therefore, I'm more productive, therefore, I can pay my workers, you know, higher wages, so you end up in the virtuous cycle. But it's also the permanency of that cycle, because we actually built a living out, we did it on butcher paper, a horizon chart, showing that that's depreciation, it doesn't actually have a cost, it actually makes money. So it is a tax provision that does pay for itself, if you build a horizon, because all expensing is, is instead of taking it over seven years, it took it instantly. But it forced you to buy better, faster equipment.

But now you gotta buy better, faster equipment again, a couple years later, because your competition is doing it. And you build this virtual cycle of getting more and more productive, which means wage growth. I mean, do I describe it fairly? Yes,

Douglas Holtz-Eakin

I think, you know, I like expenses, it makes it easy to level, the playing field, among all the different ways to make business more productive, that's great. The other thing it does, is that it insulates you against inflation fears, you get the full cost recovery in the first year, you don't have to count on depreciation allowances, keeping up with inflation somehow. And if they don't, you never really get full cost recovery, which is a bad thing for the investment climate. And permanence makes expensing much more valuable because it is just timing.

And now you know that the timing will continue. But to turn it on and turn it off and turn it on turn it off, is a real source of uncertainty to businesses trying to make some sort of a capital plan. So getting it permanent is even better. Okay,

Rep. David Schweikert (R-Ariz.)

So it's not only the tax policy, but it's the it's the ability to see from my horizon, because particularly with some of these pieces of equipment, particularly the complex ones, you want to buy, you know, the next generation of CRISPR. You know, you wait a couple of years for it to show up. Well, what happens if the tax code is expiring in that window?

Douglas Holtz-Eakin

Again, just to reiterate, for small businesses, the cashflow aspect of the expensing is really important. If you're a startup, you're getting to deduct all those, you're less likely to be in a taxable state, your cash flow entirely plowed back into growth in the business. That is, has been a recipe for success for America small business for a long time. And this supports that doctor

Rep. David Schweikert (R-Ariz.)

Conversation you may not remember you and I had heaven almost a couple of years ago, was actually in regards to stability within the debt markets. How do we do economic expansion toward policies, tax code wise? And you actually did something that set off a series of thoughts with me. And that was you made an argument that it's much more than just tax policy, it will be regulatory, it would be talent based immigration policy, it would be our willingness to knock down barriers to adopt technology.

You know, we, Mr. Buyer, sorry about that. And I have had conversations for a couple of years now of technology that could crash the price of healthcare, because one of the great sins we engage in here is one of two sins. Well, the way we're going to cut spending is we're just going to shift it to you as an individual or your state. That's that's just a shift that that's a scam.

Because we can actually see within the calculations, if it just raised my state taxes, it didn't really help my growth. But the second thing we can do is the adoption of technology. So healthcare, one of the great sins and I believe this is left and right. The ACA was a financing Bill, who got subsidized who didn't the Republican alternative was a financing bill Medicare for all, the financing bill, are we willing to actually have the much more disruptive conversation of what we pay?

And how did we use the tax code, but also, what comes out of both the budget ways and means to incentivize if there's a better faster way to make someone well, if there's a better for em, the thing I talked about all the time, the breath biopsy, you blow into tells you you have a certain virus or bacteria, and you allow the technology to bounce off your medical record, so you're not allergic to something in order you're anti virus. So flu because we functionally have that as illegal in the way we do policy here, because it would disrupt business models, but it would crash the price of delivering health care. The only reason I ramble about that is how do we design also tax code and regulatory code that moves the investments In the productivity and making our lives healthier, faster, cheaper to live in? And if my rambling or is there ways you would if I came to you and Chairman Brady, I'm not ignoring you, too.

I just liked them better. I'll come on and forgive my asthma. It's, I come to you and say, Okay, I got 4.6 trillion, I gotta cover over 10. But I need to maximize the morality of growth, having a population if if obesity over the next 10 years will be 9.1 trillion additional health care expenditure.

The Joint Economic Committee did a whole report on that last year. Turns out making our brothers and sisters healthier is the single greatest pay for in society. What do you do policy words? And that's both for you Chairman Brady.

And in fact, Rosie? No, no, this is actually member Carex is financing bill. This is not about the price of delivering the service.

Douglas Holtz-Eakin

So so this is what I would say. I think that puts your finger on a problem in health policy. We have payments silos, we pour money down part A, or money down part D, part C, Part E, we pour money down the Medicaid chip. And these are payments silos that are actually not tethered in any way to health outcomes.

They're just they're just playing silos. And the health sector in general, all the providers, beneficiary, as groups, protect those wholesalers like mad. And if you try to touch them, you know it, they're all individually, you can't, you can't do that. But as a result, you will never get disruptive change that provides new business models in general improvement in delivery systems and care.

Everybody in healthcare is in favor of innovation and change. As long as it doesn't change your payment silo, as long as they don't get touched. It's not that different than tax code. I told you to depart rather than the base, you don't think there's some things in there that people are going to protect, like mad, they're their payments silo.

And you have to recognize that the process of genuinely innovative, broadly accessible tax reform is knocking down those payments silos and giving everybody the same access to tax treatment, beneficial tax treatment, everyone should have some access to it, and creating as few silos and targeted things as possible. That's the recipe. We got along,

Rep. David Schweikert (R-Ariz.)

I had the feeling you're not going to be having a lot more of this conversation, Chairman Brady.

Kevin Brady

And I was struck by your phrase, the morality of the tax code, which I think the tax code done right is a force for good. And we saw the results from a new modern tax code that actually was sort of thinking outside that code. If it were up to me, I would make sure there was a work requirement tied to every federal program. That makes sense.

Because what we've learned through the years is that if you learn a skill, if you get a job, if you continue in that job, your chances of being in poverty are very low. The chances for real income growth for your family. And in a model you set for your children just has dramatic benefits, you know, for breaking that cycle of poverty, moving people getting them reconnecting into the workforce in a positive way. And I think as we, we I always focus on the tax code.

But I also believe that the dignity of work has is remarkable power that our federal government should encourage rather than discourage.

Rep. David Schweikert (R-Ariz.)

And thank you for caring very and without objection, I need to dig it out. But there's a University of Chicago for PhD who actually did the modeling of the Child Tax Credit, and showed that unless you had a worker education requirement attached to it, and then in 10 years, that same population was actually poor, because they didn't move up in their skill set. And it's a very well that had paper and it's something we should use as one of our baselines here. With that, I appreciate you giving us time.

We have votes coming up very, very shortly. I'd like to thank everyone for being here today. This is an important discussion. I believe.

We're going to take a week if anyone wants to add some things to the record. And thank you for your time today. [END]