Hearing on Temporary Policy in the Internal Revenue Code

HEARING

BEFORE THE

SUBCOMMITTEE ON SELECT REVENUE MEASURES

OF THE

COMMITTEE ON WAYS AND MEANS

U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED SIXTEENTH CONGRESS

FIRST SESSION

March 12, 2019

Serial No. 116-12

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Hearing on Temporary Policy in the Internal Revenue Code
U.S. House of Representatives,
Committee on Ways and Means,
Washington, D.C

WITNESSES

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HOUSE COMMITTEE ON WAYS & MEANS
CHAIRMAN RICHARD E. NEAL

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FROM THE COMMITTEE ON WAYS AND MEANS

FOR IMMEDIATE RELEASE CONTACT: (202) 225-3625
March 5, 2019
No. SRM-2

Chairman Thompson Announces a Select Revenue Measures Subcommittee Hearing on Temporary Policy in the Internal Revenue Code

House Ways and Means Select Revenue Measures Subcommittee Chairman Mike Thompson announced today that the Subcommittee will hold a hearing, entitled "Temporary Policy in the Internal Revenue Code" on Tuesday, March 12, 2019, at 2:00p.m., in room 1100 of the Longworth House Office Building.

In view of the limited time available to hear witnesses, oral testimony at this hearing will be from invited witnesses only. However, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Please Note: Any person(s) and/or organization(s) wishing to submit written comments for the hearing record can do so here: WMdem.submission@mail.house.gov.

Please ATTACH your submission as a Word document, in compliance with the formatting requirements listed below, **by the close of business on Tuesday, March 26, 2019.**

For questions, or if you encounter technical problems, please call (202) 225-3625.

FORMATTING REQUIREMENTS:

The Committee relies on electronic submissions for printing the official hearing record. As always, submissions will be included in the record according to the discretion of the Committee. The Committee will not alter the content of your submission, but reserves the right to format it according to guidelines. Any submission provided to the Committee by a witness, any materials submitted for the printed record, and any written comments in response to a request for written comments must conform to the guidelines listed below. Any submission not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

All submissions and supplementary materials must be submitted in a single document via email, provided in Word format and must not exceed a total of 10 pages. Witnesses and submitters are advised that the Committee relies on electronic submissions for printing the official hearing record.

All submissions must include a list of all clients, persons and/or organizations on whose behalf the witness appears. The name, company, address, telephone, and fax numbers of each witness must be included in the body of the email. Please exclude any personal identifiable information in the attached submission.

Failure to follow the formatting requirements may result in the exclusion of a submission. All submissions for the record are final.

The Committee seeks to make its facilities accessible to persons with disabilities. If you require special accommodations, please call (202) 225-3625 in advance of the event (four business days' notice is requested). Questions regarding special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

Note: All Committee advisories are available [here].

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The subcommittee met, pursuant to call, at 3:46 p.m., in Room 1100, Longworth House Office Building, Hon. Mike Thompson [chairman of the subcommittee] presiding.

Chairman Thompson. The subcommittee will come to order.

Good afternoon, and welcome to all my colleagues, to my friend, our ranking member, Mr. Smith from Nebraska. And thank you to our distinguished panel of witnesses who have joined us today.

The subject of today's hearing is "Temporary Policy in the Internal Revenue Code." Temporary policy exists throughout the Code, and its economic impacts are felt by individuals, small businesses, and large corporations alike.

According to the Joint Committee on Taxation, there are 80 provisions in the Code that are set to expire between now and 2027. Today, we will examine what some of those temporary tax policies are and why they may have been enacted under a temporary basis. These are questions we need to ask as we evaluate what to do about these 80 policies that JCT identified and as we consider the legislation that will come before the committee in this Congress.

Temporary policy can be used to address a one-time need, such as when Congress provided targeted tax relief on payments made from a charitable fund created following the mass shooting at Virginia Tech University or extending the period of time for which taxpayers could make a charitable deduction on their current year's tax following the late-December Indian Ocean tsunami in 2004.

The Congress has enacted temporary tax relief on an ad hoc basis to offer individuals and businesses a helping hand in the wake of a disaster, something we will hear more about today from our witnesses. Temporary policy can be used to provide transition rules for new policy and ensure fiscal responsibility.

Some temporary policies are routinely extended and are often expected to be extended, including many recently expired provisions aimed at encouraging energy production and conservation, U.S. energy independence, and pollution reduction. In fact, there are approximately 29 provisions that expire in either 2017 or 2018, including a number of provisions that deal with clean energy and energy efficiency, the expiration of which has left taxpayers in limbo. These those are the so-called "tax extenders."

I am not going to list all these provisions, but please refer to the following JCT documents to see the provisions under consideration in today's hearings. That is JCX8-19 for a list and description of the provisions required or expiring in 2017, 2018, and 2019, and JCX2-19 for a full list of the 80 provisions set to expire by 2027.

[The information follows:]

Chairman Thompson. Finally, temporary tax law can be used to hide the true cost of certain policy changes, as was the case with the Republican tax bill. Instead of engaging in regular order, holding public hearings, and soliciting bipartisan input, the Republicans that ran this committee in the House in the last Congress chose to use a budgetary process known as reconciliation which allowed them to rush their tax bill through Congress without a single Democratic vote.

Under reconciliation, the Republican tax bill could increase the deficit by $1.5 trillion over 10 years but not a penny more. When it came time for the Republicans to decide who they wanted to help with their tax bill, they spent that money on a massive reduction in the corporate rate, from 35 to 21 percent, by passing a bill loaded with future tax increases and uncertainty for regular people -- hardly the tax reform for a generation that the bill's supporters promised.

Economists tell us that the greater the uncertainty, the greater the economic cost. Research conducted by economists Scott Baker and Nicholas Bloom and Steven Davis shows that policy uncertainty has increased in the U.S. over the past 50 years. This rising level of uncertainty leads to lowered consumer confidence, increased volatility in the stock market, and threatens investment and job growth in crucial sectors across our economy, including defense, healthcare, finance, and infrastructure.

For families, temporary manipulations of essential policies like the child tax credit and earned income tax credit can make a major impact on a family budget. And permanent individual changes like indexing tax brackets to a slower indexation measure means a permanent tax increase over time for those families.

For those taxpayers trying to rebuild their lives in the wake of a disaster, temporary policies are just one further layer of uncertainty at a time when their world has been upended, particularly for those low-margin taxpayers who don't have an army of expensive lawyers and accounts at hand.

I have long advocated for permanent national disaster tax policy so those who find themselves the unfortunate victims of a natural disaster aren't left waiting to see whether the Congress will pass tax relief for them.

The cost of making every expiring provision in the Tax Cuts and Jobs Act permanent is estimated at $2.5 trillion over 10 years. As our subcommittee weighs the extension or modification of these and other expiring policies, we must do so with a commitment to fiscal responsibility and an understanding that the corporate tax rate could never have been lowered from 35 to 21 percent without the use of fiscal gaming that shortchanges families and small businesses.

We should strive to make tax policy that is forward-looking and provides not only predictability for our businesses but security for regular people whose livelihoods and household budgets are impacted by temporary policy. I hope today's hearing will be helpful in informing that debate.

And, with that, I recognize the ranking member, Mr. Smith of Nebraska, for an opening statement.

[The statement of Chairman Thompson follows:]

Mr. Smith of Nebraska. Thank you, Chairman Thompson, for calling today's hearing.

And, certainly, thank you to our panel of witnesses.

I am glad we are having a hearing on ways that we can improve the Tax Code for families and small businesses rather than wasting time on a rush to impeachment, which seems to be a high priority among some Members.

The Tax Cuts and Jobs Act was transformative legislation to provide tax relief to middle-class families, fix our broken Tax Code, and make American workers and companies competitive against foreign counterparts whose tax systems had become vastly more attractive to investment and growth. TCJA helped working families by doubling the standard deduction and increasing the child credit, including its refundable portion.

Much more than that, the real impact on working Americans of TCJA, along with the deregulatory actions of this administration, has been strong economic growth and a historic job market, markedly decreasing unemployment, increasing wages, and creating opportunity for all Americans, including those on the bottom rung.

I strongly disagree with those calling for even deeper wealth redistribution, such as vastly increasing refundable credits and moving towards 70 percent or even 90 percent marginal rates. Even President Obama understood the importance of reforming the corporate tax code and lowering the corporate rate. However, we weren't going to reform the Code only for large corporations and leave our families and small businesses behind.

There is broad agreement we should continue to work to modernize our Tax Code and that temporary tax policy is not optimal for anyone -- families, businesses, or even us as policymakers. Families and small businesses shouldn't have to spend an entire calendar year wondering whether expired tax provisions will be reinstated retroactively.

In the 115th Congress, we took a number of steps in an effort to address temporary tax policy.

First, this subcommittee held an extensive hearing which provided stakeholders and interested parties the opportunity to step forward and discuss the future of these provisions. More than 20 parties appeared before the subcommittee to begin this conversation. I encourage our colleagues who are new to this committee to review that hearing record.

Second, we attempted to address concerns about temporary policy through two pieces of legislation. As part of Tax Reform 2.0, the House passed legislation to make permanent the tax relief provided to families and small businesses in the Tax Cuts and Jobs Act. I have not spoken to a single colleague who helped to pass TCJA who wouldn't have preferred to enact permanent policy in 2017, but, unfortunately, the Senate lacked the votes to make that happen. As one of our witnesses will point out, we would see even more growth if these provisions of TCJA were made permanent.

And, finally, toward the end of last year, the House passed legislation to address the two dozen so-called "tax extenders" which expired at the end of 2017. In particular, we should credit stakeholders interested in a short-line rail credit and biodiesel tax credit for stepping forward and bringing us constructive ideas to help provide long-term certainty to those provisions.

These short-line and biodiesel proposals followed on a previous round of tax extenders where we were able to make several provisions permanent and find long-term solutions to the wind and solar tax credits, recognizing those industries were reaching a point where taxpayer subsidies were no longer necessary for their viability.

It is particularly disappointing we couldn't complete our work on extenders last year, because these industries which worked with us in good faith are now in their 15th month without an extension and with no solution in sight.

As this conversation moves forward, I believe we can continue to work together to find bipartisan solutions regarding the remaining extenders. We look forward to working across the aisle to provide relief from uncertainty, first in the short term but, ultimately, we hope, for the long term.

I yield back.

[The statement of Mr. Smith of Nebraska follows:]

Chairman Thompson. Thank you, Mr. Smith.

And, without objection, all members' opening statements will be made part of the record.

Chairman Thompson. We have with us today a distinguished panel of witnesses as we begin the committee's examination of temporary policy, and I would like to introduce them. I will go through and introduce them, and then we will start. In that same order, we will hear from the witnesses.

First, we have Dr. Mark Mazur. And Dr. Mazur is the Robert C. Pozen director of the Urban-Brookings Tax Policy Center. As a vice president at the Urban Institute, his research interests cover all aspects of tax policy. From 2012 until early 2017, he was the Assistant Secretary for Tax Policy at the U.S. Department of the Treasury.

Ms. Pam Olson is the U.S. deputy tax leader and Washington national tax services practice leader of PWC. Prior to joining PWC, Ms. Olson was Assistant Secretary for Tax Policy at the U.S. Department of the Treasury from 2002 to 2004 and head of major tax-writing organizations.

Next, Chye-Ching Huang is director of Federal fiscal policy with the Federal fiscal policy team at the Center on Budget and Policy Priorities. She rejoined the center in July of 2011 after working as a senior lecturer at the University of Auckland in New Zealand, where she taught graduate and undergraduate tax law and conducted research in tax law policy.

Dr. Judy Sakaki is the president of Sonoma State University in California's Fifth Congressional District and was a survivor of the Tubbs Fire in northern California in 2017. She and her husband barely escaped with their lives in that fire. It is a pleasure to invite Dr. Sakaki to tell us about her experience and something that I hope none of your constituents will have to ever go through.

And, finally, Mr. Kyle Pomerleau is the chief economist and vice president of economic analysis at the Tax Foundation.

Each of your statements will be made a part of the record in its entirety. I would ask that you summarize your testimony in 5 minutes or less. To help you with that time, there is a timing light at your table. When you have 1 minute left, the light will switch from green to yellow and then finally to red when your 5 minutes are up.

Dr. Mazur, please start.

STATEMENT OF MARK MAZUR, PH.D., ROBERT C. POZEN DIRECTOR, URBAN-BROOKINGS TAX POLICY CENTER

Mr. Mazur. Good afternoon. I would like to thank Chairman Thompson and Ranking Member Smith and all the members of the subcommittee for inviting me here to appear today.

I am appearing on my own behalf, so the views I express are my own. They shouldn't be attributed to the Tax Policy Center nor Urban Institute or Brookings Institution.

There has been a long history of temporary tax policy in the United States. In my prepared testimony, I go through an example of the investment tax credit, which was instituted in 1962, made a little bit more generous in 1964, suspended from October 1966 to early 1967, repealed in 1969, reinstated in 1971, temporarily raised the rate in 1975, extended that temporary rate in 1976, and finally was repealed in the Tax Reform Act of 1986.

So what we are talking about here when we are talking about temporary tax policy, there is a many-decades-long history in the U.S. Tax Code.

But I think temporary tax policy has become a more prevalent part of the legislative process in recent decades. The number of expiring provisions have increased markedly in the late 1980s and the following two decades, and the size and scope of these temporary provisions also grew. The 2001 and 2003 tax acts, both had major portions set to expire at the end of 2010. Those were extended for a couple years and then addressed again in 2012, and a number of them were permanently extended at that point.

The PATH Act of 2015 made a number of traditional expiring provisions permanent but took the rest of the expiring provisions and extended them for a couple years.

And that kind of takes us to where we are with the traditional expiring provisions. But, as Chairman Thompson said, the Tax Cuts and Jobs Act added a number of provisions that expire in 2018, 2019, 2025, most significantly when the individual and estate tax versions are scheduled to expire. And that means this Congress and future Congresses will have plenty of opportunity to address these provisions this year and next year and in future years.

There are some arguments in favor of doing temporary tax policy. They could allow Congress to determine how well a program could work, how effective an incentive may be. Temporary tax provisions can more easily be fine-tuned or modified because there are natural stopping points when you go and take a look at the provision. Temporary provisions can address one-time, short-term events like natural disasters, as was mentioned. And they also can allow Congress to determine the breadth of support for a provision, whether it has a national constituency and has broad-based public benefits.

But there are negative aspects to enacting tax policy on a temporary basis as well. Temporary provisions add uncertainty to the Tax Code, and this can be a big problem when taxpayers need to make long-term investment decisions that may take longer to come to fruition than the life of the provision that is in law. Routine extensions of temporary provisions without a rigorous evaluation of them can mean that Congress is enacting suboptimal tax policy, things that may not work as effectively as they could or should.

And when temporary tax provisions are allowed to lapse, taxpayers are put into an awkward position, trying to figure out what they should do, whether they should file a return assuming that the temporary provision has lapsed and will not be extended or whether they should maybe file an extension and hope that the provisions will be extended.

I just want to end with three modest suggestions regarding temporary tax policy.

First, I think the world would be better if Congress had fewer temporary tax provisions that were enacted and those that were had a conscious plan to figure out when they are going to be extended and under what circumstances.

Second, there should be rigorous evaluations of temporary tax provisions that are intended to be extended, that aren't a result of a short-term, one-time thing. You have the Government Accountability Office, you have the National Academies of Sciences at hand. They can do a nonpartisan, objective analysis of the provisions to determine which ones have those broad national benefits that would make them want to be extended permanently.

And I would argue against extending things retroactively. There is nothing that makes a tax incentive less effective than paying people for doing something they already did without it. And so, as a matter of course, extending things retroactively just blunts the incentive effect of these provisions.

Thanks for your attention and your time, and I will be happy to answer any questions you may have.

[The statement of Mr. Mazur follows:]

Chairman Thompson. Thank you very much.

Ms. Olson?

STATEMENT OF PAM OLSON, U.S. DEPUTY TAX LEADER AND WASHINGTON NATIONAL TAX SERVICES LEADER, PRICEWATERHOUSECOOPERS

Ms. Olson. Chairman Thompson, Ranking Member Smith, distinguished members of the subcommittee, good afternoon. I appreciate the opportunity to appear today as you consider temporary tax policy.

I am appearing on my own behalf, and the views expressed are my own. I apologize for the extent to which I may sound like an echo of what you have just heard.

As the written testimony of the witnesses indicates, temporary tax policy has a long history in the United States, but temporary tax provisions have become more common in recent years, as Dr. Mazur said. I applaud the subcommittee for pausing to consider the impact of temporary policy as you evaluate tax legislation.

I want to stress at the outset the importance of predictability, including with respect to taxes, to decision making and planning for the future. Uncertainty adds a risk premium to decisions about saving and investment that affects whether, when, and where to invest. Tax provisions enacted to expire or change over time necessarily result in greater uncertainty because their extension or their terms depend upon future congressional action.

That said, there are clear policy reasons for Congress to enact certain kinds of tax provisions on a temporary basis, including as fiscal policy to counteract an economic downturn, to stimulate investment intended to speed development or bringing to market of a new technology or product, to encourage a change in behavior, to address a market failure believed to be of temporary duration, or to consider the necessity for or impact of a provision.

Temporary provisions can afford Congress a built-in mechanism to evaluate the efficacy of the provisions before extending or making them permanent.

There are many examples of such temporary tax provisions enacted by Congress over the years. As others have noted, there may be fewer examples of full evaluations of a provision's efficacy prior to its extension. And many provisions enacted for a temporary purpose have been routinely extended, with the result that investments are made factoring in expectation of an extended tax benefit.

The R&D credit is a case in point. In its 30-plus years as a temporary provision, it was allowed to lapse only once without reinstatement for a prior period, and taxpayers appeared to remain confident of its continuing availability despite the lapse. It is an open question whether taxpayers currently expect Congress to renew temporary tax provisions.

Besides the many tax provisions that are temporary, there are also provisions enacted on a deferred basis, implementation of which has been delayed, that add uncertainty.

There is also uncertainty, more today than in recent years, that Congress has limited ability to affect because it stems from governmental activities outside the U.S. affecting cross-border taxation. In particular, a number of foreign governments have enacted or are considering unilateral tax provisions that appear aimed at U.S.-based companies.

While the OECD has undertaken a project aimed at staving off such unilateral actions, the project itself involves a broad look at jurisdiction to tax. The direction and outcome of the project are hard to predict. The result: further uncertainty.

I want to offer a few observations for the committee's consideration from experience with temporary tax provisions aimed at encouraging investments in experimental technology for renewable or clean forms of energy.

First is that, if Congress determines to support an investment through a temporary provision, it is important to ensure that the provision remains in effect for a sufficient period of time to allow completion of the project.

Second is that delivering the governmental investment through a temporary tax benefit may not be the most efficient way to do so. Investors demand a risk premium to absorb tax uncertainty.

Third is, while delivering an investment through the Tax Code brings valuable market information to help direct investment, it can be hard to assess the efficacy of the tax benefit in achieving the purpose for which it was enacted.

In considering temporary tax provisions, it should be acknowledged that all tax law is temporary, in the sense that each provision is subject to subsequent revision or repeal by Congress regardless of whether it sunsets.

The broader implications of temporary tax provisions on Federal tax policy in general are especially important to keep in mind considering our country's overall fiscal condition, which gives rise to questions regarding the sustainability of current revenue and spending policies.

Whatever decisions are made, it is critical to ensure that Federal tax policies and Federal spending policies are mutually sustainable. I urge the subcommittee to focus on sustainability. Sustainable policies are policies that make the United States attractive to business investment that helps the economy grow, creating more jobs and rising wages, lead to more broadly shared prosperity, and are seen as fair in the eyes of the public.

While the tax reform legislation enacted in 2017 provided some of the most significant changes to U.S. tax law in more than 30 years, including globally competitive tax rates and ending the disincentive to repatriate foreign profits, the issue of expired or expiring tax provisions remains unresolved and will require further committee consideration.

The design of tax policy is never simple, and building a sustainable tax system will be particularly difficult, but the subcommittee has begun that effort with the hearing today. America is banking on your success.

Thank you.

[The statement of Ms. Olson follows:]

Chairman Thompson. Thank you very much.

Ms. Huang?

STATEMENT OF CHYE-CHING HUANG, DIRECTOR OF FEDERAL FISCAL POLICY, CENTER ON BUDGET AND POLICY PRIORITIES

Ms. Huang. Chairman Thompson, Ranking Member Smith, and distinguished members of the subcommittee, thank you for the opportunity to testify about temporary tax provisions and other unfinished business from the 2017 tax law.

I will talk about four categories of temporary or uncertain tax provisions and recommend two ways for moving forward.

First, of course, is the extenders. The 2017 tax law did not make permanent various extenders that some of the drafters of that law now propose to again extend without paying for them. Not including those extenders in the 2017 law had the effect of hiding their cost, which allowed for more new tax cuts but has created less eventual uncertainty.

Second is that most individual provisions of the 2017 tax law are set to expire after 2025. The law's top priority was permanent corporate rate cuts. Now, many lawmakers who supported that law want to make the individual provisions permanent, but that would double down on the flaws of the law itself -- that it is costly, tilted to the top, and creates new loopholes for the wealthy.

Making the individual provisions permanent would cost $267 billion in 2027 alone, raise the incomes of the top 1 percent by more than twice as much as for the bottom two-thirds of all Americans, and would make permanent a deduction for passthrough income, which has set off a tax planning frenzy among the wealthy because it is such a big new loophole.

But the biggest problem with those individual provisions is that they did not prioritize working families, and it even hurt many. Proponents of the law often highlight its double child tax credit, but, in fact, 11 million children in low-income working families got no CTC increase or a token increase of just $1 to $75, and 15 million more children got less, and often far less, than the advertised $1,000-per-child increase.

The law didn't boost the earned income tax credit, which encourages work and lifts the living standards of millions of working families. And that is why, even under this new tax law, the Federal Tax Code still taxes into or deeper into poverty many low-wage workers without children in the home.

Third, the law's corporate provisions appear permanent but are unstable. For example, the law delays the effect of some provisions that raise revenue from corporations, which gives lobbyists time to try to prevent them from taking effect.

And fourth and finally and by far the biggest reason that the 2017 tax law is unstable is that it didn't meet the Nation's most pressing needs. It requires fundamental restructuring. Instead of focusing on workers who have faced decades of near-stagnant wages, it did the most for well-off and profitable businesses. And instead of raising revenue to meet the Nation's fiscal challenges, it took revenues to the lowest level in 50 years other than in the aftermath of a recession. Instead of making the Tax Code more efficient, it has created a bonanza of new loopholes and lobbying opportunities.

So, moving forward, I have two recommendations.

First, lawmakers should fundamentally restructure the law. True tax reform would prioritize people with low or modest incomes, raise revenue, and strengthen the integrity of the Tax Code.

And, second, if lawmakers decide they want to take steps this year to address the unfinished business of the 2017 tax law, the most pressing unfinished business is the millions of workers and families that it largely left behind. So, if Congress decides to move a package of extenders, it shouldn't do so without also helping struggling workers and families.

Congress should ensure that low-wage workers without children in the home have a meaningful earned income tax credit that protects them from being taxed into or deeper into poverty. And that is a goal that Chairman Neal and other members of the committee have supported.

And children in low-income working families should get a more adequate child tax credit. That would be a downpayment on reform that really focuses on hard-pressed workers and families.

Thank you again for the opportunity to testify, and I would be happy to take any questions that you have.

[The statement of Ms. Huang follows:]

Chairman Thompson. Thank you very much.

Dr. Sakaki?

STATEMENT OF JUDY K. SAKAKI, PH.D., PRESIDENT, SONOMA STATE UNIVERSITY

Dr. Sakaki. Good afternoon, Chairman Thompson, Ranking Member Smith, and members of the subcommittee. My name is Judy Sakaki. I am president of Sonoma State University, one of the 23 campuses of the California State University.

Whether you are a flood victim from Texas or California, a hurricane survivor from Florida, a wildfire victim from California, those disasters significantly impact your life. They have no regard for anyone. They are indiscriminate.

These disasters may not have shown regard for anyone, but our country and you, as Members of Congress, can show your regard for everyone, each disaster victim, by doing what you can to make life a bit easier for people to get back on their feet.

I am a disaster victim. 4:03 a.m., October 9, 2017, the smoke detector in our bedroom starts blaring. I jump out of bed, grab my robe, and run down the hall. As I look down the stairs, I see flames. I scream for Patrick, my husband, to wake up. We raced downstairs and opened the front door. Everything is on fire, including all of our neighbors' homes.

I expect to hear sirens, to see a fire engine, but there are none. It feels as if we are in a scene from a terrible movie. Everything is exploding, and it is so hot.

I grab Patrick's hand, and we start to run barefoot up the middle of the street. We can't see. It is hard to breathe. When one of us slowed down to catch our breath or to shield our face from the flying embers, the other pulled. We cannot stop.

We ran for about a mile, and just when we thought that we might not make it, miraculously, in the middle of the thick black smoke, we see two little circles in the distance. It was a vehicle, thank goodness. In it were two off-duty firefighters who decided to make a last run up the hill in our neighborhood. They found us and saved our lives.

We were taken to an evacuation center and then to campus in the morning. There were so many things to think about at this point. We had no clothes, shoes, no toothbrush, no cash, no credit cards, no car. It is hard to fully express the feeling of devastation and deep loss that comes when one's home, with every single thing in it, is gone.

Then there were so many decisions to make: debris removal, private or FEMA, rebuild or not, find an architect, get a local contractor. Missing something? Better write it down. Make that list for the insurance.

We have spent thousand of hours documenting and having to remember all that we owned. So many questions to answer. How many wastebaskets did you have? How many suits and shoes? Was the baseboard in the dining room 4-1/2 or 5 inches, and what was it made of?

This has been the most traumatic personal experience of my life. Immediately after the fire, I had difficulty sleeping. I saw flames every time I closed my eyes. And then, in my dreams, I was always running but not quite fast enough.

Going back to campus felt good. Our emergency operations center functioned well. We made sure that our campus and students were safe. The university incurred many added fire-related expenses, but we were fortunate; our campus did not burn. However, like me, 80 of our students, faculty, and staff also lost their homes.

Since the fire, Patrick and I have had to move six times. Finding housing has been extremely difficult. It has been 1 year and 5 months since the fire. Not only are we still dealing with our insurance claim, but the psychological scars and emotions left from the fire are enduring.

We are more fortunate than most. We know that we have resources and connections that others do not have. Yet bouncing back is hard. There is so much to do just to keep our lives and careers on track and to maintain our sanity. The issues, pressures, and deadlines are overwhelming.

I filed for a tax extension, then still missed the extended deadline and had to pay late tax penalties for the very first time in my life.

Many of the 8,400 North Bay fire victims will have their temporary housing or ALE insurance benefits run out this October. If fire victims have not completed their insurance negotiations or completed the rebuilding of their home -- and most have not -- they will be left with rent payments that they likely cannot afford. Keep in mind that homeowners still have to pay their mortgages, and approximately 70 percent of fire victims are underinsured.

Disasters are unpredictable, with unimaginable loss. They test victims in ways that we have never been tested before. We have to be resilient and to heal. And as we do so, our communities and our country will become stronger.

But to do this, we need assistance. And tax policy matters. In addition to support from FEMA, the tax relief package for fire victims provided another strategy to help victims. But it is not enough. Any help, every supportive policy change, especially permanent ones, will make a difference and will be appreciated by future disaster victims.

I never imagined that I would be a victim of a disaster, and yet here I am. Thank you. Thank you for allowing me to share my story.

[The statement of Dr. Sakaki follows:]

Chairman Thompson. Thank you very much.

Mr. Pomerleau?

STATEMENT OF KYLE POMERLEAU, CHIEF ECONOMIST AND VICE PRESIDENT OF ECONOMIC ANALYSIS, TAX FOUNDATION

Mr. Pomerleau. Chairman Thompson, Ranking Member Smith, and members of the subcommittee, thank you for the opportunity to speak today about temporary tax policy in the Internal Revenue Code.

Today I want to discuss an important tax policy principle of stability. Taxpayers deserve consistency and predictability in their Tax Code, and, as such, governments should avoid enacting temporary and retroactive tax laws. Stability is also important for the success of any tax policy. A policy that may otherwise produce economic growth or other positive benefits may fail if the policy is temporary or is seen as temporary by taxpayers.

Taxes play a role in the decisions to work, save, and invest by impacting the returns on those activities. Workers decide how many hours to work and whether to work based on their after-tax wage. Businesses decide how much capital to deploy based on their after-tax return of that investment.

If individuals work more or businesses pursue more investment in new equipment and factories, this can lead to more individuals working more hours and more productive capital in the economy. And higher quantities of those things mean that America earns more income and produces more goods and services.

However, tax policy doesn't permanently change the rate of growth in the economy. Rather, it has an impact on the level of output. Taxes can impact the growth rate for a short period of time as the economy adjusts to new policy. Importantly, the decision to work, save, and invest is a forward-looking activity. As a result, tax policies today and those in the future can impact investment decisions.

Some temporary policy can be warranted, but, in general, temporary tax policy should not be expected to have a permanent impact on the economy. In fact, some temporary tax policies may reduce incentives for businesses to invest. Other policies may simply shift or encourage taxpayers to shift activity from one year to another.

Take, for example, a temporary cut in the business tax rate. Businesses would be reluctant to invest in long-lived assets, like structures, that generate revenues many years or decades into the future. If the revenue is not going to come until after the tax cuts expire, the tax cuts are of no use to the investor and the tax cut will not positively impact that decision.

For more than a decade, a collection of temporary, narrowly targeted tax provisions for individuals and businesses have routinely expired and then been temporarily reauthorized, earning the nickname of "tax extenders." There are currently about 29 tax breaks that expired at the end of 2017 and 2018 that are under review for retroactive reauthorizations.

Many extenders, because they improve the cost-recovery treatment of certain investments, are actually duplicative with current policy under the Tax Cuts and Jobs Act. More than half of the remaining provisions outside of that are tax credits for specific economic activity. Generally, these preferences reduce neutrality and efficiency of the tax system by altering the relative returns of different investments. And, at this point, lawmakers should start considering allowing most or all of these provisions to expire.

Another major source of temporary policy in the Internal Revenue Code is from the passage of the Tax Cuts and Jobs Act. Many business provisions and nearly all the individual provisions are set to either change or expire over the next decade. The TCJA made some important reforms to the Federal Tax Code. Some of these reforms will improve incentives to work and invest in the United States. However, since many parts of the TCJA are temporary, these effects will be somewhat muted, especially in the long run.

While it was not ideal to make significant portions of the TCJA temporary, there is now an opportunity for lawmakers to evaluate different aspects of the law and make improvements to the Tax Code permanent. Permanently dealing with all of the TCJA will increase taxpayer certainty and can contribute positively to the economy. However, making all or part of the TCJA permanent will require lawmakers to address important tradeoffs due to associated fiscal costs.

Overall, tax reform can increase the size of the economy by having a positive impact on incentives to work and invest. However, when tax policy is temporary or retroactive, these positive effects are -- some are muted.

Thank you, and I look forward to your questions.

[The statement of Mr. Pomerleau follows:]

Chairman Thompson. Thank you very much.

I have a letter that I received prior to the hearing starting from Congressman Brady and Congressman Smith that, without objection, I would like to introduce as part of the record.

Hearing none, such will be the order.

[The information follows:]

Chairman Thompson. We will now proceed under the 5-minute rule with questions for the witnesses. I will begin by recognizing myself for 5 minutes.

And, Dr. Sakaki, I will start with you. Thank you very much for coming out here and sharing with us what had to be a very, very painful story. I know you and your husband personally; I know what you went through. And I also know what some 7,000 other constituents of mine went through in these just terribly horrible fires. People lost everything. Sadly, some people even lost their lives. So thank you for being here. I think it is important to put a personal touch on this.

Your experience in putting your life back together in the aftermath of the Tubbs Fire is something that other survivors of natural disasters have also faced across many different States. Do you think the people of North and South Carolina who just lost all of their belongings and, in some cases, their lives after Hurricane Florence are going through some of the same things that you are going through?

Dr. Sakaki. Yes, I believe so. I think there is the initial shock and then coming to grips with trying to put your life back together, everything from getting your possessions to your home and finding a place to live again.

Chairman Thompson. And these natural disasters, they don't discriminate. They take out, as we know at home, entire towns. Congressman Lamalfa just lost an entire town to a fire.

And you are well-connected, you are educated, and your husband is also well-educated and a smart guy, but there are a lot of people who are much less fortunate. What is your experience with your neighbors and other people in the community, how they are coping with their recovery?

Dr. Sakaki. It has been even more difficult. They have had to move, find places to live. Some do not have insurance. Others have lost their jobs. And then all of us are going through the mental health needs that we have. So it is even more difficult.

Chairman Thompson. And I just want to point this out, that there is no disaster tax relief in place at the present time for the people of North Carolina or South Carolina that were hit by Hurricane Florence. There is no tax relief in place for the people who lost everything in the tornadoes that hit Alabama last week.

And I really think it would be helpful and the right thing for us to do as a Congress to take this hurdle away from folks who are trying to struggle to put their life back on course.

So thank you for sharing your story, and hopefully we can put on the books a permanent redress to these problems.

Dr. Mazur, I would like to talk a little bit about clean energy. And I think it is important and we have pointed out that a number of these tax extenders deal with the issue of either reducing energy use or pushing folks towards cleaner, renewable energy.

What do you think the most important things are that Congress can do to ensure a long-term commitment to reducing greenhouse gas emissions and creating millions of new green-economy jobs?

Mr. Mazur. I think the basic intuition behind what Congress should be doing is trying to make sure that the costs of new technologies that reduce greenhouse gas emissions are less than the cost of existing technologies that spew more additional greenhouse gas emissions. So you want to change the balance of those things.

And you want to change it in a way that is more long-lasting. I think as Pam Olson was discussing, it is very difficult when you have a stop-and-start provision in place where you have to gear up a large investment in a new technology if you can't rely on that tax benefit being there when you actually get to deploy that technology.

Chairman Thompson. One of the things that I have heard my entire time on the committee from folks who are trying to create jobs in that space is that the temporary conditions, tax conditions, are a real setback for them. Hard to go out and attract capital investors and things of that nature.

And do you think that a long-term policy commitment would make a big difference in terms of greater market penetration for new carbon-combating technology as compared to what we have done over the last decade?

Mr. Mazur. Sure. I think that if you can have an incentive in place that is going to be there for the long term, you can get taxpayers to make long-term investments based on that. And that is what you are trying to do.

Chairman Thompson. Thank you.

I am going to now call on -- you want to pass, right? -- on Mr. Rice.

You are recognized for 5 minutes.

Mr. Rice. Thank you, Mr. Chairman.

I want to start with you, Mrs. Sakaki. I just want to tell you, I sympathize with you. I am so sorry for what you are having to dealing with.

And it is true, folks in South Carolina and North Carolina were hit by Hurricane Florence this year in September and 2 years before by Hurricane Matthew, and we are still -- we were still somewhat reeling from Hurricane Matthew.

And Mr. Holding and I both introduced a hurricane tax relief bill for Hurricane Florence in October. It was actually taken up and passed by the House, but it didn't make it through the Senate. It was passed by the House in December, didn't make it through the Senate. Caught up in squabbling over various budget issues.

And it is reprehensible that hurricane tax relief and hurricane funding and funding for the California fires hasn't been passed already. And I implore our leadership on both sides of that to deal with that and deal with it quickly, because indigent folks are out of their houses. Farmers are reeling. It is a terrible disaster, and it needs to be resolved.

We got disaster relief funding for Hurricane Matthew, which happened 2-1/2 years ago, $95 million to rebuild 1,300 homes. So far, from Hurricane Matthew, 400 of those homes have been rebuilt. That means 900 indigent South Carolina families are either living in substandard housing or are out of their homes.

Federal disaster relief needs to be completely revamped. It is totally subjective, and it depends on the disaster and depends, unfortunately, on the seniority of the Congressman or the Senator who is representing the area that is damaged. And it needs to be made much more objective so that you have certainty about what you are expected to do and what your rights are, rather than figuring out after every disaster what the response is going to be.

One very common problem is -- Hurricane Florence hit on September the 14th. Well, September 15th is a big tax filing deadline. So I had a bunch of CPAs and individuals and businesses calling me and saying, well, am I supposed to file my tax returns or not?

Unfortunately, under the Tax Code, it is up to the IRS as to whether or not you get an extension, whether a disaster area is declared or not. The President can declare a disaster, and the IRS Commissioner can decide a month later whether or not you are going to be allowed to extend your tax returns.

So people were saying, well, am I supposed to file my tax returns or not? So I introduced a bill that would give, in the event of a Presidentially declared disaster area, an automatic extension of 60 days so we don't have to worry about whether the IRS is going to decide if they are going to extend tax returns or not.

It is a huge problem, and it needs to be much more objective, not just in the area of tax policy but in the area of disaster funding altogether. It needs to be far more objective so people know what they can rely on.

Just like we are talking about the Tax Code, coming back to the Tax Code now with temporary tax provisions, predictability is important. I think just about every one of you guys said the same thing. I pretty much agree with most all of what you said in terms of predictability.

The Tax Cuts and Jobs Act was terribly important and, in my opinion, has been overwhelmingly successful. But I believe that the success of the Tax Cuts and Jobs Act and regulatory reform are not that surprising, because the problem is, since the last time we reformed our Tax Code in 1986, every other industrialized economy has made their tax code more competitive than ours, trying to attract business, and we have sat on our hands.

And when we simply get into the competitive arena, business booms here in America. I believe American workers can compete with anybody if we just put them on a level playing field. And we sat here for 30 years, since 1986, and allowed other countries to put their workers ahead of our workers. And I am so glad we have responded to that.

And you can see the response. I mean, we have wages going up, 3 percent annual GDP growth. Business capital investment last year was 7 percent year-over-year growth. That will pay dividends in the future.

And back home, these poor counties that I am talking about in my district -- I have the poorest county in South Carolina, Marion County, South Carolina. It is at unemployment rates not seen in 40 years. And the Tax Cuts and Jobs Act had a huge part of that, and I am very, very proud of the result.

Now, in my opinion, we can't stop where we are; we have to keep moving forward.

And trade policy, you know, where we have allowed other countries to take advantage of American workers through their trade policy, revamping NAFTA, a reset with China, these things are terribly important. We have to get them done.

And infrastructure. We have to get an infrastructure deal, because we can't expect American workers to compete with other developed countries with better infrastructure. We have to give them world-class infrastructure to compete with.

Thank you, Mr. Chairman. I yield back.

Chairman Thompson. Thank you.

I now recognize Mr. Doggett.

Mr. Doggett. Well, thank you, Mr. Chairman.

You know, when we were considering the great Trump tax law, we were told one of its purposes was to eliminate today's hearing and to eliminate all hearings on the extenders or the suspenders, as they perhaps should be called since they leave people in suspense and uncertainty and hanging, and they serve little incentive purpose when you don't get around to providing the relief until a year or two after the conduct already occurred.

Indeed, Chairman Kevin Brady said, quote, "We will no longer have to spend months each year debating temporary tax extensions." They were going to make them all obsolete. Unfortunately, that promise has clearly gone the way of the file-your-taxes-on-a-postcard claim and the claim that every American family would get an average benefit last year of $4,000 to $4,500, depending on which administration witness who was fearful of coming before this committee but went in front of the cameras to declare the great benefits that never occurred out of this phony tax law -- a tax law that perhaps is the most unpopular set of tax breaks in American history and has failed its purpose other than to give us a short sugar high.

Indeed, when it comes to temporary tax breaks, instead of fulfilling what Mr. Brady said would happen, the Republicans created 32 more temporary tax breaks in the Code.

Ms. Huang, you have commented on that, because it seems like the easiest thing in the world to say, "Well, they gave this giant gift and this big handout to multinationals. They made it permanent. Why don't we just make all the individual tax breaks permanent?" And you have addressed that to some extent.

But if we do that, if we adopt all that package and eliminate some of these temporary tax breaks, will that freeze into position the special tax break for Donald Trump and his buddies on the passthrough for real estate transactions, and will it freeze into place a new lower top tax bracket than we have ever had before in America?

Ms. Huang. Yes, it will. And it would double down, as you said, on the three flaws of the tax law itself. It will do twice as much for the top 1 percent of filers, those that have average incomes of $2 million, to make the individual provisions permanent than it would do for the bottom 60 percent of Americans, even as a share of their much larger income. And that translates to about a $30,000 tax cut annually for the top 1 percent.

Mr. Doggett. So if the --

Ms. Huang. And that is because of provisions, as you said, like those ones and the tax cut for heirs of the wealthiest families in the country.

Mr. Doggett. So if the goal is to stuff more money in the pockets of the people at the top and ignore and be indifferent to those at the bottom, making permanent those individual tax cuts is a great way to accomplish that objective. Would you agree?

Ms. Huang. Right. And in terms of those left behind, as you said, the individual provisions are so skewed to the top in part because they did largely leave behind millions of working families. Nothing to $75 is a far cry from that $4,000 you were talking about.

Mr. Doggett. Thank you.

Dr. Mazur, way back in 2009, I was successful in getting in the House extenders bill at that time of an individual evaluation of these extenders. I believe that if they are going to continue -- though I am inclined to agree with Mr. Pomerleau that a lot of them just need to be eliminated -- but if they are going to continue as suspenders and extenders, that they ought to have some kind of thorough outside review rather than just being a negotiation between lobbyists and members of this committee.

In fact, Mr. Brady is also wrong about us spending months considering, because usually there is very little evaluation or consideration of them whatsoever.

Do you agree that it would be useful to have, if any of these extenders are continued, a rigorous evaluation by some independent authority?

Mr. Mazur. Sure. I think that would be a real plus to make sure that they are acting as you intended them to act.

Mr. Doggett. Ms. Huang, let me also ask you about the international provisions. In the name of closing some loopholes, didn't the Republicans add into this bill a number of new provisions that encourage the outsourcing of American jobs and the exporting of American profits?

Ms. Huang. Yes. I mean, the basic structure of the new international law is a much lower permanent rate on foreign profits than domestic profits. And to try and sort of offset that incentive, there are these other guardrails, but they themselves create new incentives to ship profits and jobs offshore.

Mr. Doggett. Indeed, you could pay half as much, 10 percent, of the tax rate for a corporation to invest abroad than to invest at home. And if you play it right, you can probably eliminate most of your taxes altogether on those foreign profits, can't you?

Ms. Huang. Yes. The minimum tax provision that you are referring to has a number of flaws that encourages that sort of gaming.

Mr. Doggett. Thank you.

Chairman Thompson. Thank you.

Mr. LaHood, do you wish to inquire?

Mr. LaHood. I do. Thank you, Mr. Chairman.

And I want to thank the witnesses for your testimony today.

And I would just say at the outset, as I look at the effect that the Tax Cuts and Jobs Act has had on our economy, as we sit here today, we arguably have the best economy we have had in 25 years. If you look at the statistics, low unemployment rate, lowest in almost 60 years. We have more people working in this country than ever before. You look at the rates of unemployment in the African American community, the Hispanic community, young people working. You look at the amount of people we have moved off food stamps. Almost 5-1/2 million have moved off food stamps in the last 2 years as a direct result of more capital in the economy, more people working, private-sector wages are up. By every indication, we are back on track.

And if you look at the polling, Gallup polling, that just came out in the last month of the middle class, 70 percent are more optimistic this year than they were last year. So the trend continues as a direct result of giving more money back to hard-earning people, whether it is lower-class people, middle-class people, or people that make higher incomes. And that is good for the economy.

I just want to switch focus a little bit on the tax credits here. I want to submit for the record a letter that I was a part of, along with my colleague Dave Loebsack of Iowa, in support of the biodiesel tax credit.

Mr. Chairman, I would like to submit that for the record.

Chairman Thompson. Without objection.

[The information follows:]

******** COMMITTEE INSERT ********

Mr. LaHood. Thank you.

And when I look at the tax credit that has been in place for biodiesel, in a rural community like mine, where we have the eighth-largest congressional district in terms of corn and soybean production in the country, and when I look at biodiesel tax credit and what that has done for my district and lots of rural districts, it has been extremely beneficial. It supports almost 60,000 jobs in that industry, whether it is -- I have a number of ADM facilities, I have another ethanol plant, MarkWest Energy, that is involved with that, and I have seen the directs benefits of that in my district.

I would also like to talk a little bit about the short-line rail tax credit. And my district has 19 counties -- again, very rural, a lot of land. But the short-line rail industry has benefited from that tax credit in terms of getting products to market, working with the larger rail systems to put in place one of the most efficient systems that we have in terms of shipping products around the country. And both of those have been, I think, extremely beneficial not only to my district but the country.

And I guess as we look at the policy issue of, you know, how do we look at expensing on a permanent basis -- and I guess, Mr. Pomerleau, I was going to ask you: Some believe that expensing should be temporary or reserved to stimulate the economy during a recession. Do you believe that expensing should be made permanent policy? And can you expound on that?

Mr. Pomerleau. Yeah, I think one of the more important improvements that the Tax Cuts and Jobs Act made to the structure of the Federal Tax Code was allowing companies to expense their investments in the first year.

In general, this is a pretty powerful tool to encourage investment, in that it effectively eliminates that investment from the tax base, and, thus, you would see additional capital stock from that incentive.

A downside, of course, is right now it is temporary, it is set to phase out. So the effects of it over the next 10 years are going to be less than what we would expect if it were made permanent.

Mr. LaHood. Can you also talk about the importance of the low corporate rate and what that has done for the economy?

Mr. Pomerleau. Yeah, so previous to the Tax Cuts and Jobs Act, the Federal corporate tax rate, the statutory rate, not effective tax rate, was 35 percent. One of the big downsides to having a rate that high, especially in a world in which statutory rates elsewhere are much lower, is that it creates an incentive for companies to shift profits and some intellectual property overseas to avoid the U.S. tax.

Bringing the Federal tax rate down to 21 percent lined it up more closely with our largest trading partners. It reduced that incentive. So this will be a benefit to our tax base. Now, we are losing revenue, of course, but the incentive to shift those profits has declined.

Mr. LaHood. Thank you. Those are all my questions.

Chairman Thompson. Thank you.

Mr. Larson.

Mr. Larson. Well, thank you, Mr. Chairman.

Mr. Chairman, first, I would like to submit for the record three letters from industries in my district: American Green Fuels and Sack Energy and also a letter from more than 100 businesses and organizations writing in support of the extension of alternative fuel tax credits in biodiesel.

Chairman Thompson. Without objection.

[The information follows:]

Joint Letter

American Green Fuels, Letter

Sack Energy, Letter

Mr. Larson. Thank you, Mr. Chairman.

Let me ask the panelists, to start, overall, did the 2017 tax law create more certainty or uncertainty for consumers?

We will start with you, Dr. Mazur.

Mr. Mazur. I think it is both. I think that there is certainty for corporations that have a permanent 21-percent rate. They have 5 years of expensing. For individuals, there is certainty up through 2025. And the big thing for Congress to consider is what is going to happen when you hit that deadline.

Mr. Larson. Ms. Olson?

Ms. Olson. Yes, I agree with Dr. Mazur.

Mr. Larson. Ms. Huang?

Ms. Huang. I think I would say, overall, less certainty. And I think, you know, you can talk about, on the one hand, on the other hand, permanent provisions, but then there is the raft of provisions that phase out and expire, phase in, WTO-noncompliant provisions, for example.

But I really think that the fundamental reason why it is unstable is that it really requires revisiting, to meet national challenges, the need for revenue, the need to do something for workers that have faced stagnant wages, and the need to close loopholes.

Mr. Larson. Dr. Sakaki?

Chairman Thompson. She is not here.

Mr. Larson. Okay.

Mr. Pomerleau?

Mr. Pomerleau. I agree with Mark and Pam that it depends on the taxpayer.

Mr. Larson. One of the things that passed in the bill also and what I don't understand is the 2017 tax law limited casualty losses for deductions to only federally declared disasters.

We have been dealing with a number of disasters, and in Connecticut and Massachusetts we deal with a phenomenon called crumbling foundations. Many people suffer casualty losses because of this and face devastating costs.

Was there any good rationale for limiting casualty loss or deduction just to Federal?

Dr. Mazur?

Mr. Mazur. I think if you are looking for a reason for doing it, I think Chairman Brady and Chairman Hatch were trying to broaden the tax base in very many places where they could, and this is one of them.

Mr. Larson. So it was to pay for a corporate tax cut.

Mr. Mazur. I think they were trying to broaden the base in a number of ways, and this is one of the things that they did.

Mr. Larson. The national debt has been increased by $2 trillion. And I was happy to hear some of my colleagues talk about how well everybody is doing under that. Well, it depends on whether you live in a blue State on the East Coast or whether you live in a blue State on the West Coast.

And if you end up in a situation that I found back in my district with the tax advocates is, A, either people did not withhold enough and find themselves paying a great deal more, or, even more alarming, people thought they were going to get a tax deduction, find out that they are actually paying for a tax increase that is subsidizing the corporate stability label that we talked about earlier, where they have a permanent tax deduction subsidized by everyday, average citizens who have seen their tax rates gone up.

Do you think that is fair, or do you think that that law needs to be changed or modified?

Dr. Mazur?

Mr. Mazur. I think it is part of the idiosyncratic effects of the Tax Cuts and Jobs Act, that there were provisions that cut people's taxes, there were provisions that increased people's taxes, and it is hard to say with certainty unless you know every detail of a person's situation whether they are on the plus or minus side of that line. And I think it is very hard people to think through really --

Mr. Larson. But this was not one-size-fits-all and not all Americans benefited from this is what you would say?

Mr. Mazur. Yeah.

Mr. Larson. Dr. Olson?

Ms. Olson. There are certainly -- even in the corporate context, there are companies that have seen their tax burdens go up relative to what they were before. In the context of high earners, despite the rates coming down, the base broadening that Dr. Mazur referred to has had the effect of increasing, ultimately, a lot of people's tax liabilities. So there are winners and losers all around, which is kind of what happens with tax reform.

Mr. Larson. Well, I see my time is running out, but I want to thank Mr. Thompson and Mr. Neal for saying that, as we take a look at the impact of this, that we ought to be having public hearings -- something that we didn't have -- so that we could sort through the problems that I know a number of my colleagues on the other side of the aisle would work alongside of us to make sure that this was more equitable for all American citizens.

Chairman Thompson. Thank you.

Mr. Arrington?

Mr. Arrington. As I have said before, in order for us to work together to solve problems, we first have to define what success is. And then we, collectively, both Republican and Democrats, have to agree on a set of facts.

Now, my colleague Mr. LaHood went through a litany of facts, some really positive economic indicators, as a response to the reduction of tax burden on our job creators.

Mr. Mazur, is the lowest unemployment in 50 years a good thing, yes or no?

Mr. Mazur. Sure, it is a good thing.

Mr. Arrington. And do you believe that the unemployment levels have been connected, in part, if not to a great extent, with the stimulus of lower taxes on our job creators?

Mr. Mazur. I think you are right calling it a stimulus, because we have reduced taxes on a lot of individuals and companies and that has had a predictable short-term stimulative effect on the employment.

Mr. Arrington. So you think unemployment is a good thing and you believe that it is part of the response from the Tax Cuts and Jobs Act is what I am gathering.

Mr. Mazur. I think the lower unemployment rate is a good thing, and it is --

Mr. Arrington. Good. We all agree unemployment is low and that is a good thing. It is lower than it has been in 50 years.

And, Ms. Olson, do you believe that higher consumer confidence, higher business confidence, higher manufacturing confidence is a good thing for the United States of America?

Ms. Olson. Yes, I do.

Mr. Arrington. Do you believe that, in part, if not in large part, that the confidence that we have seen recently -- just so happens that it has coincided with the Tax Cuts and Jobs Act -- do you think that that has been a factor in that increased level of confidence?

Ms. Olson. Yes. I think animal spirits have been loosed, and animal spirits are good for the economy.

Mr. Arrington. Let's unleash the animal spirit of freedom. Let's unleash it, and we will see that when you limit the role of the Federal Government in the lives of the American people and job creators, you will unleash the animal spirit of limitless potential that has been so pent up, that with just one Tax Cuts and Job Act legislation, you are seeing unprecedented economic renaissance in this country.

And I find it hard to believe that we can't just give credit where credit is due. I am not saying it is going to solve all of our problems, and I am not saying that we shouldn't find ways to offset costs, et cetera, but my goodness.

Ms. Huang, do you believe higher wages and income for families and individuals is a good thing?

Ms. Huang. Absolutely.

Mr. Arrington. And do you believe that this has happened by accident, or do you believe this is just an experiment, or do you believe this is a rational connection to reducing the tax burden on our job creators, who had and bore the largest tax burden relative to our competitors around the free and developed world?

Ms. Huang. Actually, I think there is very little evidence to suggest since 2017 the real wage gains that we have been experiencing are anything other than a continuation of the employment and wage gains under President Obama.

Mr. Arrington. So you think the 3.5, roughly, percent increase in wages and the fastest rate since 2009 has its nexus in something other than, in large part, the Tax Cuts and Jobs Act?

Ms. Huang. The trend is not that different from under President Obama. There has been some energy --

Mr. Arrington. Do you think jobs have been connected? Do you think increased jobs are connected to the Tax Cuts and Job Act?

Ms. Huang. I haven't seen great evidence --

Mr. Arrington. Really?

Ms. Huang. -- that that is the case.

Mr. Arrington. Seven million surplus jobs. We have seen millions come on line. We have had investment. We have had expansion. We have opportunities that we haven't seen since we were stuck on high center for a decade. And you can't give -- let me ask you this.

Ms. Huang. So I think --

Mr. Arrington. Let me ask you this. What credit, what positive outcome has happened, in your mind, as a result of lower taxes on the American entrepreneur and job creator? Can you think of one?

Ms. Huang. Well, I do know that tax advisors are lobbyists, and lobbyists are really excited about this law. They have --

Mr. Arrington. Okay. Wow.

Ms. Huang. -- called it a bonanza.

Mr. Arrington. Okay.

Let's -- we have talked about -- I have 30 seconds left. I think we should talk, Mr. Chairman, about the temporary nature of the taxes in ObamaCare, not just as tax policy, not just the tax credits. $500 billion and the medical device tax and the

HIIT tax and the other taxes that we keep kicking the can down the road on. We know that would be even more costly than what we have seen in a double of cost in healthcare in the United States since ObamaCare. I hope we have time to discuss that.

My time is out. I yield back.

Chairman Thompson. Ms. Sanchez?

Ms. Sanchez. Thank you, Mr. Chairman, for calling this thoughtful hearing today.

And I want to thank all of our witnesses for joining us.

I want to focus my time on what I think should have been bipartisan priorities in the Republican tax reform bill last year but that were omitted, underfunded, or simply made temporary.

It is very clear that the 2017 Republican tax bill gave multinational corporations a permanent tax cut while giving many of the people that I represent a much smaller, nonpermanent benefit.

Ms. Huang, you have done extensive work on the unfinished part of the 2017 tax law. To me, that bill has glaring holes when it comes to how we treat working people, especially those that are attempting to afford childcare. And I would like you to walk me through your work on that, on the unfinished business of the bill.

Ms. Huang. So I think as I mentioned before, a lot of lawmakers who voted for this law like to highlight its doubling of the child tax credit, but, in fact, beyond that headline increase, 11 million children in the most hard-pressed working families got zero to 75 dollars.

And, again, this is in the context of a law that cost $1.9 trillion. There are $60,000 annual tax cuts for the top 1 percent.

And then another 15 million children in low-income working families got less or far less than the full increase. So I think that is really a key unfinished-business piece of this law.

Ms. Sanchez. Do you know of a childcare place that would give you a week's worth of childcare for $75?

Ms. Huang. I would be happy --

Ms. Sanchez. Because I am a working mother, and I have never seen it anywhere. It might get you a few hours but certainly not a week. So it is not really a benefit to the truly most needy working families.

I want to go through something that my colleagues on the other side of the aisle keep trumpeting, the lowest unemployment rate. Can you talk to me about real wages? Have they gone up substantially if you adjust for inflation?

Because my understanding is, sure, the unemployment rate has gone down. Many people in my district still have to have two or three part-time jobs because they can't find full-time employment with a wage that allows them to support a family.

Can you speak to that, please?

Ms. Huang. Right. So wage growth has been -- you know, over a long period of time, over decades, it has been largely stagnant. We have seen some growth occurring with the growth in employment, but, again, that is the trend that has been continuing since the end of the recession --

Ms. Sanchez. So it didn't just pop up as a result of the 2017 tax bill. Is that right?

Ms. Huang. Right. There has been a little bit of a pop in the last few months, but, again, there are a lot of things going on. There is potentially some demand-side stimulus that will go away eventually, and there has been some energy price volatility.

So it is not marked and it is not above the trend line in a way that makes me think it is about the Tax Cuts and Jobs Act. And, furthermore, if we thought it was because of the investment effects of the law, we would be expecting much, much higher corporate investment, which we are not seeing either.

Ms. Sanchez. Yeah, I haven't seen a lot of corporate investment with that big, fat corporate tax cut. I have seen a lot of stock buybacks and one-time bonuses but not real wages increase dramatically.

One thing that temporary tax policy can create are financial cliffs to taxpayers.

Mr. Mazur, I would like to talk with you about the myth perpetuated by Republicans during their tax process that reconciliation rules required the individual benefits to be temporary while the corporate giveaways were permanent. Did individual provisions really need to be temporary in order --

Mr. Mazur. My take on the reconciliation rules was that you had a budget of $1.5 trillion over the budget window, and you had a constraint that in year 11 and beyond you couldn't lose any revenue, but within those constraints you had plenty of choices on how you put weight on business, individual, excise tax changes.

Ms. Sanchez. What would be a more fiscally responsible way to have structured those benefits?

Mr. Mazur. Well, just one thing that we should think a little bit about is, in the late 1990s, early 2000s, when the Federal budget was balanced, revenues were around 19-1/2, 20 percent of GDP. Revenues now are around 16-1/2 percent of GDP. If we want to head toward balance, we would have been raising revenue, not having a giant tax cut, when the economy is that close to full employment.

Ms. Sanchez. Thank you.

And, finally, Dr. Sakaki, I cannot thank you enough for sharing your personal experience with us today. What takeaway should we get from your experience as we look towards crafting policies in the future for people who are hit by natural disasters?

RPTR ZAMORA

EDTR HOFSTAD

[4:08 p.m.]

Mr. Sakaki. Thank you so much.

I think -- I represent thousands of disaster victims, not just in California but across the country. And it is so unfathomable, what you have to think about as you go through this experience. So any assistance in changes in tax policy on a more permanent basis, I think, would really be helpful.

Ms. Sanchez. I thank you again for your testimony.

And I yield back to the chairman.

Chairman Thompson. Thank you.

Mr. Schweikert?

Mr. Schweikert. Thank you, Mr. Chairman.

You know, having spent years on the Joint Economic Committee, just as a thought -- and I know getting thoughts from the minority sometimes is annoying -- it would be fascinating to do one of these types of hearings and have a common understanding of the actual benchmark data out there. Because a number of the things I have heard so far is sort of folklore politics over what we actually see in the living data sets.

So can I sort of blind us for what the hearing -- I believe what we were all trying to accomplish. We have these tax extenders. If I came to you right now and started to say, what maximizes economic growth -- and, on a personal basis, I believe in maximizing economic expansion so I actually have jobs, that if we actually do -- you know, for many of us who want to do things in regards to the negative income tax, earned income tax credit, there are actually jobs for this population to have.

And I sort of see a bifurcation in tax policy, that one is about maximizing economic growth. Things like earned income tax credit we actually almost need to look at as part of our social entitlement mechanisms.

Ms. Olson, I want to give you a particular -- and I don't think I have ever done this for a Democrat witness. Having read everyone, you get an award for, I believe, writing just one of the most intellectually, just straight, credible comments on the policy.

So if I came to you, what would you do in regards to the extenders, some of the baseline tax policy, to maximize economic expansion? Because when you look at our demographic headwinds, we are getting old very fast as a society. What do we do to have enough economic expansion that my millennial males, my older populations feel a vacuum and an incentive to want to participate?

Ms. Olson. Thank you, Mr. Schweikert.

Yes, I think it is really important that we create a system that is welcoming to investment, whether that is investment domestically or from abroad. I think it is really important that we focus on creating a system that the public has respect for, believes is fair. Because the support of the public for the system is crucially important to all of that.

But the best thing we can do is to enact some policies that are going to create some stability. And that includes winning public support, and that includes making sure that we do have policies that welcome investment in the country.

Mr. Schweikert. Can I give you a thought problem that I think we all fail to understand, and that is, we now live in a world economy. So, you know, we went 30-some years with our tax system. How do you design that maximum growth tax system and, at the same time, realize the next day there is going to be another country, another society working on trying to find arbitrages with how we have done our tax system?

Ms. Olson. So I don't think there is a way to design a perfect system, but I do think we have to always be watching what is going on around the world and that we have to make sure that, as we see what is going on around the world, we adjust our laws so that we are competitive in the global economy. And I think, you know, we didn't do --

Mr. Schweikert. Say that last sentence --

Ms. Olson. -- that for a long time --

Mr. Schweikert. Say that last sentence again. Our willingness to adjust --

Ms. Olson. We need to adjust our rules so that we are competitive in the global economy. And I think we didn't do that.

Mr. Schweikert. And you do realize how politically, culturally difficult that is for us. We often produce a tax system that is just stagnant, not understanding the world and the world's taxes are no longer as stagnant. We every year are probably going to have to come back in here and have a conversation of we have to adjust this and that.

And forgive me if I mispronounce your last name. Is it "Pomerleau"?

Mr. Pomerleau. "Pomerleau."

Mr. Schweikert. Okay. I want to make sure I have -- because I have quoted this before, and I want to make sure I get it -- I am intellectually correct.

If I wanted to actually, truly understand what drives real wages, most real wages are functionally -- when wages go up, it is inflation plus productivity. That is how you get someone to be paid more.

One of the key goals in tax reform was, how do I maximize investment in capital equipment so we can actually finally have a productivity cycle again so real wages will actually start to grow?

From the foundation standpoint, is my basic understanding of that very basic concept in economics correct?

Mr. Pomerleau. Yes, that there is this connection between the amount of productive stuff that workers have to use when they work and the amount that they get paid; that when companies are able to and do invest more and increase the capital stock, there is a connection between how much they are able to earn.

Mr. Schweikert. Okay.

Last, quickly. Multiple times in the CBO analysis of the economy and tax reform, they felt the two biggest headwinds are demographics -- so population participation -- and capital stock.

Capital stock has turned out to be dramatically better than any of us originally modeled after tax reform.

Do you agree those are our two key headwinds?

Mr. Pomerleau. Yeah, I agree.

Mr. Schweikert. Okay.

Mr. Chairman, I yield back. Thank you.

Chairman Thompson. Thank you very much.

Ms. Moore?

Ms. Moore. Thank you so much, Mr. Chairman.

And let me thank all of the witnesses for your patience and your indulgence and thank my colleagues for their great questions.

I just wanted to start out by asking you, Ms. Huang, about your testimony.

We are talking about tax policy. And one of the things that I found sort of true throughout all of your testimonies, as you submitted them, was that tax policy typically is designed to shape behavior.

And so I guess, Ms. Huang, I would like to ask you, we have heard so much about the rate of African American unemployment is down and wages have gone up, great GDP growth. And somehow this has been attributed to a low corporate rate. We spent, what, $1.9 trillion.

Exactly which of these policies in the tax-cut bill do you attribute to some -- well, do they, first of all? Because I guess the behavior we are trying to elicit is that we gave these tax cuts and they were supposed to have created more jobs, increased wages, and what I have read is that most of these tax cuts went to shareholders.

So can you just straighten me out here? Because there seems to be a little bit different --

Ms. Huang. Sure.

Ms. Moore. -- set of facts, in terms of what I have understood about these tax cuts and what our colleagues are saying.

Ms. Huang. Sure.

I think the theory that you have heard one of the other witnesses and various other members talk about is that if you lower the corporate rate, you will get more investment, more worker productivity, and, therefore, that will end up in higher wages.

The problem with that is that is not what we have seen in reality from previous cuts in the effective rate on capital. And, in fact, there has been a lot of productivity growth over the last few decades, but it hasn't moved on through to wages. So there is something broken in that --

Ms. Moore. Right. So that behavior didn't come about.

The tax extenders, the 18 tax extenders we are looking at and funding retroactively, what will they do for low-income people or moderate-income earners if we were to pass them? Which of those extenders will help low-income, struggling families?

Ms. Huang. Very little directly. And I think that would be the case with technical corrections as well. Primarily they go directly to businesses.

Ms. Moore. Okay.

Ms. Huang. And, again, there might be a theory that they eventually help workers, but there would be nothing direct, for the most part.

Ms. Moore. Okay. Thank you.

We have heard something about the earned income tax credit -- I think we are all fans of that -- the child tax credit. What did we do in the tax bill to help the people who may be eligible for the earned income tax credit or child tax credit? How does it help people especially on the lower end of the income spectrum?

Ms. Huang. Well, as you said, there has been bipartisan support for the earned income tax credit and particularly for preventing workers without children in the home from being taxed into poverty by the Federal Tax Code. But it was nowhere in the discussion over that tax law --

Ms. Moore. They didn't discuss it at all. People are still taxed into poverty.

Ms. Huang. Yes. And --

Ms. Moore. Okay.

Ms. Huang. -- in fact, the EITC is eroded by the chained CPI for many of those workers.

Ms. Moore. We just got a budget from our President, which -- because we have all been wondering how we pay for these tax cuts that, of course, didn't increase wages, didn't bring people up. But we see, like, a trillion dollars in cuts to Medicare, Medicaid, and food stamps being proposed.

Is this something that will add to the certainty of working people in this country, in your opinion?

Ms. Huang. No. And I think, already, within the tax law, many low- and moderate-income workers ended up paying through cuts to health coverage and through the chained CPI, which has an impact across the board on taxpayers. And then, of course, there is still more left to pick up on the tab.

Ms. Moore. Why do you think that -- the LLCs, the deduction for passthroughs, did that help any low-income small businesses or sole proprietorships?

Ms. Huang. Sixty percent of that tax cut goes to the top 1 percent. And, in fact, it creates a new incentive for businesses, rather than to employ people directly, to outsource them to contract firms or --

Ms. Moore. So why do you think we are hearing all this rhetoric about how wonderful the economy is doing with this tax cut if it is not true that it is happening?

Ms. Huang. Look, I think it is reasonable to look at the strength of the economy and to ask what is causing it. I do think it is also reasonable to think about the trajectory of where it has been over the last --

Ms. Moore. It is a trend that started from Obama.

Thank you. I yield back.

Chairman Thompson. Thank you.

Mr. Ferguson?

Mr. Ferguson. Thank you, Mr. Chairman.

And thank you to the witnesses. Thank you for your time, coming here today.

Before I get into my specific question, I just want to make a comment. I have heard testimony from you and comments from the other side of the aisle that the Tax Cuts and Jobs Act is not directly responsible for wage growth, it is not directly responsible for increased hiring, it is not directly responsible for businesses investing in their people and technology, it is not directly responsible for the bonuses and the increased business activity.

Okay? You have all -- in some, shape, form, or fashion, we have heard this -- we have heard from the other side of the aisle. So --

Ms. Moore. Will the gentleman yield? I didn't say bonuses. People did get one-time-only bonuses.

Mr. Ferguson. Excuse me. I stand corrected. Thank you.

But as I meet with literally hundreds of employers across my district, whether they are a large manufacturing company, a small manufacturing company, a small individual proprietor, a medium-size business, whether it is service, whatever it is, every one of them is telling me that they are making these investments. They have increased the wages to their employees. They have made bigger contributions to the 401(k) plans. These aren't just a smattering; this is across my district.

So are you telling me that they are not being honest with me when they tell me that these investments in their people are a direct result? Are you telling me that the businessowners that are saying that are not being intellectually honest?

I have a hard time believing that, because every business that we talk to talks about their ability to invest and grow their business because of this Tax Code, because of the competitiveness, because of immediate expensing. These things are having a positive impact.

And we have removed the barriers, we have changed the dynamics so that companies no longer have an incentive to go overseas, but, in fact, we are making this country the best place in the world to make investments.

I am not sure that your reality and what I am seeing on the ground line up. I would just make that comment, that I think, in all of this, really talking to real businessowners and not just looking at a sheet of paper with statistics on it would certainly help you understand. And if you would ever like to make a trip down to the Third District of Georgia to talk to my businessowners, we would love to have you down there.

Now for a more specific question.

Mr. Pomerleau, I want to talk a little bit about a specific provision, that when you write in a tax extender that is written so narrowly that perhaps only one company could potentially take advantage of that, do you think that that is good tax policy?

Mr. Pomerleau. No, I do not.

Mr. Ferguson. All right. I don't either. It just simply does not make sense that you take a tax credit that is very narrowly written for, say, the American Samoa economic credit, where only one company could benefit from that. Do you know of any other precedent in the non-Code provisions where this is allowed?

Mr. Pomerleau. Not off the top of my head, but -- yeah.

Mr. Ferguson. Go ahead.

Mr. Pomerleau. Certainly, if you are looking at tax policy, one challenge with using direct credits or subsidies towards specific activity is that there is always a risk for this to happen --

Mr. Ferguson. Sure.

Mr. Pomerleau. -- that it is narrowed down to benefit only a few companies or one company.

Mr. Ferguson. Okay. So when you have something that is so narrow that only one company or just a very small handful of companies can get, then that is probably not the right provision for the Tax Code.

Now, particularly when that company may have competitors that already exist in the U.S., where you could -- I think someone said you don't want to incentivize behavior for something that people are already willing to do.

So, again, I guess I ask this question again: Is having a very narrow provision like that the best tax policy?

Mr. Pomerleau. It is not ideal.

Mr. Ferguson. Okay.

Thank you very much, Mr. Chairman. I yield back.

Chairman Thompson. Thank you.

I recognize Mr. Beyer.

Mr. Beyer. Mr. Chairman, thank you very much.

And thank you so much for being part of this panel.

I would like to focus on using the Tax Code to meet environmental objectives. Tax incentives, especially temporary tax provisions, can play an important role in supporting the development and deployment of new technologies. This has been particularly important in the renewable-energy space, where we have seen an absolute boom in renewable energies across the country.

And tax incentives can prompt societally beneficial investments by businesses and by individuals. And we have seen this certainly in the energy-efficiency space.

And in order to combat climate change, it is crystal-clear we are going to have to make major efforts, well beyond anything the government has previously engaged in, to meet the targets laid out in the IPCC report.

We can see carbon pricing and the various tax provisions that promoted investment in renewable technology as positive incentives that move us in the right direction. And these incentives paired with government investments can help move the economy towards a clean energy mix.

There is another category which I would characterize as positive incentives that move us in the wrong direction. Despite the repeal of the section 199 domestic production activities deduction, fossil fuel industries remain heavily subsidized by our Tax Code.

According to the Tax Policy Center, the Federal Government will lose $11.6 billion between 2017 and 2021 from just tax incentives for fossil fuel energy production. And this is at a time when we should be moving to zero-carbon targets.

I agree with many people in this room who believe that, this time, any tax extenders package should be paid for. But, Dr. Mazur, what do you think of using the reduction, sunsetting, or even the elimination of fossil fuel credits as a means for paying for extended or expanded credits that reduce our carbon footprint?

Mr. Mazur. Yeah, I think if you are looking at long-term environmental impact and trying to tilt the policy in that direction, you want to do things that, as I said earlier, reduce the cost of low-greenhouse-gas-emitting technologies relative to high-greenhouse-gas-emitting technologies. And looking at the tax benefits for fossil fuel production that are in the Code is certainly a good place to look.

Mr. Beyer. Thank you.

Ms. Huang, I found your testimony regarding the flaws and failures of TCJA compelling. But you note in your testimony that Federal revenues would be just 16.5 percent of GDP, well below the 40-year average of 17.4 percent.

And that may be a useful historical marker, but my belief, especially looking at countries around the world, is that 17.4 is well below what we are spending, well below what we need to meet the challenges we face as a developed nation.

If you were queen and got to revamp the whole Tax Code, what revenue percentage do you think would be a reasonable goal as a percent of GDP?

Ms. Huang. I think at an absolute minimum, as Mark said, you would be aiming for what you were able to carry previously in the economy at situations where it was closer to 19.

But even if you just look at the retiring of the baby boomers, their Medicare and Social Security needs, if we had to not cut real levels of service in some of those areas, we will probably need to go above that.

Mr. Beyer. All right. Great. Thank you.

I just came back from Guatemala a few weeks ago, where their revenue as a percentage of GDP is 10 percent. As a consequence, they struggle with devastating poverty. And the average total education level is 3 years for the average citizen.

Mr. -- is it "Pomerleau"?

Mr. Pomerleau. "Pomerleau."

Mr. Beyer. "Pomerleau." I can't see from here. In your testimony, you talked -- I just want to get a philosophical thought.

Mr. Pomerleau. Oh, boy.

Mr. Beyer. Because you said Congress should avoid providing special tax treatments to certain industries, businesses, business forms. Most extenders should be left expired. From your and think tanks' perspective, should we be using tax policy to accomplish these other thousand goals?

Mr. Pomerleau. So I think that if you are going to use the Tax Code in any way, I think that you need to evaluate each provision as they come.

I think one point that was brought up in a previous question is, when you are looking at these one problem or negative side effect of some of these very specific credits for, you know, one type of activity over another, is there is sort of a political economy downside, that it does encourage some sort of lobbying for these credits, to narrow them or expand them so one company gets them when they previously didn't.

But, overall, if lawmakers want to encourage or change the relative prices, as Mark has been talking about, I think broader policy to change those prices is more warranted than very narrow in targeted provisions.

Mr. Beyer. Okay. Great. Thank you very much.

Mr. Chair, I yield back.

Chairman Thompson. Thank you very much.

Ms. Huang, I expect to see you in a tiara at the next hearing.

Mr. Suozzi?

Mr. Suozzi. Thank you, Mr. Chairman, and thank you for conducting this hearing.

I want to thank the witnesses so much for their expertise and for their preparation for today.

I am going to speechify for just a little bit in the beginning. This tax bill was very bad for the people of my district and for the people of New York State. Everybody talks about the good news that -- the Republicans talk about the good news of this tax bill. This was very bad news for the people of New York.

In fact, every Democrat and every Republican in New York City and on Long Island and in downstate New York voted against this tax bill because it is so bad for our constituents. And I hear all the time how this is good for Americans. Well, we are Americans in New York too.

And it was bad for other places as well. There are 176 districts, congressional districts, in the United States that have over a $10,000 average SALT deduction -- 176 districts. And it just so happens that 49 of the top 50 districts with the highest SALT deductions are in New York, New Jersey, and California.

And guess what? The people that live in New York, New Jersey, and California are all Americans, and they are all suffering because of this tax bill. Strike that. Not all of them are. Some people are suffering because of the fact that they lost this deduction.

We heard about how this tax bill was going to simplify everything for everyone. And, in fact, I had a hearing the other day where we found out that the error rate from the 1040s is up by 200 percent, that the IRS is overwhelmed with the number of errors. Because it wasn't simplified; it is more difficult now because of all the forms that had to be filled out.

So there are a lot of myths that are going on.

And another myth is the fact that the way this thing was passed was that we had these temporary tax policies that, in fact, are going to be cutting out in a few years. And now we hear this budget coming out from the President is going to make the deficits even worse. It is all gimmicks, and it is upsetting.

I do want to talk about three different tax extenders that have been brought to my attention.

Ms. Olson, are you familiar with WOTC, with the work opportunity tax credit?

Ms. Olson. Yes, sir, I am.

Mr. Suozzi. So it has been around since 1996. Do you think that that has had a tremendous benefit to try and help stigmatized workers, especially in this low-unemployment environment, to get put onto the work rolls by giving employers a tax credit?

Ms. Olson. I think it has helped employ a number of individuals across the country.

Mr. Suozzi. And do you think it would be a good idea to continue that workforce opportunity tax credit?

Ms. Olson. I think it is something Congress should look at very carefully.

Mr. Suozzi. Okay.

Are any of you familiar with the FILM Act, the Facilitating Investment in Local Markets Act, that is related to filming?

Well, it is a way to encourage filmmakers to do their filming here in different places in the United States of America.

Are any of you familiar with the Puerto Rico Conservation Trust and the Puerto Rico rum excise cover-over?

Dr. Mazur?

Mr. Mazur. I am familiar with the cover-over.

Mr. Suozzi. So this is a law that exists now to actually provide rum taxes in Puerto Rico to help people recover, and the money is being dedicated towards a conservation trust fund, thereby preserving more open space in Puerto Rico, which thereby increases the tourism business.

I wasn't even going to bring this one up, but when Mr. Beyer brought up the issue of tax policy being used to enhance the environment, it was called to mind.

Do you think it is a good idea to use specific tax policy to try and encourage environmental benefits, which could thereby enhance tourism?

Mr. Mazur. This is a hard one because I don't have a good view of what Puerto Rico's top priorities are. If their top priority was conserving land, then yes. If it is some other thing, then they should think about where they want to use those resources.

Mr. Suozzi. This is something that the Governor of Puerto Rico is actually suggesting that something like this be done.

Okay. Thank you very much, Mr. Chairman. I yield back my time.

Chairman Thompson. Thank you.

Mr. Boyle?

Mr. Boyle. Well, thank you, Mr. Chairman.

Hopefully, if I am a little out of breath, I apologize. One of the challenges with the time schedule of votes today, two very important things being scheduled at the exact same time, but didn't want to miss an opportunity to meet a number of folks who are right now actively engaged in a peace process in Western Europe. And it is always inspiring to meet with them and the work that they do. But I ran as quickly as I could to also get to you, given the importance of this topic.

And one of the challenges in 5 minutes is there are about 100 different ways to discuss this issue. So let me actually just key in on a couple.

One is a perfect segue following what my colleague from New York talked about with respect to Puerto Rico. My congressional district has one of the highest percentages of people of either Puerto Rican birth or ancestry in the country, a largely longstanding community in Philadelphia. I have upwards of 100,000 Philadelphians who are of Puerto Rican ancestry.

Clearly, even before Hurricane Maria, Puerto Rico was suffering from an ailing economy, a real crisis ever since 2005-2006, when the tax treatment of their bonds started to be treated differently and kind of helped lead to a snowball effect. Then on top of that you had, of course, the hurricanes.

Now, my colleague Mr. Suozzi mentioned about the rum tax and the amount of money that goes to fund their conservation trust, something that has been going on since 1999. And I know that they have come to rely on that revenue source, as I mentioned, for two decades.

Let me, Ms. Huang, just ask a question more generally, however. If you could speak, in general, about how the temporary tax policies affect Puerto Rico and whether, overall, you believe it has been to the positive or for the negative.

Ms. Huang. Well, one tax policy that comes to top of mind that has been previously in Puerto Rico, was temporary and then repealed, was that Puerto Rico had a very small State EITC, earned income tax credit, that got repealed in part because of the financial crisis.

The Governor and oversight board have recently reinstated a small EITC, but, unlike every other State, Puerto Ricans don't have access to the Federal EITC. So there is a really pressing need and a great opportunity for the Federal Government to supplement that EITC and ensure that it can bring more people into the formal economy, reduce the poverty that is being experienced there, and really help boost the economy and encourage work.

Mr. Boyle. Yeah. EITC, the earned income tax credit, which that flaming liberal President, Ronald Reagan, once called the greatest antipoverty program in the United States.

Speaking, also, of Puerto Rico and in terms of tax treatment, I think that there is a perception that people have commonly that Puerto Rico is sort of in the best of both worlds when it comes to tax treatment. Yet, in other ways, such as Medicaid reimbursement, it is in the exact opposite; it is actually in the worst of both worlds.

Could you speak to what I am alluding to?

Ms. Huang. Well, in particular, at the moment, their equivalent of the Supplemental Nutrition Assistance Program is facing a big cliff and a big problem and in many other ways, including responses to disaster, have not been able to get the Federal attention that they really should get.

So I think that there are many ways in which Puerto Rico deserves a lot more attention from the Federal Government. And, in particular, if we move towards restructuring the 2017 Tax Code, thinking about ways that the Federal Government can make tax policy that meets Puerto Rico's needs, as well, is an important part of that decisionmaking process.

Mr. Boyle. Yeah. Well, thank you for that.

And in my brief time remaining, I would urge this committee to really look at the various ways in which Puerto Rico was treated differently according to our Tax Code and the way in which the citizens, some 3 million people on the island, are more heavily disadvantaged that advantaged by our Tax Code. And, certainly, the 2017 changes in our tax law did not improve that situation.

Thank you. I yield back.

Chairman Thompson. Thank you.

Mrs. Walorski?

Mrs. Walorski. Thank you, Mr. Chairman.

And to all of you, thank you for being here today and sharing your expertise.

Whenever I travel around my district in northern Indiana -- it is a manufacturing district, and I hear a variety of things. I hear from employers and job creators about regulations. I hear about not having enough people to fill 10,000 jobs in our district right now. But the one thing that is consistent that I hear from everybody is the danger of the lack of certainty, and they need certainty to continue to move and to progress and to be able to do the things that they want to do.

So, when it comes to tax extenders, Congress has been providing anything in my district but certainty. And that certainly slows everything down.

So, as you are aware, the purpose of extenders is to incentivize behaviors and investments. But that goal is undermined when Americans have to play a guessing game of whether or not we are going to renew them.

And not only that, but the lack of congressional action really hamstrings companies in my district by reducing their competitiveness, and it keeps them from reaching their full potential. I know firsthand from hardworking Hoosier businesses how this affects their bottom line and then prevents them from making crucial investments that promote job growth and spur prosperity.

Two extenders in particular, the short-line railroad tax credit and the biodiesel tax credit, have a profound impact on Hoosier businesses and are a key provision that Congress needs to act on.

Short-line railroads are a crucial part of America's transportation system and keep rural Indiana connected to the national economy, while the biodiesel industry is instrumental in helping to create a more energy-secure and clean America.

I think it is high time we come together in Congress and pass an extenders package that includes these important provisions and makes them permanent. I look forward to continuing to work with all my colleagues to make that passable.

Ms. Olson, just quickly to you. Can you go into some detail about the consequences for the business community that result from a lack of certainty provided by Congress?

Ms. Olson. Yes. I believe that the uncertainty that currently exists carries a risk premium with it. So, as people look at investments, they have to ascertain the likelihood of them achieving their expected returns. And when there is a lot of uncertainty about things like the tax law that affect one's investment returns, it is something that factors into your decision about whether to invest or how much to invest, where to invest, et cetera.

So the more that we can do to create certainty for people, the more we have investment, because we reduce that risk premium.

Mrs. Walorski. What are some of the side effects of applying tax extenders retroactively year after year?

Ms. Olson. Well, I think there is some history within a limited sense, the R&D tax credit, that was an extender for over 30 years before it was finally made permanent. During that 30-plus-year period, it was allowed to lapse once and not reinstated retroactively. I think, at that point, companies had become comfortable that there was bipartisan support for the R&D credit. And, as a result of there being bipartisan support, they assumed that it would eventually come back.

So I think the more that there is a bipartisan sharing of views on what tax policy should look like, the greater certainty you can get. People will expect that things are going to come together because there is bipartisan agreement. So that is one of the things I would encourage you to work towards.

Mrs. Walorski. I appreciate that. And I would urge my colleagues as well. And, you know, certainly I want to be a part of that, to work together and work toward permanent solutions to bring certainty into companies. And that is a great example, the R&D tax credit. So I am hopeful we can move on that.

And I thank you, Mr. Chairman, for allowing me to speak on the committee. Thank you. I yield back my time.

Chairman Thompson. Thank you. It was a pleasure to have you join us.

Mr. Smith?

Mr. Smith of Nebraska. Thank you, Mr. Chairman.

Certainly, thank you to our panel of witnesses.

I think we have had some productive discussions here. Of course, some of the discussions went in a direction that perhaps I should have expected, but I just have to think that relitigating the tax reform bill probably isn't the best use of time.

I mean, when I hear from Nebraska soybean producers, their question is not, when are we going to relitigate the TCJA? They are wondering about the biodiesel tax credit and its reworking and the good-faith effort that the industry made to find a solution.

And likewise with the short-line rail tax credit. I represent a lot of small grocery stores who wonder about the qualified improvement issue in the Tax Code and when are we going to resolve that.

So I would hope that we can continue in a productive direction and really address these things.

I know that -- I wish the Tax Code weren't so complicated. I think we took a step in the right direction by doubling the standard deduction that automatically simplified filing for millions of Americans.

We do hear complaints from high-tax States that the SALT deduction doesn't go far enough. We had a witness a couple of weeks ago saying that we needed to provide at the Federal level more assistance for someone who had purchased a roughly $600,000 home. It is hard to use public resources in such a manner and say that we have good tax policy because we checked a lot of boxes across the country.

I think that, as we look at the economy, certainly it is very compelling when we hear from businesses who have told us that they offered wage increases and bonuses as a result of tax reform even if some of it was temporary, the relief was temporary. I would have chosen permanent, certainly. We didn't have the votes for that. But it is pretty compelling when many companies tell us that they issued wage increases and bonuses to their employees. Because it is also hard to find employees these days. So that was upward pressure on wages.

I can't imagine how increasing taxes on companies could put upward pressure on wages. So to undo the tax relief that even President Obama had advocated for, reducing, lowering that corporate tax rate to be more competitive in the world marketplace, the global marketplace.

We need to continue to pursue policies that put upward pressure on wages, such as tax relief, so that we can have a growing economy and ultimately pay down the debt that our country is facing.

And I think we can do this, we can rise to the occasion in a bipartisan fashion to have the discussions that we need to have, in terms of how do we handle these extenders that are important to many folks across the country with an end in sight, or permanence in sight, as the biodiesel tax credit folks have argued, and the short-line rail as well.

We need to encourage folks to come to the table, as they have, to bring us solutions rather than just an extension of the status quo that invites political pressure. Ms. Huang talked about a lobbyist. And, of course, she is lobbying for a few issues here today herself.

But the fact is, we can do this when we come together, when we can have a good discussion about how to handle disaster relief when we have victims that are paying a very high price.

And so I appreciate this opportunity, Mr. Chairman, and look forward to in the future to resolving some of these temporary measures in a permanent way.

Thank you, and I yield back.

Chairman Thompson. Thank you very much.

Thanks to all the members for being here today and participating.

And thank you to the witnesses for your testimony today.

I want to advise all members that you have 2 weeks to submit written questions to be answered later in writing. Those questions and your answers will be made part of the formal hearing record.

The information follows:

Rep. Brendan Boyle, Statement for the Record

Rep. George Holding, Statement for the Record

Chairman Thompson. With that, the Subcommittee on Select Revenue Measures stands adjourned. Thank you.

[Whereupon, at 4:47 p.m., the subcommittee was adjourned.]

Submissions for the Record:

American Council of Engineering Companies, Letter

American Farm Bureau Federation, Letter

Jennifer Thomas, Alliance of Automobile Manufacturers, Letter

Jason Hartke, Alliance to Save Energy, Letter

Texas Transit Association, Letter

Chuck Baker, American Short Line and Regional Railroad Association, Letter

Mark Frohnmayer, Arcimoto, Letter

Fredrick, W. Seeba, BSS, Letter

Business Council for Sustainable Energy, Letter

Biotechnology Innovation Organization, Letter

Josh Howes, Blue Energy Group, Letter

Sean O. Cota, NEFI, Letter

Michael G. Binder, Center for Fiscal Equality, Letter

Jason Lee, Charitable Giving Coalition, Letter

Coalition for Energy Efficient Jobs and Investment, Letter

Marion McFadden, Enterprise Community Partners, Letter

EV Drive Coalition, Letter

John Bozzella, Association of Global Automakers, Letter

Fuel Cell and Hydrogen Energy Association, Letter

Brian McPheely, Paper Recycling Coalition, Letter

Independent Film and Television Alliance, Letter

Greg Motto, Independent Speedway Coalition, Letter

National Hydropower Association (“NHA”), the American Biogas Council (“ABC”), the Biomass Power Association (“BPA”), and the Energy Recovery Council (“ERC”), Letter

Mazars USA, Letter

Phillip Russo, NAFA Fleet Management Association, Letter

David L. Thompson, National Council of Nonprofits, Letter

Phillip Squair, National Electrical Manufacturers Association, Letter

National Association of Realtors, Letter

Kurt Kovarik, National Biodiesel Board, Letter

Michael Scott, National Coordinating Committee on Multiemployer Pension Plans

Daniel Gage, NGV America, Letter

Joel Levin, Plug in America, Letter

Pulling for America, Letter

Jennifer Safavian, Retail Industry Leaders Association, Letter

Rye Development, Letter

Sorenson Engineering, Letter

Southwest Transit Association, Letter

Dennis J. Stilger, Concord, Letter

Bryan Howard, U.S. Green Building Council, Letter

Lindsey Johnson, U.S. Mortgage Insurers, Letter

Christine Keck, Vectren, Letter

Jeffery C. Arndt, VIA, Letter

Daniel J. Hurley, Wendel, Letter

Jennifer M. Haley, Kern Oil and Refining, Letter

Work Opportunity Tax Credit Coalition, Letter

Sam Paschel, Zero Motorcycles, Letter