Ways and Means Republicans, Democrats divided over TCJA's future

In a debate that is only expected to grow in intensity as the 2024 congressional and presidential elections draw closer, Republicans on the House Ways and Means Committee this week argued that the Tax Cuts and Jobs Act of 2017 (TCJA, P.L. 115-97) has been a boon to the US economy and that a host of soon-to-expire provisions in that legislation should be extended for the long term or even made permanent, while the panel's Democrats contended the TCJA's benefits are skewed primarily to large corporations and wealthy individuals and that the bulk of its temporary provisions should be allowed to lapse.
URL: https://www.congress.gov/115/plaws/publ97/PLAW-115publ97.pdf

The debate arose during an April 11 hearing convened by Ways and Means Chairman Jason Smith, R-Mo., to discuss what he called "the success of the 2017 tax relief to help hardworking Americans." Invited witnesses included a former GOP senator, business owners, and economists.

Republicans tout economic strength through lower rates

The Tax Cuts and Jobs Act, the Trump administration's legacy tax package, includes an extensive set of tax relief provisions for corporations, passthrough entities, individuals, and estates. The corporate provisions—including, most notably, a reduction in the corporate tax rate to 21 percent—were enacted on a permanent basis; however, for revenue reasons, provisions on the individual side of the code—such as reduced income tax rates, a 20 percent deduction for certain passthrough income, and increased estate tax exemption amounts—were made temporary and are scheduled to expire at the end of 2025.

In his opening statement, Ways and Means Chairman Smith credited the TCJA with "creating the best economy in our lifetime"—a sentiment echoed by Republicans on the panel throughout the hearing.

"In the first two years after passage of that tax relief, real wages grew nearly 5 percent—the fastest growth in nearly 20 years. Real median household income increased by $5,000, a bigger gain than the prior eight years combined. The officially reported poverty rate dropped to its lowest level in history, and Black and Hispanic unemployment reached historic lows," he said.

But Smith also cautioned that allowing the TCJA's temporary tax cuts to expire as scheduled would result in significant tax increases on workers and families, farmers, and small businesses.

"If the 2017 tax cuts expire, the average family of four earning $75,000 will see their taxes increase by $1,500 a year, starting in 2026. A family of five with two earners making around $100,000 would see a tax increase of nearly $7,500 a year. President Biden and many other Democrats have called for repeal of the Trump tax cuts. Republicans won't let that happen because middle-income earners will be hit hardest by the coming tax hikes," he told the panel.

199A deduction: Several Republican taxwriters, along with the GOP's invited witnesses, discussed the potential economic consequences of a lapse in certain key TCJA provisions.

In an exchange with GOP taxwriter Vern Buchanan of Florida, for example, witness Michael Ervin, founder of the Coal River Coffee Company in St. Albans, W. Va., commented that losing the 20 percent deduction for passthrough income under section 199A would eliminate available capital he otherwise would use to reinvest in his business or invest in various community-based activities such as scholarship funds for disadvantaged students.

Responding to a subsequent question from Rep. Carol Miller, R-W.Va., Ervin explained that the deduction "created an environment for entrepreneurship" in an otherwise economically distressed community. Allowing the deduction to expire would "kill that environment" and reduce the incentive for individuals to take risks and start businesses that can grow the local economy, he said. Without the deduction, his business and many other small businesses in West Virginia could be forced to close, he added.

Ervin also commented in his opening statement at the hearing that the section 199A deduction gives small businesses such as his a measure of parity with corporate competitors who are benefiting from a permanent tax rate of 21 percent under the TCJA. He urged Congress to make the deduction permanent, as proposed by GOP taxwriter Lloyd Smucker, R-Pa., in the Main Street Tax Certainty Act (H.R. 4721).
URL: https://www.congress.gov/bill/118th-congress/house-bill/4721/text

Estate taxes, basis step-up: Several Republicans on the panel—including Chairman Smith—also contended that expiration of the TCJA's increased estate tax exemption amounts would make it more difficult for farmers and small business owners to bequeath their business assets to their heirs at death.

Addressing a related issue, GOP taxwriter Adrian Smith of Nebraska, assailed a Biden administration proposal that would repeal the current-law step-up in basis for inherited assets.

In an exchange with Smith, witness Austin Ramirez, CEO of Husco International Inc., in Waukesha, Wis., commented that family-owned businesses take long investment horizons and make direct investments in their communities. The combined effect of increased estate taxes plus the loss of stepped-up basis would "make it more difficult for families to maintain [their businesses] and pass [ownership] from one generation to the next," he said

Another witness—former Sen. Phil Gramm, R-Texas—told Smith that the idea of eliminating the basis step-up and hitting estates of business owners with a 40 percent estate tax at death is "just not American."

"The person who is paying that tax created [the business] and they created jobs, growth, and opportunity in the process," he said.

Corporate tax rate: Although the current-law corporate tax rate of 21 percent is not among the TCJA provisions that are scheduled to expire next year (as already noted, it was enacted on a permanent basis), some Republicans on the panel took aim at proposals by the Biden administration to increase the rate to 28 percent.

Former Sen. Gramm commented in an exchange with GOP taxwriter Mike Kelly of Pennsylvania that the idea of generating tax revenue from corporations by increasing their tax rate is fundamentally flawed.

According to Gramm, if large corporations aren't paying tax, it's because they're taking advantage of deductions that Congress gave them, and if lawmakers feel corporations are not paying sufficient tax, they should repeal the deductions they no longer want those taxpayers to have. Raising tax rates would be the wrong approach, he added.

Individual tax rates: GOP taxwriter Dave Schweikert of Arizona asked witnesses about the impact of the pending expiration of the TCJA's rate cuts for individuals.

Paul Winfree of the Economic Policy Innovation Center commented that the TCJA represented an important first step toward tax code simplification and base-broadening since it lowered individual income tax rates across the board and increased the standard deduction, thus reducing the number of taxpayers seeking to reduce their tax bills by taking advantage of various itemized deductions in the tax code.

"If we allow those tax cuts to go away, there will be political repercussions," he said.

Democrats question TCJA's economic benefits

Democratic taxwriters, for their part, questioned the relatively sunny assertions by Republicans about the TCJA's impact on the broader economy and contended that the benefits of the 2017 law accrued chiefly to a small segment of the tax base.

Ways and Means Committee ranking member Richard Neal, D-Mass., contended in his opening statement that Democrats knew as the TCJA was moving through Congress that "it would disproportionately benefit the wealthy and the well connected."

"We knew that it wouldn't pay for itself. We knew that big corporations, not their workers, would feel the most benefit. Six years since the [TCJA] was signed into law, we've been proven right on every count. It didn't pay for itself, it didn't increase revenue, and it didn't increase wages," he said.

Distributional impact: Neal also contended that when Republicans discuss the TCJA, they typically "distort" the law's distributional impact across income groups.

In an exchange with Neal, labor economist Kathryn Ann Edwards—the Democrats' sole invited witness at the hearing—disputed the GOP claims about which segments of the tax base reaped the greatest benefits from the 2017 law. According to her research, Edwards said, the top 1 percent of taxpayers received an average tax cut of $61,000 for an increase in post-tax income of 3 percent; the middle 20 percent received an average tax reduction of $910 (a 1.3 percent increase in post-tax income); and the bottom 20 percent received an average tax cut of $70 (a 0.4 percent increase in post-tax income).

Rep. Lloyd Doggett, D-Texas, asked Edwards about GOP assertions that tax cuts for corporations ultimately would "trickle down" to benefit taxpayers at the lower end of the income spectrum.

Edwards replied that the "best evidence" available in academic studies suggests that the majority of pay increases that came in the wake of the TCJA's corporate rate cuts "were concentrated among managers and executives."

Edwards also questioned the validity of the "trickle down" theory in an exchange with Rep. Mike Thompson, D-Calif., about the impact of expanding the child tax credit—a key priority for congressional Democrats.

"If you want to help children and low-income families, you should direct the policy right to them and not [through] an intermediary such as an employer or a corporation," she said.

Impact on the economy: Ranking member Neal questioned the GOP's characterization of economic growth following the TCJA's enactment, noting that the taxpayers who received the largest tax cuts under the law were not individuals who typically would spend the extra cash.

Edwards stated in response to a question from Neal that a design flaw in many tax cuts is that they provide the greatest benefits to upper-income individuals who are more likely to save their windfall, rather than spend it. To grow the economy, she said, tax cuts need to be directed to the individuals who are most likely to spend the extra cash immediately—a view that she said was borne out in the wake of the 2008 recession and again during the 2020 COVID pandemic when Congress sent out stimulus checks, structured as one-time tax rebates, to individuals in the lower rate brackets.

"That's the way to increase aggregate demand," she said.

Edwards also noted that the TCJA enjoyed a certain timing advantage since it was enacted as the economy was in the midst of recovering from the 2008 recession and was already growing at a healthy clip by 2017. The fact that the measure became law during a period of sustained economic growth does not mean that it sparked that growth, she told the panel.

Both sides spar over Pillar Two global corporate minimum tax

Moving beyond the scope of the TCJA, taxwriters and witnesses on both sides of the aisle also weighed in during the hearing on efforts by the Biden administration to align the US tax code with the 15 percent global corporate minimum tax under Pillar Two of the multinational tax pact currently being advanced through the OECD.

Texas Democratic Rep. Lloyd Doggett, for example, commented that the TCJA encourages offshore investment since multinational corporations are taxed at a significantly lower rate on their overseas profits compared to income earned domestically.

Witness Kathryn Edwards agreed, telling Doggett that "a global minimum income tax that stops the race to the bottom is the right way to deal with our future."

For his part, witness Phil Gramm derided the Pillar Two minimum tax proposal in an exchange with Pennsylvania Republican Mike Kelly, stating that the Biden administration's decision to negotiate the international agreement without consulting Congress was "the greatest abuse of the Constitution of the United States in my lifetime" and something that "every member of Congress ought to be against."

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