

**Hearing on Funding Our Nation's Priorities:  
Reforming the Tax Code's Advantageous  
Treatment of the Wealthy**

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HEARING  
BEFORE THE  
SUBCOMMITTEE ON SELECT REVENUE MEASURES  
OF THE  
COMMITTEE ON WAYS AND MEANS  
U.S. HOUSE OF REPRESENTATIVES  
ONE HUNDRED SEVENTEENTH CONGRESS  
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**HOUSE COMMITTEE ON WAYS & MEANS**  
CHAIRMAN RICHARD E. NEAL

# ***ADVISORY***

## **FROM THE COMMITTEE ON WAYS AND MEANS SUBCOMMITTEE ON SELECT REVENUE MEASURES**

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CONTACT: (202) 225-3625

### **Chair Thompson Announces Select Revenue Measures Subcommittee Hearing on Funding Our Nation's Priorities: Reforming the Tax Code's Advantageous Treatment of the Wealthy**

House Ways and Means Select Revenue Measures Subcommittee Chair Mike Thompson announced today that the Subcommittee will hold a hearing on “Funding Our Nation's Priorities: Reforming the Tax Code's Advantageous Treatment of the Wealthy” on Wednesday, May 12, 2021 at 2:00 p.m EST.

This hearing will take place remotely via Cisco WebEx video conferencing. Members of the public may view the hearing via live webcast available at [www.waysandmeans.house.gov](http://www.waysandmeans.house.gov). The webcast will not be available until the hearing starts.

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](mailto: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 Wednesday, May 26, 2021.

**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.

**ACCOMMODATIONS:**

The Committee seeks to make its events 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 [\[here\]](#).

###

Chairman Thompson. The subcommittee will come to order. Good afternoon, and thank you all.

We are holding this hearing virtually in compliance with the regulations for remote committee proceedings pursuant to H.R. 8. Before we turn to today's important topic, I want to remind members of a few procedures to help you navigate this platform.

First, consistent with regulations, the committee will keep microphones muted to limit background noise. Members are responsible for unmuting themselves when they seek recognition or when recognized for their 5 minutes.

Second, members and witnesses must have their cameras on when they are present for the hearing. If you step away from the proceedings, please turn off your camera and audio rather than logging out.

Third, we have several members who are waving on to the subcommittee for today's hearing. I will recognize subcommittee members on a bipartisan basis in order of seniority, followed by off-subcommittee members in order of seniority for them to question the witnesses.

Finally, in the event that I have technical difficulty or need to step away, Congresswoman DelBene will take over as chair until I return. And I will remind people we are going to have votes during this hearing, so Ms. DelBene and I will try and balance that out.

And with that, I will turn to the topic of today's hearing.

In the American Rescue Plan, the Ways and Means Committee provided the backbone of a critical relief package that helped Americans weather the pandemic.

Now, as Congress prepares to work with the Biden Administration to build on the progress we have made, we also need to consider how our tax system is impacting our efforts



to foster a fair and inclusive economic recovery, and we need to level the playing field for all taxpayers going forward.

Today, the committee will examine the way the tax system works differently for the very well off than it does for the middle class.

For generations, the bulk of the gains in our economy have been concentrated in the wealthiest Americans. Middle class families have seen real incomes stagnant while those at the top grow richer.

Our progressive tax system is supposed to counterbalance economic inequity and inequality so that those who have been more fortunate pay a little bit more toward our common good.

Unfortunately, the tax system we have hasn't always lived up to that ideal. A tax system that favors financial assets and dynasty trusts over working families won't support the investment we need to build a more prosperous future. Tax advantages that favor the wealthy lead to wasteful tax avoidance, which is neither productive nor fair.

As we consider some of the advantages that the Tax Code provides the wealthy by taxing wealth more generously than work and deferring or eliminating tax entirely, we also need to keep in mind how the tax system affects working small business and family farm owners. A fair tax system should also preserve these important parts of our community.

I believe we can do a better job of taxing financial wealth while preserving our small businesses and our family farms. I hope my colleagues in the committee will join me in working toward that goal.

In addition to the tax advantages the code grants high income and wealthy individuals, we also know that the well-off are able to plan to avoid taxes and in some cases evade tax through not properly reporting their income and overstating their deductible expenses.

Working Americans have almost all their income and their most important deductions

reported to the IRS while taxpayers at the top are too often on the honor system.

Americans will feel more confident paying their taxes if they know that everyone else is paying their fair share, and that means both tax laws that are fair on paper, but also enforced fairly.

This is an important piece of the picture and we can't lose sight of it. Although, not the subject of today's hearing, IRS enforcement will be closely examined by our subcommittee in conjunction with Mr. Pascrell's Oversight Subcommittee during the month of June.

I hope this hearing will be the beginning of an important discussion among all committees' members on how to build a durable tax system that treats all Americans fairly so that we have the resources to invest in our priorities this year and in the future.

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

Mr. Smith, you are recognized.

[\[The statement of Chairman Thompson follows:\]](#)

Mr. Smith. Thank you, Mr. Chairman.

And thank you to our witnesses for being here today.

Mr. Chairman, I rhetorically ask what the primary purpose of our Tax Code should be. Is it to create equal outcomes across the economy, or is it to subsidize behaviors where we see a public good, or punish those where we don't?

Every member on this dais has probably introduced a bill or amendment at some point to accomplish at least one of those two things.

However, that is not really what our Tax Code exists for. Our Tax Code exists primarily to collect sufficient revenue to fund the government in a way which is fair to taxpayers, and which is constructive for our economy.

And I have some great news that may be startling to many of you: our federal Tax Code does a good job of meeting those goals under the Tax Cuts and Jobs Act.

Let's take a look at the primary goal piece by piece and see how we are doing.

Are we bringing in the money we need to operate the Federal Government?

In 2019, the last full normal year before the pandemic, federal revenue was \$3.46 trillion. That was the most money the Treasury ever took in for a single year, and the revenues of 2020 and 2021 are projected to be even higher.

Changes to our Tax Code made by the Tax Cuts and Jobs Act are not the reason we are running persistent deficits.

Question two, is our Tax Code fair?

The Joint Committee on Taxation says that it is. According to a new analysis the JCT released yesterday, a taxpayer earning \$20,000 to \$30,000 per year pays 3.1 percent of their income in federal taxes, someone earning between \$75,000 and \$100,000 pays an average rate of 15.8 percent, and a taxpayer earning over \$1 million pays 31.5 percent on

average. That is the definition of progressive.

And I would like to ask unanimous consent to include that JCT report in the hearing record.

Chairman Thompson. Without objection.

[\[The information follows:\]](#)

Mr. Smith. Under the TCJA, thanks to the doubled standard deduction and our expansion of the Child Tax Credit, a single mom with two kids doesn't owe a dime of federal income tax until her income exceeds \$50,000 per year. If we want a Tax Code where the burden of taxation is largely paid by upper percentile workers, we have it.

Finally, is our current Tax Code incentivizing constructive economic activity?

Yes, it is. Growth was near 3 percent, wage growth was strong, particularly for low- and middle-income workers, and businesses were investing in workers and creating new jobs prior to the pandemic.

This strength continues in states like Nebraska, my state, where our Governor carefully balanced COVID precaution with needs like economic opportunity and education.

Moreover, TCJA was groundbreaking in requiring businesses to bring back profits from abroad and pay tax on them. TCJA reforms put an end to the exodus of U.S. companies overseas and also created anti-abuse rules to prevent zero-tax income in tax havens.

TCJA also positioned American companies and workers to compete and win in the global economy. There have been zero corporate inversions since we enacted TCJA -- zero.

So why are we here? It seems that the tax proposals in front of us have two goals.

One is to raise taxes to partially offset the cost of the President's so-called "infrastructure package." I will leave the question of new spending proposals and whether to offset them to the committees and subcommittees of jurisdiction.

The other apparent reason for this hearing is the majority's belief that certain individuals and businesses aren't paying their so-called "fair share." Their answer to this seems to be tax policies that reward their chosen few, while targeting other Americans for tax increases, regardless of their impact on job creation, our economy, or local farmers, ranchers, and small businesses.

The President's capital gains tax proposals and the various changes associated with it, like the repeal of stepped-up basis, exemplify just how broken these proposals are.

On its own, the President's proposal to double the capital gains tax is a substantial net revenue loser, actually. Why? Because economists tell us there is a revenue maximizing capital gains rate, and if you exceed that rate people won't sell assets, and the government collects zero revenue. This lock-in doesn't benefit government and it is even worse for our economy.

The President's answer to this, rather than reconsidering a confiscatory rate, is to force people to pay capital gains taxes at times that are also counterproductive to our economy. Hard to imagine.

For example, a recent EY study found that repealing stepped-up basis and taxing capital gains at death would destroy 800,000 jobs over the next decade and 100,000 jobs per year after that.

I would like to ask unanimous consent to include that study, as well as a letter from numerous ag groups and a letter from the National Association of Manufacturers opposing that proposal in the record.

Chairman Thompson. Without objection, such will be the order.

[The information follows:]

[National Association of Manufacturers Letter](#)

[Ag Letter](#)

Mr. Smith. Other tax increases in the President's proposal, like repealing Section 1031 like-kind exchanges for real estate, will also cause economic harm for the sole purpose of papering over the President's capital gains rate blunder.

My concern in opposing these proposals isn't the wealthiest Americans. They are fine. They have got armies of advisers helping them to navigate a complicated high tax environment.

My concern is the family-operated small businesses, farms, ranches, even middle-class families whose businesses and homes have seen strong appreciation over a generation, who don't have access to those mechanisms and could be hurt substantially by these proposals.

We have families like these in our districts, like the rancher in Nebraska, the family vintner in California, the single mom on Long Island who scrapes together a down payment for a house and wants to pass something on to her kids, the small parts fabricator in Kansas.

Our friends on the other side will say they want to offer some type of exemption to family businesses. I don't trust that exemptions will actually help folks, because at the end of the day either the exemptions won't work, or the capital gains tax increase won't raise any revenue.

American families shouldn't be at the mercy of the academics who are trying to thread that needle right now. We should empower American families and businesses to succeed on their own and not force them to rely on Washington.

Mr. Chairman, we have a tax plan that has a proven record of equitably collecting record revenue in a progressive tax system, stopping inversions, and driving record job growth and economic growth. It is called the Tax Cuts and Jobs Act.

Thank you for calling this hearing today. It is a great opportunity to highlight how out of touch the President's proposals are with the economic realities in our districts, and to

highlight how they would be just as damaging to our economy as programs like the most recent UI extension in the so-called “American Rescue Plan” already are.

Thank you. I yield back.

[[The statement of Mr. Smith follows:](#)]



Chairman Thompson. Thank you, Mr. Smith. And I appreciate your willingness to work on ensuring that we preserve family-owned businesses and farms and looking at how we can make sure our Tax Code is equitable to everyone involved.

Without objection, all members' opening statements will be made a part of today's record.

I thank the witnesses for taking time to appear before us today to discuss this very important issue. I would like to briefly introduce the witnesses, then we will hear from them.

First, we have Professor Adam Looney, who is currently a professor and executive director at the Marriner S. Eccles Institute for Economic and Quantitative Analysis at the David Eccles School of Business, University of Utah. Previously, he was a Deputy Assistant Secretary for Tax Analysis at the Treasury Department and the senior economist for public finance and tax policy with President Obama's Council of Economic Advisers.

Professor Jason Oh is currently a professor of law and faculty director at the Lowell Milken Institute for Business Law and Policy at UCLA's School of Law. Previously, he was an acting assistant professor of tax law at NYU Law School.

Hank Gutman was the chief of staff of the Joint Committee on Taxation from 1991 to 1993 and was Deputy Tax Legislative counsel in the Treasury Department Office of Tax Policy.

Chye-Ching Huang is currently the executive director of the Tax Law Center at NYU Law. Previously, she was a senior director of economic policy for the Center on Budget and Policy Priorities.

Finally, Chris Edwards is the director of Tax Policy Studies at the Cato Institute. He was previously an economist for the Joint Economic Committee.

Each of your statements will be made part of the record in its entirety. I would ask that you summarize your testimony in 5 minutes or less. And to help you with the time,

please keep an eye on the clock that should already be pinned to your screen.

If you do go over your time, I will notify you by, I guess, tapping on the computer screen here, and please recognize that and try and adhere to the time.

Again, we have votes coming up, so it is going to be a little bit disruptive. I want to get as much of this in as possible.

And with that, Professor Looney, you may proceed.

**STATEMENT OF ADAM LOONEY, PROFESSOR, EXECUTIVE DIRECTOR OF  
THE MARRINER S. ECCLES INSTITUTE FOR ECONOMICS AND  
QUANTITATIVE ANALYSIS, UNIVERSITY OF UTAH**

Mr. Looney. Thank you. Chair Thompson, Ranking Member Smith, and members of the committee, thank you for the opportunity to testify today.

Wealth and income are heavily concentrated in the United States -- and increasingly so. The top 1 percent of American households earn about 19 percent of all market income and holds about one-third of all wealth. That is more than the bottom 90 percent of households combined.

The tax system contributes to the concentration of income and wealth in several ways, including by providing advantageous treatment of inherited wealth, business income, and capital gains. And those advantages have increased over time as tax rates on high income households have declined.

Inheritances and intergenerational financial gifts are an important cause of wealth concentration. By exempting capital gains on assets held until death from income tax -- a preference often called stepped-up basis -- the tax system effectively subsidizes these transfers, allowing wealthy families to pass along income that would ordinarily instead be paying taxes.

Each year hundreds of billions of dollars in capital gains escapes income tax as a result, making the exclusion of capital gains due to step-up among the largest tax expenditures. The vast majority of this tax preference is concentrated among wealthy households.

Historically, the benefit of stepped-up basis was partially offset by the estate and gift

tax system, but today almost no one pays the estate tax and the effective estate tax rate is low.

Likewise, the Tax Code provides preferential treatment for income and assets predominantly owned by the wealthy. For instance, the majority of high income taxpayers are owners of pass-through businesses.

Most of the wealth of the top wealthiest households is composed of the stock of public companies or pass-through businesses, and almost half of the increase in the top 1 percent's share of income since the 1970s is associated with pass-through business income.

Today, corporate income, and especially pass-through business income, are taxed at lower rates than apply to labor income like wages. That is because of the low corporate rate, the special 20 percent deduction for pass-through business income, the exclusion of certain pass-through owners' earnings from payroll taxes, and other special tax breaks.

These advantages have reduced Federal revenues by hundreds of billions of dollars, eroded the payroll tax base that funds Social Security disability insurance and Medicare, and most of the tax benefits have accrued to the highest income taxpayers.

For instance, half of the tax savings of the pass-through business deduction accrues to the top 1 percent of taxpayers, as does close to half of the recent corporate rate cut.

Owners of businesses and other capital assets also benefit from low capital gains and dividends tax rates. About 80 percent of the tax benefit from these preferential rates accrues to the top 1 percent of taxpayers.

And for certain investors, the capital gains treatment is even more favorable because of special tax breaks that allow, for example, real estate investors to defer taxes through like-kind exchanges or which eliminate capital gains taxes entirely on sales of qualified small business stock or investments in Opportunity Zone assets.

Low tax rates on business income and capital gains not only increase the after-tax income of business owners, they directly increase the market value of those assets, increasing

their wealth.

In short, we provide favorable tax treatment on the forms of income and assets that are particularly important to the wealthy. This has not only reduced tax revenues available to make productive government investments, it has also diluted the effectiveness of the tax system in restraining the forces that are widening inequality in the United States.

As a result, the tax system today does less to reduce inequality in income and wealth at the top of the income distribution than it has in the past.

Thank you.

[\[The statement of Mr. Looney follows:\]](#)

Chairman Thompson. Thank you very much.

Professor Looney referenced two data points, one, that the collective wealth of American billionaires grew 55 percent during this pandemic and that 1 percent of households held about one-third of all wealth, more than the bottom 90 percent. That information comes from both Forbes and from the Federal Reserve. And I, without objection, I would like to add that into the official record.

[\[The information follows:\]](#)

Chairman Thompson. Now I would like to recognize Professor Oh.

You may proceed.

**STATEMENT OF JASON OH, TAX LAW PROFESSOR, UNIVERSITY OF  
CALIFORNIA LOS ANGELES SCHOOL OF LAW**

Mr. Oh. Chairman Thompson, Ranking Member Smith, and members of the subcommittee, thank you for inviting me to testify on how the rich face a fundamentally different tax system than other Americans.

My testimony today has four key takeaways.

First, the income tax struggles to tax capital income effectively. And this is a major reason why the wealthiest Americans do not pay more tax.

Second, several reforms would make capital income taxation much more robust. These include repealing stepped-up basis, shifting to mark-to-market for more assets, and increasing the capital gains rate.

Third, these reforms work best in tandem.

And finally, some reforms are more effective than others given the uncertainty about how long legislative changes will endure.

There are several reasons why the income tax struggles to tax capital income effectively.

First, long-term capital gains and qualified dividends are taxed at a lower preferential rate, and the wealthy disproportionately benefit from this preference.

Second, because of the realization requirement, the rich have much more control over when and how much income they realize. Gains are triggered when assets are sold, and the wealthy can even harvest their capital losses to offset realized gains.

Third, if the wealthy need cash, they can borrow at very low interest rates against appreciated assets without triggering any tax.

And finally, Section 1014 steps up the basis of assets at death. Untaxed capital gain disappears when a taxpayer passes away.

And this is just a quick summary of the basic contours of the tax system faced by the wealthy. It is a tax system of lower rates and voluntary recognition of income, the timing of which is controlled by the taxpayer. The rich can pull money out of investments without any tax and evaporate capital gains by holding on to assets until death.

And these are basic structural features of the income tax. We are not talking about tax evasion or tax shelters.

Several reforms would dramatically improve the income taxation of the rich. We could repeal stepped-up basis, address the realization requirement, and increase the capital gains rate. And these three changes together would dramatically increase the tax burden on the wealthy and enhance the progressivity of the tax system.

But it is important to pursue these reforms as a package. So President Biden has proposed to end stepped-up basis and raise the capital gains rate to 43.4 percent, but has not yet signaled any plans to address the realization requirement.

It is unclear whether just those two changes would gain or lose revenue. And the key unknown is the elasticity of capital gain realization, how much the proposed capital gains rate increase would discourage the sale of assets. And depending on what elasticity is assumed, various projections will show the reforms as losing or gaining revenue.

I am not sure what elasticity we should assume. The proposed capital gains rate is well outside the range of rates that have been historically observed and used for measurement. There is no reason to expect that the elasticity of capital gains realization should be constant.



Holding on to assets will remain attractive because it gives taxpayers a valuable option on future congressional action, either lowering the capital gains rate or reinstating stepped-up basis. The proposed rate would be the highest in more than half a century and taxpayers could realistically expect Republicans to reduce the rate the next time they control Congress.

But that elasticity is irrelevant and that concern goes away if we simultaneously repeal the realization requirement and transition to a mark-to-market system. A mark-to-market system would tax appreciation and household assets yearly, even if they aren't sold.

Because any reform is subject to future legislative uncertainty, it is particularly important to make design choices with that uncertainty in mind.

For example, when addressing the realization requirement, a shift to mark-to-market taxation is better than alternative approaches because it is relatively robust to future legislative change. Even if Congress repeals mark-to-market in the future, a mark-to-market regime would raise revenue in the interim.

I want to conclude my testimony with an important point about progressivity.

What matters is the overall progressivity of the tax and spend system. That means we could increase progressivity through other instruments, like a more robust Federal estate and gift tax or an annual wealth tax. But this also means that spending focused on low and middle income families can have a large impact on progressivity.

There are several such programs in President Biden's proposals, including making the expanded child tax credit permanent and increasing access to childcare for low-income families.

Given the current level of inequality in America, we need a multiple-pronged approach. Pairing tax increases on the wealthy with spending programs focused on low and middle income households could dramatically include progressivity.

Thank you again for the invitation. These are pressing issues for the American public, and I look forward to the discussion.

[\[The statement of Mr. Oh follows:\]](#)

Chairman Thompson. Thank you, Professor.

Mr. Gutman, you may proceed.

**STATEMENT OF HARRY L. "HANK" GUTMAN, CHIEF OF STAFF (RETIRED),  
JOINT COMMITTEE ON TAXATION**

Mr. Gutman. Thank you very much.

Mr. Chairman and Mr. Smith and members of the subcommittee, I am pleased to appear today as an invited witness to discuss income and wealth inequality and how the tax system may be used to address that inequality.

It is exciting, actually, for me to return virtually to the witness table that I once occupied rather frequently as a Joint Committee chief of staff and earlier as Treasury Deputy Tax Legislative Counsel.

I will confine my remarks to discussing why tax-free-step-up in basis should be repealed and replaced by a regime in which death and lifetime transfers are income tax realization events. That would mean that when an individual dies owning property that has appreciated in value, tax would be payable on that gain rather than forgiven, as it is under current law. Conforming the rules would treat lifetime transfers similarly.

There are at least four reasons why step-up should be repealed.

First, step-up creates vertical and horizontal inequity. Taxpayers with identical economic incomes do not pay the same amount of tax. That is wrong.

Step-up creates an artificial impediment to sales that would normally occur. It distorts capital flows. This is lock-in.

Step-up results in an estimated revenue loss on a tax expenditure basis of \$218 billion for 2020-2024, plus an additional \$19 billion for carryover basis for gifts.

And finally, the estate tax does not meaningfully tax capital income that has been exempted from the income tax. The estate tax affects less than one-tenth of 1 percent of decedents.

Now, this proposal will undoubtedly resurrect arguments that have emerged in the past when a realization or carryover basis regime has been suggested. I will address them briefly.

A realization regime causes a forced sale of assets. It is true that funds will be needed to pay the tax due on appreciated assets. Under most proposals, however, death time recognition, that is the requirement to pay tax, would be limited to marketable assets. And those marketable assets are, by definition, liquid.

Now, funding the tax obligation may require the sale of some assets and the timing of sales may be inconvenient, but a market exists to eliminate liquidity issues, and inconvenient timing issues may be alleviated by borrowing against the value of the property.

But let me be clear, the proposed regime must address the legitimate concerns of those who own nonmarketable assets. And here I am speaking directly to owners of closely held family businesses, and, as Mr. Smith noted, farms. These need must be addressed in any new regime.

Requiring the sale of some of those assets to pay tax could materially and adversely affect the business and the owners. Consequently, special rules must be enacted to defer the tax on nonmarketable assets until those assets are sold. That eliminates the forced sale of those assets.

Lack of basis records is also a legitimate concern. The importance of historical basis information is closely related to the form of transition that is enacted.

A properly designed system would provide relief in problematic areas -- personal residences and noncollectible tangible personal property. But if historical basis is required, a

look-back rule, by which the basis of an asset may be established by discounting its value at the relevant tax date back to its acquisition date, could be provided to determine unknown basis.

Transition. Transition is a particularly difficult issue. The new regime could apply to all realizations occurring after the effective date, it could apply to appreciation occurring after the effective date, or it can only apply to assets that were required after the effective date. Each one of them has a different effect that I will be happy to discuss.

But, for example, historical basis is not needed for a system that is only effective for assets that are acquired after the effective date.

Ideally, transition should not create winners and losers. But sometimes the search for the equitable transition rule will produce perceived inadequate relief or, frankly, political impracticability, and, as a consequence, the desirable law change does not get enacted.

We should not let the perfect be the enemy of the good here. The most important objective is the enactment of the general rule and generous transition relief may be necessary, but transition relief is by definition temporarily limited.

Mr. Chairman, step-up has been identified as a problem by both Democratic and Republican administrations no less than six times since 1942 and both have proposed essentially identical solutions. The administration has proposed repeal. Congressman Pascrell has introduced repeal legislation. Senator Van Hollen, with four others, has released a discussion draft.

In this time of huge wealth and income inequality, it is time for the Congress to act.

Thank you, Mr. Chairman.

[\[The statement of Mr. Gutman follows:\]](#)



Chairman Thompson. Thank you.

Ms. Huang, you may proceed.

**STATEMENT OF CHYE-CHING HUANG, EXECUTIVE DIRECTOR, NEW YORK  
UNIVERSITY TAX LAW CENTER**

Ms. Huang. Thank you, Chairman Thompson, Ranking Member Smith, and members of the committee, for the opportunity to testify. I will offer three points.

The first is that tax breaks for income from wealth can lead to wasteful tax avoidance, sheltering, and even evasion as some wealthy filers seek to expand their value.

The second is that low and middle income workers and families have a very different experience of the tax system.

And the third is that workers, families, and infrastructure are better national investments than tax breaks on income from wealth.

So to that first point. Tax avoidance, sheltering, and sometimes evasion are part of the substantial cost of tax breaks on income from wealth. And those tax subsidies include, as you have heard, an array of lower or even zero percent rates and the ability to delay over a lifetime or multiple generations any tax on the income that wealth generates.

Now, these are large outright tax cuts, but they are also an invitation to some wealthy filers and their tax advisers to stretch the coverage of those tax breaks. Wealthy filers can seek from a menu of options the lowest possible tax rate on income from their efforts. And they can also try to push their labor income into these tax breaks that are supposed to be for capital.

As my written testimony explains, loopholes and shelters, ranging from carried interest to loss-making chinchilla farms, have over time been among the many schemes used

to try to maximize tax savings from the lower capital gains rates. And you have also heard that wealthy filers can use pass-through businesses to avoid top income and payroll taxes on salaries.

Only those with the resources and access to skilled tax advice can choose to use those complex arrangements.

But to my second point, low and middle income workers and families have a very different experience. By and large, they can't opt out of paying taxes annually or opt in to lower tax rates using complex schemes and they don't have teams of accountants and lawyers. Yet there is 95 percent compliance on wage and salary income because it is subject to robust reporting and withholding requirements.

Wealthy filers get more of their income from sources with no information reporting and can hold it through layers of entities that obscure who owns it. So the top 1 percent of filers cause more than a fifth -- and perhaps far more -- of the tax gap of taxes owed, but not paid. That is far more than working families claiming tax credits. But those two groups are now audited at about the same rate, and that is primarily because IRS budget cuts have left it without the staff needed to audit the returns of wealthy filers.

Finally, workers, families, and infrastructure are far higher national priorities than tax breaks for income from wealth. The top 1 percent of filers get about a fifth of the value of all Federal tax breaks.

The U.S. raises less revenue than most developed countries and it invests far less in priorities that support opportunity. International generational mobility is low, inequality is high and heavily skewed by race due to barriers to economic opportunity for people of color.

Given these national imbalances, Chairman Neal proposes to make permanent EITC and CTC boosts and those would mean fewer low paid workers taxed into poverty and it would mean historic inroads into child poverty made permanent.



Together with investments in research, infrastructure, education, and childcare, those measures would directly benefit workers and families and also help to secure shared prosperity, including by nurturing the next generation of potential innovators and entrepreneurs.

If lawmakers seek to offset part of the costs, two very sound sources of revenue are reducing tax breaks on income from wealth and providing the IRS the resources and tools needed to ensure that wealthy filers comply with the law. The administration's recent proposals in these areas are important steps in the right direction. And while they are incremental, I do think that they are worthwhile taking in themselves even without broader changes.

They would, however, leave much more to be done to assess the many other tax breaks on income from wealth that those proposals would leave intact.

It is an honor to be here today, and I really welcome the chance to answer your questions.

[\[The statement of Ms. Huang follows:\]](#)

Chairman Thompson. Thank you, Ms. Huang.

Mr. Edwards, you may proceed.

**STATEMENT OF CHRIS EDWARDS, DIRECTOR OF TAX POLICY STUDIES,  
CATO INSTITUTE**

Mr. Edwards. Well, thank you very much for inviting me to testify today.

President Biden's new spending and higher taxes, in my view, would be a mistake. The President wants to increase spending on infrastructure and social programs, but State governments can fund these activities themselves.

For example, just in the last 7 years, 31 States have raised their own gas taxes to fund their own infrastructure systems.

The President, for example, has proposed a paid family leave program, but 8 States already have their own paid leave programs funded by their own State payroll taxes. So there is no need for Federal intervention, it seems to me.

Another example is the President has proposed spending \$174 billion on electric vehicles and charging stations, but businesses are already pouring billions of dollars into electric vehicles. There are already tens of thousands of charging stations across the Nation. We don't need new subsidies for EV, it seems to me.

Some of the President's proposals are contradictory. The President has proposed large subsidies for private sector infrastructure, for example, but his corporate tax increase would undermine and reduce private sector infrastructure investment. The President's job plan is supposed to mitigate climate change, but the green and pro-environment way to fund infrastructure is through user charges, such as gas taxes, not the President's approach of income taxes.

So what about taxing the rich?

Well, the President says he wants the wealthiest 1 percent to pay their fair share. A CBO analysis that includes all Federal taxes showed that the average tax rate on the top 1 percent has hovered around 30 percent or so for the last 40 years, ever since 1979.

Meanwhile, the average tax rate on the bottom quintile has plunged to almost zero and the average tax rate on the middle three quintiles has fallen. Again, that is all Federal taxes together.

So what about the 2017 tax reform law? My written testimony shows that the 2017 law provided roughly equal percentage tax cuts at all income levels across the board.

Senator Elizabeth Warren recently said, quote, "We can't let rich people keep paying taxes at half the rate as everyone else," unquote.

But Tax Policy Center data in my written testimony show that the top 1 percent pay an average rate on all Federal taxes of 28 percent. That is twice what the middle quintile pays and 10 times what the lowest quintile pays.

The other panelists mentioned a lot of breaks that they perceive that the rich folks get. And, with due respect to them, despite all those breaks, the top group, according to the TPC data, still pays a 28 percent overall rate, twice the rate on the middle class.

The President's family plan talks about tax reform that rewards work, not wealth. But wealth complements work. Workers are more productive and better paid when they are supported by more wealth or capital.

As I think one of the other panelists mentioned, data on the wealthiest Americans show that the biggest chunk of their wealth is equity in business enterprises, which hire workers and generate GDP.

And if you look at the annual Forbes 400 list of the richest Americans, it is a continually changing group of people who have launched companies that create new products

and push down prices for the benefit of all consumers.

So wealth in the market economy benefits all of us and that is why taxes on wealth or capital, in my view, should be minimized.

The President is proposing to raise the corporate tax rate. Secretary Yellen worries about a 30-year race to the bottom in rates. But for 22 OECD countries, the average corporate tax rate fell from 47 percent in 1980 to just 25 percent today. But for those OECD countries, corporate tax revenues as a share of GDP have risen since the 1980s. So corporate rates have gone down across the OECD and revenues have gone up.

Finally, the President is proposing to double the long-term capital gains tax rate. That would undermine entrepreneurship and damage America's technology industries.

America has about 330,000 wealthy angel investors who fund the high growth startups. They take huge risks. They wait years for payoffs in the form of capital gains.

When risky startups succeed, they generate wealth for investors and entrepreneurs, who reinvest their wealth into new startups.

Elon Musk, a billionaire, a serial entrepreneur, is a classic example of that. He is using his wealth to invest in new startups. It is a virtuous cycle.

But high capital gains taxes would throw a wrench into that virtuous cycle. Angel investors would move their funds to safer investments, like muni bonds, and skilled people would take safe salary jobs rather than jobs in risky startups if we increase the capital gains tax rates.

Many famous American companies got their original funding from wealthy angel investors, including Apple and Home Depot and Tesla and Uber. Raising capital gains tax rates would raise little revenue, but damage America's startup climate and technology industries.

Thank you very much for listening to my testimony.

[The statement of Mr. Edwards follows:]

Chairman Thompson. Thank you, Mr. Edwards.

Without objection, each member will be recognized for 5 minutes to question our witnesses. We will not observe the Gibbons rule in this remote setting. We will instead go in order of seniority, switching between majority and minority members.

Members are reminded to unmute yourselves when you are recognized for your 5 minutes.

I will begin by recognizing myself. I will start with a question for Professor Looney.

Again, thank you for joining us.

I would like to ask about the difference between income inequality and wealth inequality. My understanding, it has been mentioned by a couple of the witnesses today, is that our tax system and our safety net programs, like the EITC, do a pretty good job of reducing the income inequality on an after-tax basis.

But how about wealth inequality? Does the tax system make much of a dent in that? And has that form of inequity kept growing? Has it gotten wider?

Mr. Looney. Sure, Congressman. Thank you for that question.

So, first of all, the tax system, in addition to being a tool for raising revenue, has a significant effect on the distribution of after-tax income, particularly among low and middle income households.

In particular, policies like the earned income tax credit and the child tax credit, which has increased over time, have dramatically boosted the incomes of low and middle income households, reduced poverty. For example, the recent expansion of the child tax credit this year has cut child poverty roughly in half.

But the same is not true at the high end of the income distribution. For taxpayers that earn much of their income from their wealth from businesses, their tax rates have gone down over time. Because of reductions in capital gains rates and estate tax rates, those who have

fortunes that are basically composed of unrealized capital gains, those reductions in tax rates have expanded their wealth on an after-tax basis.

So I think it is a story of two groups. At the low and middle income of the distribution taxpayers have benefited a lot from policies to improve their economic well-being, but that is also true at the high end where tax policies have tended to increase inequality.

Chairman Thompson. Thank you.

Professor Oh, we hear a lot about -- I think the famous one is Warren Buffett saying he pays less taxes than his secretary. Is it really possible that some people in the top 1 percent have a lower tax rate than people in the middle? And if so, how does that work?

Mr. Oh. It is possible. And what really drives this, if you think about the wealthy, I am going to divide them into roughly two groups.

So there are the wealthy. Think your Fortune 500 C suite executive who is earning \$50 million a year. But that \$50 million a year is taxed as labor income. So that person is doing really well but is paying a lot of tax, consistent with the progressive marginal rates that we have in our income tax.

Contrast that kind of high wage earner with someone who owns a lot of appreciated assets, so someone like Warren Buffett, who owns billions and billions of dollars in assets. Warren Buffett can decide how much salary he pays himself. So the amount of ordinary income he receives each year is kind of under his control.

If he needs money, Warren Buffett just goes and borrows against his Berkshire Hathaway stock. There is no reason for him to even realize gains if he wants to buy -- I don't know if Warren is a big yacht guy. But if he wants to buy a yacht, he can borrow against his depreciated assets to buy that yacht.

And so it is possible, especially for this class of taxpayers that has appreciated assets,

to pay tax at very, very low rates. And I think what happens when you look at the top 1 percent together is you kind of lump a lot of people together and miss that variation.

Chairman Thompson. Thank you very much.

Mr. Gutman, you had talked about protecting family farms and family businesses. This is something that is near and dear to my heart.

The first bill I introduced as a Member of Congress was a bill to allow people who inherit the family business or the family farm, if they keep running the business or keep running the farm, they wouldn't have to pay an estate tax.

And it is something that concerns me. We are on a path, if we don't take care of these folks, to do away with all family-owned businesses and all family farms.

Do you have any specific suggestions on how we can guarantee that won't happen rather than just an administrative action?

Mr. Gutman. Sure.

Any new system has to recognize the special situation, and I would say of all closely held businesses, Mr. Chairman, not just farms. Owners shouldn't be forced to sell or even have to leverage their ownership interest to pay a tax at death.

And there are two potential solutions to this. Both of them provide for deferral of income tax until the property is sold. There is no tax that would be due at death.

The first alternative would be to value the property using the estate tax rules. And this is important because under the estate tax the value of property that is used in farming or in closely held businesses is granted what is called special use valuation, which allows the property to be valued at its actual use rather than its highest and best use, which could be for development.

This is a valuation advantage that already exists in the code in the estate tax area. It could be engrafted into an income tax rule that would say we are going to determine at death



the value of your property using estate tax rules and the amount of gain would be determined on that favorable basis. But we are then going to say we will not collect the tax now. We will wait until the asset is sold and then we will collect that tax.

The alternative, of course, is simply to have a carryover basis for the items that we describe here, and that would take care of the problem of no tax at death as well.

Now, both of the options I have proposed do not depend on a factual determination of whether a beneficiary is engaged in the business as creating a taxable event. That is a very messy, unnecessary inquiry.

Rather, these would apply across the board to all nonmarketable assets. But under the first alternative, farm property would receive an advantageous special use valuation.

Both of these solutions directly address the liquidity concern that you have raised. I will be happy to expand on that. But I think that this is the way to assure that closely held business entities and farms do not suffer an income tax incident at the time of death.

Chairman Thompson. Thank you very much. I might want to follow up on this with you. I have got some farm land in my district that sells for millions of dollars an acre. It is a little different than farmland most places, so we need to be very careful how we approach this.

And then lastly, Ms. Huang, could you speak to the main differences in how the IRS approaches auditing high wealth individuals vis-a-vis low income people?

Ms. Huang. Sure. Well, I think the biggest thing to note is that the financial arrangements of high wealth people are also different than those of low and moderate income people. They can be very complex, involve lots of different entities, and involve sources of income for which the IRS doesn't have much insight into.

So while the IRS knows from both an employer and the employee what wages or salary they get paid and, as Professor Oh noted, the sources of most of their deductions, a lot

of that is very opaque for high wealth filers. And that means that it takes a lot of person power and expertise to audit high income filers.

That is one of the reasons why cuts to the IRS have so plummeted the rights of audits at the top. The top 1 percent have had their audit rates cut by 70 percent since 2010.

So they are less likely to be audited and it is also hard to prove exactly what is going on in the complex financial arrangements once those audits do happen.

Chairman Thompson. Thank you very much.

Mr. Smith, you are recognized for 5 minutes.

Mr. Smith. Thank you, Mr. Chairman. I am glad you reflected briefly on the complexity of trying to establish the value and just many things that could, I think, complicate these matters.

Mr. Edwards, in your testimony you highlighted the likely negative impact of capital gains tax increases and other proposals on the willingness of business and other investors to put resources into activities like research and business capital.

Because of this, the administration's proposal doubled the capital gains rate. As a stand-alone measure it would be scored as a net revenue loser.

So, to address that problem the administration added proposals like repealing stepped-up basis and Section 1031. Some members in the majority are now asking for carve-outs from the step-up repeal for farming and other industries, which it seems would further decrease the revenue benefit of the proposal, while doing little to limit the economic damage.

Is that your view? And, if so, could you discuss that?

Mr. Edwards. Well, the first thing to note about raising the possible capital gains tax rate, I think a lot of economists agree that the revenue-maximizing rate is around 28 percent or less. Some economists think it is less than that. So pushing up the rate as high as the

administration wants to go doesn't make any sense for the government or for the economy.

I would note that the Wharton budget-estimating folks have done an estimate of raising the rate as high as the President wants to go, as well as eliminating step-up, and they found that would only raise the government around \$10 to \$15 billion a year. For that very small amount of revenue, I think you are risking a huge amount of damage to the economy.

Every OECD country has forever had a lower, more preferential rate for capital gains than ordinary income for all kinds of reasons.

Now, some countries don't tax long-term capital gains at all, such as New Zealand. And, in fact, a number of other high-income countries, like Canada and Britain, only brought in capital gains taxation in the 1970s.

One way to think about it is this. If you look in the Department of Commerce national income accounts, capital gains isn't even in there. GDP, national income, is profits and income from current production. So, there is an argument that capital gain isn't properly income. And this goes to the -- I will close on this -- it goes to the issue of step-up gain at death.

For a business that has been building over decades and the owner dies, there is this debate, what about his estate at death? Well, that business has been paying tax on profits throughout the life of the business, so it seems to me, taxing the gain on the sale is a double taxation.

I think a reasonable compromise is to repeal the estate tax and tax on a carryover basis when the assets have sold.

Mr. Smith. Okay. Do you see carve-outs as might be proposed being effective, or do you think those could function at all?

Mr. Edwards. No. I think it shows the problem, that there is a recognition -- and I appreciate what Dr. Gutman said about the complexity of family farms and businesses and

that sort of thing and valuations.

I would note that this was a story you may have seen in the press a few weeks ago. Michael Jackson, the singer, died 11 years ago now. They have been battling over the value of his estate for the last 7 years. The IRS claimed it was worth \$482 million and the tax court came down to a valuation of \$100 million. So, the IRS was claiming a valuation on Michael Jackson's estate five times more than the court ultimately decided.

The issue there is intellectual property, which the taxation has become hugely complicated. And so that is the problem of taxing based on valuations.

Mr. Smith. Okay. I appreciate that.

Mr. Gutman, a while back before the Senate Finance Committee, you said, and I quote, "As a matter of horizontal equity and administrability, I do not believe that special provisions for particular assets are appropriate in the transfer tax structure."

I don't have a lot of time here, so a simple answer will do. But would you say that is still your view or not?

Mr. Gutman. Yes. I think as a general matter it is my view, Mr. Smith.

What I am proposing is a little bit different from what people have talked about in the past. What I am trying to do is distinguish between marketable assets, as to which there is liquidity, determinable value and basis, and nonmarketable assets. And I am not trying to distinguish between closely held farms, big and little farms, one form of business as compared to another form of business.

I have two buckets. One bucket is, if you own liquid assets you have one treatment. Another bucket is, if you have illiquid assets you have another treatment. But that applies across the board.

And the concern that has been expressed, which I firmly believe is a concern, is that if you try to impose tax at death on non-marketable assets you are going to have a problem.

Mr. Smith. Thank you. My time has expired.

Chairman Thompson. Thank you, Doctor.

Mr. Doggett, you are recognized for 5 minutes to inquire.

Mr. Doggett. Thank you, Mr. Chairman. I.

Am very pleased that our subcommittee is turning its attention today to the importance of securing the revenues necessary to pay for the comprehensive infrastructure initiative that President Biden has been advancing. It will provide for a more secure and a more livable America.

And a good place for us to start is where you are starting, with the tax advantages that ultra-rich individuals enjoy in our broken Tax Code.

The result of this inequity is clear for everyone who watched what happened during the pandemic. Six hundred billionaires in this country add over a trillion dollars to their wealth during the pandemic at the same time that so many Americans are just struggling to pay the rent or the pickup car payments, put food on the table, and care for their children.

Our country is becoming more and more unequal, and multiple policies, policies that were first approved in this very House Ways and Means Committee, are responsible for much of the growing advantages that the ultra rich enjoy.

By requiring them to pay their fair share, we will have the resources for a stronger and better America that provides more opportunities to families.

This hearing, of course, is focused on the advantages that the ultra rich enjoy on their individual taxes, but they have also benefited from the failure of this committee to address corporate tax abuse, a massive 40 percent corporate tax reduction in 2017 and the creation of even more new loopholes that permitted 50 large corporations to not pay one red cent of taxes last year on the Federal level.

And we also need to correct those loopholes that are tucked away in the Tax Code

that, for many others, the statutory rate may be 21 percent, but the recent studies have shown they pay less than 8 percent effective tax rate, something that any firefighter or nurse or teacher would be glad to have as their tax rate.

I would like to ask Ms. Huang a little about this as to who benefited from these Republican corporate tax breaks and what we might do in addressing the unfair advantages that allow the wealthy to escape their fair share related to these corporate tax loopholes.

RPTR WARREN

EDTR ZAMORA

[3:01 p.m.]

Ms. Huang. Thank you. Overall, the top 1 percent gets more than a third of the value of corporate tax cuts, so that is by mainstream estimates. That is counting both the share that overwhelmingly goes to shareholders and the small share that goes to workers, but even that is very highly concentrated on highly paid CEOs and executives. But that, I think, is actually too optimistic in terms of the value that went to workers in a really important sense.

First, we haven't seen any wage growth above trends since those big tax cuts were put in place. And, second, even the logic of the model says that -- says that workers should benefit over the long run, assumes that the corporate tax cuts are paid for. And, of course, in the 2017 tax law, the permanent corporate tax cuts were paid for by tax increases on households across the board and cuts in healthcare. So you really have to put both sides of the budget together when thinking about that.

And I very much agree that proposals to reduce profit shifting and [inaudible] and generally buttress against inversions and raise the corporate rate would be very sound ways to invest in higher productivity investments such as investing in children and infrastructure.

Mr. Doggett. Thank you very much.

Professor Looney, I noted a recent New York Times report about drugmaker Bristol Myers seeking to avoid 1.5 billion -- I think it was \$1.4 billion in taxes by exploiting loopholes in partnership law. I think that is a problem with some high-income taxpayers also. Can you describe how partnerships are used for tax avoidance and what we can do about it?

Mr. Looney. Thank you, Congressman, for that question. Sure. So, I mean, partnerships are intended, in part, to be flexible in their financial structures and to be used by taxpayers to enter into complicated financial arrangements. They are often also used to facilitate tax avoidance. You know, one example is the famous case of carried interest that allows managers of funds to avoid compensation -- taxes on compensation and instead get gains on -- pay tax at the tax rates that apply to capital gains. But more generally, they allow -- they can allow taxpayers to shift income into forms of income that achieve lower tax rates and work to defer that income. That is true for corporations. It is also true for individuals.

And, finally, just to say it is incredibly complicated to audit and to enforce those types of arrangements, because often the entities that are subject to enforcement or audit are the partnerships but not necessarily the individuals that own those partnerships. So it is very hard to understand --

Mr. Doggett. Thank you.

Chairman Thompson. Thank you, Professor. The gentleman's time is expired.

Mr. Rice, you are recognized for 5 minutes.

Mr. Rice. Thank you, Mr. Chairman.

You know, the subject of this hearing being raising taxes to make the tax system more fair, I just want to hit on a couple of points. Right now, the top 1 percent of taxpayers pay 38.5 percent of the total income tax. The top 10 percent pay 70.1 percent of the taxes. The top 50 percent pay 97 percent of the taxes. And the bottom 44 percent of taxpayers pay no income taxes at all.

So when you throw around terms like, well, "we just want everybody to pay their fair share," my goodness, what is a fair share when 1 percent is paying 39 percent of the total? The top 10 percent is paying 70 percent of the total.



And a lot of the people throw around terms like "loopholes," "loopholes for the wealthy," and so forth. Well, there are reasons why there are preferences in the Tax Code, because the government wants to encourage certain types of activity that make the economic system more competitive and better for all.

So, for example, why, Mr. Edwards, would you want to have a preferential rate on capital gains? Tell me a reason why you would do that.

Mr. Edwards. Well, for many reasons. Like I said, you know, all --

Mr. Rice. Just give me one, because I have very limited time.

Mr. Edwards. You know, assets grow with inflation. So, a lot of the tax on capital gains is actually just an artificial increase in the value.

Mr. Rice. How about encouraging investment? Would encouraging investment be one reason?

Mr. Edwards. Absolutely. And as I said --

Mr. Rice. And, sir --

Mr. Edwards. -- in my testimony --

Mr. Rice. With investment, do you get more productivity for workers?

Mr. Edwards. You absolutely do. You get more investment in Silicon Valley, in high technology particularly.

Mr. Rice. Does that make the country more competitive and more jobs likely to locate here, yes or no?

Mr. Edwards. Absolutely, yes.

Mr. Rice. And does that encourage innovation here, yes or no?

Mr. Edwards. The capital gains is crucial to startup businesses and innovation, yes.

Mr. Rice. So I think if you double the capital gains rate, you can count on companies and jobs and innovation fleeing our borders. Yes or no?

Ms. Hodge. I really fear that. I really, really fear increasing the capital gains would damage our high-tech industry.

Mr. Rice. After we did the Tax Cuts and Jobs Act to make our tax system more competitive -- we had 4,700 inversions of major companies moving over our shores in the prior 10 years -- and we haven't had a single one since then. I would anticipate that would go back the other way if we doubled the capital gains rate. Do you agree, sir?

Mr. Edwards. Yes, I do. We ought to make America the best place for multinational headquarters, yes.

Mr. Rice. Well, I am all about American competitiveness and jobs, jobs, jobs.

Can you -- let me see. I got a slide here I am going share with the group, if I can get it to come up here.

Can you get it to come up there? Oh, you got -- all right.

[Insert Slide\\*](#)

So, I got a lot of slides here I want to look at. But this one in particular, this is United States unemployment rate, and if you look at the recession in 2008, when unemployment went to 10 percent, and the response of the Obama-Biden Administration at that time, which I think is a continuation of this administration, is to put in massive government programs like Obamacare, for example, Dodd-Frank -- which restricted access to capital at the time we needed the capital the most -- raised taxes dramatically, and you can see the level of recovery that occurred from 2010 forward. And it was just eking along and eking along, and then we put in the Tax Cuts and Jobs Act. We put in innovative tax strategies to make our economy more competitive. And you can see that the recovery actually sped a little bit, even though a lot of the unemployment had been rung out after 10 years of stagnation.

Now, look, contrast that with the recovery after COVID. I would argue COVID was far worse, and far more severe than the financial crisis, but look at the recovery. You see the

sharp increase up to 15 percent unemployment, but look at the sharp decrease. And why is that? The difference is because under the Trump Administration, we did not pile on a whole bunch of new regulations and new taxes that stifle the economy, and we kept these innovative policies in place to keep the economy moving.

And what does Biden want to do? He wants to get back to the thing he did with Obama back in 2009. It failed then. He wants to double down and let it fail again.

So, guys, if you want to bring back the years of stagnation, go ahead and raise the taxes, go ahead and raise the regulations. Let's go back to --

Chairman Thompson. The gentleman's time has expired.

Mr. Rice. -- and watch the stagnation continue.

Chairman Thompson. The gentleman's time has expired.

Mr. Rice. Thank you, sir. I yield back.

Chairman Thompson. Ms. Sanchez, you are recognized for 5 minutes.

Ms. Sanchez, you have to unmute.

Ms. Sanchez. I am sorry, Mr. Chairman.

Thank you so much for this important hearing today. And I want to thank all of our witnesses for their testimony.

You know, over the past several years, we have had ample opportunity to see how the 2017 Republican tax scam didn't live up to the hype. We were told that it was going to make it so simple to file our taxes that we could send our tax returns in on a postcard. Well, I just filed my taxes and that didn't happen.

We were told that it was going to help working families, but the majority of the tax cuts went to the richest Americans. In fact, it increased the amount of money that rich people could pass on to their heirs without being taxed. So middle-class tax relief didn't happen. We were told that if we give massive tax cuts to multinational corporations, they

were going to build new facilities and hire more workers. Well, we know that corporations gave their CEOs higher pay and they gave dividends to their shareholders, but the new facilities and more jobs didn't happen.

As if that weren't bad enough, TCJA created a new wave for wealthy Americans to hide their income in passthrough structures under the 199(a) deduction. Despite being sold to us as a boost for small businesses, JCT estimates that more than half the benefits of this deduction have gone to taxpayers who make over \$1 million. All this hype about TCJA shows just how warped and disconnected those who voted for it are from the daily lives of most people in this country.

For the working families that did receive a small boost from the law, it didn't change any of the fundamentals in their lives. Instead of changing the fundamentals, the 2017 law reinforced them. It reinforced a system where the wealthy and working families are taxed under two different systems. And guess what? The rich win.

We have enormous challenges ahead in rebuilding from the worst crisis in a century. We should be asking ourselves why we tax assets far more leniently than a hard-earned paycheck, and we should confront how that warped set of principles keeps us from investing in the things that do change the fundamentals for working families.

Mr. Oh, I wonder if you could expand on what it means to working communities and the priorities that they are able to invest in, like infrastructure and education, when we tax wages at higher rates than assets.

Mr. Oh. It is -- you know, one of the things that I think Biden is correctly focusing on is just how expensive it can be to work if you have a family. Right? The cost of childcare, the cost of healthcare. It is no wonder that, yes, there has been quite an economic bounceback after the coronavirus pandemic, but it is very hard for certain people, especially women and minorities, to reenter the workforce.

And I think one of the things that we need to focus on is expanding opportunity for everyone. And one of the ways to do that, you know, as I discussed in my testimony, is to focus on the spending side of things, right? Productivity is something you attack from both sides. Right? So you need to raise revenue, but you also need to have the right spending priorities.

Ms. Sanchez. Thank you.

Ms. Huang, you noted in your testimony that lower income communities are audited by the IRS at much higher rates than wealthier communities. How does that disparity in how we treat different communities affect families over time and the communities that they live in?

Ms. Huang. Thank you for that question. And it is actually true that lower income communities have had their audit rates drop as well over the past 10 years, but that disparity has emerged because the audit rates at the very top have plummeted at the same time. So what you see now is a hugely disproportionate comparison in the audit rates, despite the very top 1 percent of filers contributing much more to their share of the tax gap.

What we also see in research is that when lower income filers are audited, often they don't have help to figure out what documentation to send in. So many of those filers might actually be eligible for benefits that they are denied on audit. They just can't make their way through the audit process. Meanwhile, high-income filers tend to be very well-represented and can sort of fight all the way through, even in cases where they are really pushing the boundary between tax avoidance and evasion.

Ms. Sanchez. If there were higher audit rates for wealthier individuals, do you think that we would have more revenue in order to make the investments in the critical infrastructure needs that are going to help create opportunities for all Americans, not just certain Americans?

Ms. Huang. Absolutely. And this is not -- this is not, you know, negligible. The tax gap is between \$600 billion and \$1 trillion a year, depending on various estimates. Whichever you look at, it is very large. And recovering just some fraction of that primarily from high-income filers that are disproportionately contributing could raise revenue in a very credible way.

The Chairman. Thank you. The gentlewoman's time has expired.

Ms. Sanchez. I yield back.

Chairman Thompson. Mr. Schweikert, you are recognized for 5 minutes.

Mr. Schweikert. Thank you, Mr. Chairman.

You know, one of the great frustrations of many of our hearings is I have had witnesses, and now a couple of Members, actually say things that just actually aren't true about the tax reforms. So I am going to get to spend a couple of my minutes correcting untruths.

Here is an article that I would like to submit for the record that makes it --

The Chairman. Without objection, such will be the order.

[\[The information follows:\]](#)

Mr. Schweikert. Yeah. After tax reform, the top 20 percent went from paying 84 percent of all Federal income taxes, to after tax reform, now paying 87 percent. The fact of the matter is the taxes became more progressive.

You can actually see some of the other data -- and I would like to also submit these for the record -- that show its effects on poverty in 2018 and 2019 were rather remarkable. Also, I would like to submit the charts that show what happened with income inequality. It demonstrates that the bottom core tiles --

The Chairman. Did you want those submitted for the record?

Mr. Schweikert. Correct, sir.

The Chairman. Without objection, such will be the order.

Mr. Schweikert. So to demonstrate, and the number of times we have heard both the Speaker and a couple of members of our committee actually go on the floor and use numbers like 83, 82 percent went to the top 1 percent, which is just blatantly untrue, and they know that.

But I would like to actually ask many of the members of the committee and the staff and a couple of our witnesses here to think a little bit differently. If this is about having cash in the bank to be able to cover everything from infrastructure costs to other things, we know there is a couple of papers that have been recently written and one about to come out that actually talk about how much we subsidize, how much we as the government subsidize the very wealthy. One of the estimates I have seen is \$1 trillion over 10 years, another estimate is \$1.4 trillion.

So think about it, it is everything, when you buy your multi, multi, multimillion dollar house on the beachfront, should you have subsidized flood insurance? If you are in the top 1 percent, 5 percent income earner, should you have subsidies when you buy your electric vehicle?

We may want to actually have an honest discussion with each other. There may be a place where Republicans and Democrats come together, and that is cutting the subsidization of the very wealthy and, therefore, we might avoid some of the, we will call it, potentially unintended consequences of certain things in the capital gains taxes, those things, which may create disruptions in investment and productivity gains.

Mr. Edwards, I know this isn't what was in your written testimony, but I know you have colleagues around you who have talked about spending from the Federal Government that ultimately subsidize and concentrates in the wealthy. We are actually going through it a little bit with a couple of our friends here in the discussion of the SALT tax. It concentrates in the wealthy.



Would it be a more elegant and less economically disrupting thing to do, to stop subsidizing the wealthy? And it turns out the potential would be more money than is being discussed here in raising of taxes.

Mr. Edwards. I agree with you, there is a problem on the spending side of the budget on subsidizing a lot of things. I have written at length about the flood insurance subsidies you mentioned. Those are not only bad for the economy and unfair, because they often go to wealthy people with expensive homes on the East Coast and Gulf Coast, but they are bad for the climate as well. They are anti-green subsidies. So, we should eliminate those.

There are high-end tax loopholes that I would personally get rid of. I would probably get pushback from many of the members here, but I think the municipal bond tax exemption in the federal Tax Code is slanted very much to the top end and I think it is very distortionary. I would get rid of that. Republicans on the committee probably won't like me saying this, but I think the opportunities on break in the 2017 tax law, I did not favor that. I think that creates a lot of unfairness. A lot of it was capitalized in land value, so you had a lot of lucky landowners who got some of these one-time payoffs.

So, I think both the spending side of the budget and the tax side, there is things we can do to make it more fair.

Mr. Schweikert. Would you go as far as some of the social entitlements, which are earned, if someone is in that top 1 percent in asset holdings, do you still provide the same robust nature of Social Security, Medicare, or should those savings be allowed to backfill other problems we have in the budget?

Mr. Edwards. Congressman, you know that there is a big problem with our entitlement programs. I think a very simple and very progressive reform would be to reduce over time the Social Security benefits for people at the top of the income spectrum. That would save money and be progressive.

Chairman Thompson. The gentleman's time has expired.

Mr. Larson, I didn't skip over you. Ms. Sanchez just wanted to know what it would be like to be able to question the witnesses before you. So, Mr. Larson, you are recognized.

Mr. Larson. I am always happy, Mr. Chairman, to accommodate Ms. Sanchez and her eloquence, and so we were pleased that that was the case.

And I did -- I thought I heard something about entitlements with regard to earned benefits, but it always comes as a surprise to Americans when they hear that, who look at their pay stub and see FICA, Federal Insurance Contribution. Oh, yeah, that would be their contribution, and they are told that it is an entitlement that they are getting so they didn't sacrifice anything. It always seems to baffle me. But this is a hearing and a constructive one, as it deals with wealth and assets in this country, and we are currently going through a very, I think, helpful debate with regard to that.

And thank you, Mr. Chairman, for drawing the distinction about wealth accumulation. And I have been fortunate enough to be working with a former Ford administration member and a former CEO, Bob Patricelli, who has come up with what I think is a very novel idea.

And he said with regard to capital gains, dividends, and interest and its preferential treatment and the distribution of wealth that is so lopsided, that I don't believe that any of the witnesses would disagree with that, and knowing that most of that wealth is concentrated in stock, and the preferential treatment that is given to capital gains, dividends, and interest, says there is a very simple solution here that both realigns employer and employees, creates the kind of incentive that we would all like to see. And he says what we ought to do is just simply see and require that if you are going to receive that preferential treatment on capital gains, that what you ought to be required is to distribute your stock to employees. And that would result in about \$6.6 trillion of transfer to the middle and working classes, and it would take place without, you know, any back and forth between government and realign the stars.

So I wanted to ask, and I will start with Mr. Ho here, what would be your take on an idea such as that? Now this is different than ESOPs. This is a direct transfer that would take place, but it is the old, as the Irish would say, if you want to dance, you got to pay the fiddler, and at some point we need to pay the fiddler here. In this case, the fiddler is going to be the employees who, with the sweat of their brow, now get to participate in the same things that CEOs and upper management have been able to take advantage of over years.

Mr. Oh?

Mr. Oh. Thank you, Congressman Larson. It is a really interesting idea. I think you have correctly identified that one of the key drivers of wealth inequality is just stock ownership. Right? And so one of the interesting parts of this plan is this idea that we would encourage stock ownership among a much broader percentage of the workforce.

There are a couple of issues, like, important design issues, I think, need to be addressed if we are going to go down this road. One is that employees already face a lot of employer-specific risks. Right? So if your employer goes bankrupt, you are out of a paycheck. Right? If you pursued something like this plan, a lot of an employee's wealth would also be tied up with the same employer. Right? So now you would have correlated risk not just to income but to wealth. So a person who is -- an employee whose employer goes bankrupt would not just lose their paycheck but also lose a lot of their wealth as well.

And so that is something -- one of the things we kind of talk about in --

Mr. Larson. Isn't it kind of wealth that they don't have already, that they haven't even been able to participate in?

Mr. Edwards, what would you say to the proposal?

Yeah, I think you are going to have to unmute yourself.

Mr. Edwards. Twenty years ago, I believe this was a problem when Enron went down the tubes. A lot of its employees had stock in Enron and because of the nondiversified

nature of the holdings, it really hurt. So I would tend to agree with Dr. Oh on that one that there is a diversification problem. But I like -- you know, I generally like, you know, the idea of, you know, employees being part of the capital system and benefiting as businesses profit and grow.

Chairman Thompson. The gentleman's time has expired.

Mr. Larson. Thank you.

Chairman Thompson. I am going to recognize Mr. LaHood, and then I am going to turn it over to Ms. DelBene so I can go and vote. And I just want to notice everyone that we are going to go to a two-to-one witness at this particular point.

Mr. LaHood, you are recognized for 5 minutes.

Mr. LaHood. Thank you, Mr. Chairman. And I want to thank the witnesses for their testimony today.

As has been mentioned, and we all know, it has been over a year since the COVID pandemic began, posing significant health and economic challenges. In my district and in downstate Illinois, we have been dealt with the one-size-fits-all corporate mandates from our state government, forcing many small businesses to permanently close and people to lose their jobs. However, thanks to Operation Warp Speed and private sector coordination and innovation, vaccines are becoming increasingly widely available across the country.

Despite this development, many states are still mandating pandemic-related regulations, forcing middle-class business owners to foot the bill to stay open and comply, and I have seen that throughout my district in downstate Illinois. Once these mandates are safely lifted, mainstream businesses and families can finally start to recover. And yet, while the last year has been one of the most financially challenging for job creators and families in my lifetime, today we are discussing job-killing tax hikes, tax hikes on these same groups.

To that point, as Ranking Member Smith mentioned, the Joint Committee on Taxation

recently released a government analysis which illustrates that the U.S. tax system is already highly progressive, with those making more than \$1 billion a year paying an average tax rate of 31.5 percent, compared to those making between \$20,000 and \$30,000 a year paying an average tax rate of 3.1 percent.

In addition, I want to take time to focus on how these proposed tax policies -- raising taxes on operations by imposing higher business tax rates, doubling the tax on the sale of business through the capital gains rate, and creating a new double death tax through repealing the stepped-up basis -- will negatively affect small businesses and a large population of family businesses in my district, particularly family farms.

My district is the eighth-largest ag district in the country and has many family farms. There are more than four times as many farmers and ranchers aged 65 and older as there are those under the age of 35, and these individuals own more than 40 percent of agricultural land in the United States, meaning that more than 370 million acres are expected to change hands in the next two decades.

Repealing the stepped-up basis hinders the ability to transfer agricultural land to family-owned operations and creates massive administrative burdens on families. These policies will force families that may have just lost a loved one to properly value appreciation of assets, such as farmland and manufacturing equipment, to determine their tax liability. On top of that, this proposal would increase the estate tax from 40 to 45 percent, an additional tax liability at the time of death.

Mr. Edwards, my question for you, if these proposals are enacted into law, how does a family farm pass along the farm to the next generation if they are forced to sell off the assets to pay an enormous tax bill? What is the policy advantage there?

Mr. Edwards. Yeah, thanks for the question. You know, the -- what it seems to me is, if you are like most Americans and you are not wealthy, like I am not wealthy, you want

wealthy people to keep their wealth invested in businesses because businesses hire people and produce output for the economy. When people withdraw money from their businesses and consume it, that is when you want to tax them.

So, you know, that is why I think, you know, a higher capital gains tax, higher estate tax is really problematic. We want businesses to keep producing and generating jobs for all of us. As I said, you know, wealth and workers are complementary. They are not antagonistic to each other. I think we ought to have policies that encourage wealth-building, and I think that ultimately benefits all of us.

Mr. LaHood. Well, thanks for that.

And as we talk about how we fund the nation's infrastructure, as we have talked about today, let me ask you, Mr. Edwards, how is it effective to change longstanding tax policy on family farms and family-owned businesses to pay for that cost?

Mr. Edwards. That does not make any sense to me. I mean, I talked in my testimony, in my written testimony, that, you know, most infrastructure in America is owned by the private sector. In fact, 65 percent of all U.S. infrastructure is private. You know, pipelines and broadband and cell towers, it is all private. If you raise the corporate tax rate, you get less investment in private sector infrastructure. So, the funding of the President's Jobs Plan by raising the corporate tax doesn't make any sense because, you know, he would increase subsidies for infrastructure, but then the corporate tax hike, you know, would reduce investment in infrastructure. So, it is really a contradictory policy.

Mr. LaHood. Thanks for that.

I yield back.

Ms. DelBene. [Presiding.] Now I recognize myself for 5 minutes.

And I want to thank all of our witnesses for being here for this important hearing.

Since 2010, the IRS appropriations has decreased more than 20 percent, with a

corresponding 22 percent reduction to the IRS workforce. Earlier this year, IRS Commissioner Rettig testified before Congress that the loss of enforcement personnel caused the decrease in audit rates. I led an appropriations request with several of my colleagues, advocating for a significant increase in IRS funding, including allocations for enforcement and systems modernization.

Ms. Huang, how has the decrease in IRS funding impacted audit rates among low- and middle-income families compared to high-wealth people? And let me add on. How would increasing IRS funding for enforcement improve tax compliance and close the tax gap?

Ms. Huang. Thank you. This is a terrifically important issue, in my view. The audit rates for high-income filers have dropped by more than 70 percent for the top 1 percent of filers simply because the IRS has lost more than a third of the staff that are able to audit those complex returns. Audit rates on the ITC files have gone down a little bit, but it is much cheaper and simpler to send out mail audits, which is how most of the filers are audited. So what you have seen is the focus on the biggest sources of the tax gap becoming more diluted as the IRS has had its resource cut.

I think it is terrifically important that the President's plan includes multiyear, long-term funding that would complement the sorts of appropriations increases that your committee has been looking at, simply because it takes a long time to hire and train back those really expert staff that are needed to audit those most complex returns. So I think that would really help rebalance audit and enforcement so that low- and moderate-income filers have least chance of being audited when they are not compliant, while the largest sources of the tax gap get some of the effort that they are due.

Ms. DelBene. And the money raised really could help offset permanent expanded investments in families, including the child tax credit and the earned income tax credit.

Ms. Huang. I agree.

Ms. DelBene. Can you also speak to how permanently expanded policies like the child tax credit would be a good long-term investment and help really have us have secure shared prosperity?

Ms. Huang. Absolutely. As Chairman Neal has proposed, making those credit improvements permanent would lock in a 40 percent reduction in child poverty. And there is a wealth of research that shows that children that have income from the EITC and CTC and their families, because of the investments that their parents are able to make, they are more likely to grow up healthier, do better in school, and have a higher chance of having a college education and going on to have higher earnings in adulthood.

So that is a real investment of the next generation of people who could be productive workers, also potentially the next generation of innovators and entrepreneurs. And that is a really much better way to secure shared prosperity in a way that directly benefits low- and moderate-income families and workers.

Ms. DelBene. Thank you.

Mr. Oh, are there other offsets that you would propose that we could use to help pay for permanent expansions of the child tax credit, the child independent care tax credit, and the earned income tax credit?

Mr. Oh. I think you have identified some of the most important spending priorities that are in the Biden plan. I think it is really important to improve how we tax capital income. Right? I mean, one of the things that I think a lot of the -- that is being alighted in this discussion is just how different the taxation of the wealthy is. Yes, the overall rate of tax paid may be 30 to 31 percent, but there are people paying tax at 37 percent and there are some people who are paying tax at less than 10 percent. Right?

And so we are not saying that the person paying tax at 37 percent is not paying their fair share. What we are saying is that the person paying tax at 10 percent or 15 percent is



not. Right? If they are a billionaire, paying tax at 10 or 15 percent, they are not paying their fair share. That is what we are focused on. We are not focused on -- this is a very heterogeneous group. Right? Wealthy people take -- earn their money a lot of different ways, and I think fixing the taxation of capital income is really, really important and could raise a lot of revenue for the priorities you describe.

Ms. DelBene. Thank you very much. I appreciate it.

Now, I am going to recognize Gwen Moore for questions.

Congresswoman.

Ms. Moore. Thank you so much, Madam Chair. You look good sitting there in this position.

I want to -- I just am always so amazed at how much I learn at these meetings today. I guess I have a few questions. I guess I want to start out with Mr. Looney and Mr. Gutman. I want to understand a little bit better.

Mr. Looney, you asserted that in order for these -- our taxation of capital to be, you know -- you know, just to be, just to be equal, I mean, we need to do, you know, mark to market, step-up basis, repeal the estate tax capital gains, all together, lest it won't work.

I guess I needed a little bit more appreciation, Mr. Looney and Mr. Gutman, for what are the consequences of not working at these things as a package. You know, a lot of us get fond of one strategy or another, and I just thought it was interesting that you put those concepts together. Can you just share a little bit more about what you mean?

Mr. Looney. Sure, Congresswoman. Thank you for that question.

I mean, I think a big picture, what you have to recognize is that high-income individuals own assets, shares of stock, or closely held businesses, businesses that are often large in scale. They are just not taxed like corporations are. And they benefit from a wide variety of tax breaks. They benefit from low rates on capital gains. They benefit from

special deductions that apply to their business income but that might not apply to, for example, people's wages or people who earn income in other ways. They benefit from the fact that when they leave income to their heirs, that wealth, the capital gains on that wealth is not subject to income tax. And there are a host of other particular breaks that apply.

And so I think in a broad reform you could imagine looking at all of those -- all of those different tax preferences, loopholes, the exemptions, the low rates.

Ms. Moore. Well, thank you.

Mr. Gutman, do you think the mark to market, does that concern you? You know, I don't know enough about this to know whether or not that would be an inflationary expense. You talked a lot about realization. How would that differ from realization to go to a mark to market?

Mr. Gutman. Well, a mark-to-market regime would measure gains and losses on your assets every year and be subject to tax -- whether that was a gain or a loss, it would be included in your tax base. It eliminates what we call the realization requirement. We don't tax an asset's gain or loss until it is sold. We call that event "realization". And when we tax it, we call that "recognition".

Some have proposed accrual taxation. Senator Wyden has. Accrual taxation is an interesting concept, I think, particularly if it is limited in its scope to marketable assets where, (A) you know what the values are each year and (B), you have the capacity to pay. But it gets much more problematic when we get into the nonmarketable assets.

Again, when we directly talk about closely held businesses and farms that type of system becomes much more difficult to enforce.

Ms. Moore. But that is where the money is, though, right, in those kind of assets?

Mr. Gutman. It is and the question is whether you want to wait until an event where you can identify the amount of gain or loss and pick up the tax then. That has traditionally

been what we have done. And, quite frankly, we don't have a big problem with realization. Our big problem is with eliminating that gain when somebody dies. Ms. Moore. I got you.

Mr. Gutman. How can that be?

Ms. Moore. I got you.

Mr. Gutman. How is that right?

Ms. Moore. That sounds good.

Dr. Oh, before I get kicked off -- take advantage of our new chair. She might be merciful. I wanted to ask Dr. Oh about comments, the debates we hear all the time, about the rich pay 84, 85 percent of the taxes, and then you got the people who, 44 percent, you know, schleppers who pay no tax.

And I really love, Dr. Oh, your example of how, you know, Jeff Bezos, or whatever, from Amazon, just gives himself \$1 of income, and he can literally kind of be poor and borrow off of all of those assets. I thought of the parable of the widow's mite.

And so it doesn't matter to me. Could you just clarify? If someone pays, say, \$500,000 in taxes, they are paying a lot of taxes, but they are getting \$4.5 billion worth of tax benefits. They really are not giving more than the widow's mite. Would you agree with that?

Ms. DelBene. The gentlewoman's time has expired. Mr. Oh, if you can answer briefly, we will give you that time.

Mr. Oh. I will do my best.

I think one of the biggest problems when we measure effective tax rates is we don't know the denominator. Right? Yes, Jeff Bezos may pay millions of dollars in tax but off of what amount of wealth and income. Right? And one of the famous things about working at Amazon is no one is paid a salary more than Jeff Bezos, and it is not a huge salary.

Ms. Moore. Madam Chair, thank you so much for your indulgence. I won't exploit

you. I will yield back.

Ms. DelBene. Thank you.

I now recognize the gentleman from Texas, Mr. Arrington, for 5 minutes.

Mr. Arrington. Thank you, Madam Chair.

Mr. Edwards, the facts that have been articulated with respect to the top 1 percent earners paying a greater share of individual income taxes than the bottom 90 percent combined, is that true? Is that accurate?

Mr. Edwards. It absolutely is. They pay a much higher rate, as well as, you know, a great share, yes.

Mr. Arrington. Okay. And to my colleague's point earlier, prior to the Tax Cuts and Jobs Act, the Republican tax cuts, 20 percent, the top 20 percent, were paying 84 percent of the tax liability, and then it went up to 87 percent after tax reform. Is that true as well? Can you verify that?

Mr. Edwards. Yeah. The Tax Reform Act was just slightly progressive. Everyone got a very similar percentage tax cut across the board.

Mr. Arrington. Is that fair to you? Is that fair and equitable to the top earners to pay that much as a percentage and as a share of our tax revenue?

Mr. Edwards. I think there is economic problems when you tax people, especially entrepreneurs, that heavily. I think that is damaging.

Mr. Arrington. Well, there is an economic repercussion for sure. But I think this notion of fairness, I think if that were the real issue here, if we were going to be intellectually honest, we might even be talking about reducing the tax rates for the higher earners and their percentage of the tax burden, and we might be talking about making sure everybody pays something into the system and they -- everyone owns. There is a stake in the future of our country and in the benefits that accrue through every citizen, but that is really not what is in

question in my mind, and it is so subjective. Everybody is going say what they want to say about it.

Here is what we do know. We know that the Democrat agenda under this President and most of my colleagues -- I can't speak for all of them -- but is to propose now \$6 trillion, \$2 trillion of which is already committed, \$6 trillion. We have seen the fastest increase in inflation since 2008, that just came out today. So, we are pushing all this money out. We are increasing our national debt. We are increasing inflation. I think we are just at the tip of the iceberg on the inflationary effects on our economy.

On top of that, you have unilateral actions taken by this President that are hostile to conventional fuels, 80 percent of which of our economy is supported. And it is the lifeblood of this economy. So, we have seen the gas prices go up 150-plus percent. Working people are paying more for energy costs, and that cost in the business world is going to be passed to consumers with higher prices of goods and services.

On top of that, we have had my colleagues push through this COVID relief bill, which was a bailout for, for example, the union pensions and other things, totally unrelated to COVID, and that is just a fact. I mean, there was some COVID in there. The vast majority was unrelated. But one of the provisions was to pay people more to be on unemployment than they made in their previous job. Maybe half of the people out there on unemployment right now, they are not going anywhere because we have given them a rational decision to stay and it is having a major adverse impact on our recovery.

Now, we are talking about a tax hike. Now pre-COVID, we had a record increase in wages, mostly benefiting the lowest income. We had more jobs than we had people to fill them, \$6 trillion in investment, \$1 trillion coming back from overseas. We had 4,000 inversions where U.S. companies domiciled in another country because they didn't want to pay the tax burden. It was so great, it was the highest in the free developed world. And

now we were able to pull that back and have Americans benefit from that, our quality of life, our hopes, and the opportunities for our citizens.

We are going to reverse all that by putting these tax hikes, not to mention that we have got this, I think the most unjust, the most unfair and un-American tax which is the death tax, which we are effectively increasing by this tax on unrealized capital gains at transfer upon death. I mean, how do you justify, after people worked so hard, we are taxing hard work, we are taxing sacrifice, we are taxing hopes and dreams, we are taxing success, and we really are creating the antithesis of the American dream. And I think this is a disaster in terms of a recovery plan from where we are as a country and where we were pre-COVID.

And I know my time is expired, and I yield back.

Ms. DelBene. Thank you.

I now want to recognize the gentleman from Pennsylvania, Mr. Boyle, for 5 minutes.

Mr. Boyle. Thank you, Madam Chair. And thank you to all of the witnesses for taking their time to be part of this congressional hearing on a very important topic.

And I say this as someone who believes in capitalism, that believes that capitalism is the economic system most compatible with our political liberty and our liberal democracy. And I say it as someone who is deeply concerned about the dramatic rise in wealth inequality in my lifetime.

And I hope that people can make the distinction between self-interest and enlightened self-interest. One who is just self-interested in one's part of the top 1 percent might say, well, I am doing quite well. What is the problem? But for those who believe in enlightened self-interest, here is the problem.

If this dramatic wealth inequality, wealth income -- income gap and wealth gap continues to grow at the accelerated rate that it has been growing over the last several decades, that actually undermines our entire system, and people become so frustrated and so

stagnated that they look for more extreme alternatives that many of us may not support. That is just a few statistics to support what I have been talking about.

Entering the pandemic over the last, say, roughly 1 year and 3 months, we already had a dramatic rise in both income inequality and especially the wealth gap. It has accelerated like a hockey stick over the course of the pandemic. Just consider this one statistic. For America's billionaires, their total wealth entering the pandemic was a hair under \$3 trillion. It has grown by 55 percent just during the pandemic, from about \$3 trillion to now over \$4.5 trillion. I can't find any other income group that has seen a 55 percent increase in their total wealth.

Now, in terms of taxation, the way some of my colleagues would tell it, it is almost time to take up a collection for the top 1 percent and the taxes they pay. In reality, do you know that actually the tax burden right now, the Federal income tax burden for the wealthiest Americans is the lowest it has been since the 1920s? That is absolutely the reality stripped from the rhetoric.

So I would open up to any of my witnesses, any of the witnesses who want to take this, to please discuss what you believe could be the ramifications economically and to our society if we continue to see the wealth gap grow. If we continue to see, as Pew Charitable Trusts cited, the actual overall percentage of Americans who make up the middle class decline in real terms over the last two decades, would we not be seen as sort of the sort of democracies we see so often in places like Latin America where you have huge wealth at the very top and then a ton of people mired in poverty?

Because what has made America great is the size of the great American middle class, and right now, this wealth gap and income inequality is strangling what has been great about America.

Did you want to take that, Ms. Huang?

Ms. Huang. I would love to reinforce that point by saying that I think that it is really important to maintain faith in the integrity of the Tax Code when you have a voluntary system. Ninety-five percent of people agree that -- almost agree that it is every American's civic duty to pay their fair share of taxes, but a lot of people point to the idea that they are bothered by the idea that many wealthy people don't pay their fair share. And that is a real problem when the Tax Code is really based on voluntary compliance for the large part. So I think that gives an additional reason to be attentive to closing loopholes and also ensuring that tax rates are seen as fair if you are going to sort of maintain the integrity of the system.

Mr. Boyle. Well, thank you.

And one other aspect that I neglected to mention that I just wanted to hit is that in terms of fairness -- and this is the classic Warren Buffett line -- most people just find it in their gut unfair that if you are a wage earner, if you are like my wife, a teacher, if you are like my dad was, a janitor, you are paying a higher tax rate than a millionaire or billionaire who earns most of your income through capital gains. Most people just find that unfair. It is hard to understand what the economic rationale could possibly be for that, especially during a time in which we have seen labor devalued over the last several decades.

But, anyway, I see that I have a whopping 11, 10 seconds left. So with that, I will yield back. Thank you.

Mr. Oh. I would just like to say, if you don't mind, to reinforce something you said. If you look at the JCT tables that have been cited throughout this hearing, the highest income category is 1 million and over. Right? And the problem is that we don't have data about the really wealthy, right? If we had a separate bucket that was the ultra wealthy, it would look very different. It would not be 31.5 percent. Right? And --

Ms. DelBene. Thank you. The gentleman's time has expired. So I will let others pick up on that later. Thank you.



And now I recognize the gentleman from Virginia, Mr. Beyer, for 5 minutes.

Mr. Beyer. Thank you, Madam Chair, very much.

I don't know that I have many questions, but it is a fascinating discussion. I really want to thank the witnesses for doing this.

You know, this all seems to come down to our different perceptions of fairness. And I listened carefully to my friend, Mr. Arrington's, you know, eloquence about why it wasn't fair to tax the rich so much.

I know that when I talk to the many people I represent and they find that the average American corporation paid 7.8 percent last year, they didn't think that was fair. And when they thought that somebody who is making all their money clipping coupons gets to pay 20 percent of that income when the rest of us are paying 33, 35, 37, 39.6, that that just wasn't fair.

And, you know, I got a chance to campaign statewide for 9 years, and I have been in a lot of very, very poor places, in Appalachia, in the coal fields, Southside Virginia, and in the inner cities of Newport News. And you see the kids there and they think, you know, why do those kids have everything? I have nothing. I am just dirt, dirt poor. That just doesn't seem fair at all. So the whole notion of that 35 percent tax, it is not fair.

I think this goes back to the question of what kind of capitalism do we want. We clearly decided long ago that we don't want a pure, unvarnished capitalism. We have already decided we want public schools and public libraries and the government to build us roads and a military, and so we have tamped down our capitalism a great deal. But the real question then is what is fair.

And I go to sort of the -- my Republican pals they talk about, well, you know, 1 percent -- my friend Tom Rice said the top 1 percent pay 30 percent of the taxes. Well, the top 1 percent also have at least 30 percent of the wealth. Or the top 10 percent pay 70

percent of the taxes. Well, the top 10 percent have 70 percent of the wealth. If you think about it as a wealth tax, you actually have horizontal equity. You actually have people paying about the same share.

But even more importantly, Economics 101 teaches about the law of the margin of diminishing returns. You know, that first scoop of ice cream is great, by the third scoop we want to throw up. So it is the same with money.

This may be apocryphal. Somebody asked John D. Rockefeller once how much more money he needed, and he said just a little bit more. Well, I would argue that the difference between having \$20 million and \$20,500,000 is virtually none in terms of how long you are going to live, what kind of food you are going to eat, where you are going to go.

And we are talking about not taking away people's ability to earn a living, but just from the very, very wealthy among us, the ones who already have way more than enough to have a fulfilled life, to help them pay for those people who were, in fact, born into poverty, who need a lot of legs to move forward.

So really of all of the Biden tax plans, all the ones that are rumored to go into effect, is this going to affect the lives of any of the people who are paying those taxes or the lives of their children or their grandchildren? I would argue not at all.

And, Mr. Gutman, just so I can end with a question, tell us some more about horizontal equity and your notion about that. Obviously, when we get 30, 25, 10, and 5, we are looking at vertical equity and it doesn't work out very well, but talk to us about horizontal equity.

Mr. Gutman All right. Let me give you the classic example, of horizontal inequity in the context of gains and death. Suppose you had twins and each of them owned property that they had bought for \$100,000 and now it is worth \$1 million and they want to sell it. One of the twins goes into the broker's office and makes the sale. The other twin is going

into the broker's office to make the sale. The twins meet in the street and are hit by a car and die. The estate of the first one, who made the sale, is going to have to pay capital gains tax on the \$900,000 of gain and the heirs will receive \$1,000,000 minus the capital gains tax. The second one won't have to pay any income tax whatsoever. Her heirs walk away with \$1 million. That is a classic example of horizontal inequity. You can't have a system that produces those kinds of results.

Mr. Beyer. Great. Thank you for that explanation.

And let me use my last 30 seconds just to make one more point. We are all concerned about and worried about our democracy [inaudible]. What upsets governments and democracies more than anything else through history is the inequality, where a handful of people at the top have everything and the vast majority have little or nothing and see no prospect for it.

And you look at the people at the top. Where does that come from? Number one, inherited wealth. They didn't deserve it. Number two, they got lucky. Number three, they were a CEO, making 400 times what their average worker did, far more than was necessary. And, yes, we work hard, but let's work hard to have something that gives us more than anybody else, not more than everybody else combined.

With that, I yield back.

Ms. DelBene. Thank you.

Next up I want to recognize the gentleman from Georgia, Mr. Ferguson, for 5 minutes.

Mr. Ferguson. Thank you. And I appreciate the chance to be on and ask a couple of questions.

You know, I have listened to a lot of the debate today, not only over the last little bit, talking about inheritance tax and wealth and building up a business and then having to make

these very tough decisions about what to do with it afterwards. I have heard a lot about income inequality and people paying their fair share.

So I want to talk about income in a little different way. I want to take \$1 million worth of income right now. If you take an individual, man or woman, in America who has built a business, and they make \$1 million worth of income, now this is a little back-of-the-envelope math here, but in federal income tax, they will pay \$307,000 in federal income tax. And I got this information from a gentleman that I met, a business owner in Florida, that was talking about this. So keep in mind that \$1 million worth of income will, you know, that family, wife, husband, two kids, are going to pay about \$307,000 in Federal income tax.

Now, if you take that same \$1 million worth of income and you divide it by 10 -- so you have got 10 individuals making \$100,000 a year, 10 families making \$100,000 a year, again, wife and two kids -- collectively, that group will pay roughly \$47,000 in income tax. And if you divide that further and take it and say you have got 20 families making \$50,000 a year, that group actually gets back about \$1,200 apiece, and doesn't pay any federal income tax.

So, when I look at this, and then you look at the deductions, when we move the rate from 39 to 37 percent on the highest bracket, and you remove the deductions, many of those folks are paying an actual higher amount in taxes, things like doing away with brokers fees and state and local tax deductions.

So when you look at it right now, if you take \$1 million of income by one family that has paid about \$307,000 a year, if you do that by 10 families making \$100,000, it is \$47,000 collectively, and the 20 families making \$50,000 a year actually each get back \$1,200. So I think we need to look at that million dollars' worth of income and figure out who is paying the taxes on it.

Again, we want people to move to start a business, we want them to grow it, we want our entrepreneurs to be successful. But we are having a real hard time right now, when you start looking at the hurdles that are being put in front of our small businesses right now -- and I see this time and time and time again in Georgia. Our small businesses are being crushed right now because they can't get people to come back to work. Restaurant owners, mechanics, farmers, go down the list, the manufacturing sector right now, when you have people that are being paid more to stay at home than they are at work, there is no chance that our entrepreneurs are going to succeed because they can't hire the workforce to help them to develop their business. And then you are going to hit them with a higher tax?

Right now, you are going to take our smaller businesses and subject them to a higher tax? That doesn't make sense because that, again, is another hurdle into them growing their businesses in the middle of a recovery following a pandemic.

And again, maybe it is exacerbated in rural America. Maybe you don't see these problems in high-density, urban areas, but I can tell you right now you couple that with growing a business, a father and a son, a mother and a son growing a business, and they grow that and they want to pass that down and you are going to penalize them for it, to me punishing success makes absolutely no sense.

And so, when I look at it and think about what we need to do, we need to do other things to help raise the income, such as participating in a growing and booming economy. And I think -- you know, again, I appreciate the chance to make these statements and, you know, again, I am happy to stand corrected on this, but back-of-envelope math shows that people, high-income earners are paying their fair share.

With that, I will yield back.

RPTR PANGBURN

EDTR CRYSTAL

[4:02 p.m.]

Chairman Thompson. [Presiding.] I thank the gentleman.

I will now recognize Mr. Suozzi.

Mr. Suozzi, you are recognized for 5 minutes.

Mr. Suozzi. Thank you, Mr. Chairman.

I think that we all -- I think even Mr. Edwards, who is the Republican witness, would agree that income inequality is a real thing. I mean, it is not like it is made up. I mean, there is more concentration of wealth among the wealthier people in our country than we have had historically, at least in the past 40 years or so.

Would you agree with that, Mr. Edwards?

Mr. Edwards. I have looked at detail on the wealth data. The top 1 percent wealth, according to the Federal Reserve, has grown modestly over the last couple decades.

But I must say, if you go back a little further, we are at about the same level we were in the 1950s and 1960s. Then the top 1 percent share plunged because the stock market was down for decades and now it has risen again

Mr. Suozzi. Right. I am 58 years old. So I went through the 1980s. And I remember we were worried about the car companies in Japan and Germany and they were going to beat us at everything. And we changed everything. We said we have got to focus on the shareholders, focus on the shareholders.

And we have created enormous wealth in our country since 1980. The stock market has gone up 15 times since then, 1,500 percent, and the GDP has gone up 8 times, 800 percent. Workers' wages have gone up much less than that, less than 20 percent over

that same period of time.

So we have created enormous wealth. That is a good thing. I am happy we are creating enormous wealth. We are just not sharing it with the people who go to work every day and it is being concentrated more and more among the super-duper wealthy people in our country.

So I think we all accept, I mean, it has been reported on throughout the pandemic, we saw enormous growth in the wealth of the wealthiest Americans during the pandemic while the lowest income earners, people that make under \$40,000 a year, there is 25 percent unemployment.

So we have seen this huge inequality, great concentration of wealth. We are making wealth, but we are keeping it all here, and people at the lower end really not making it, and people in the middle getting smaller and smaller group of people, less and less middle class people who are rewarded for their hard work.

So let me just ask about a couple different things.

Turns out in 1990 billionaires were worth \$240 billion. Today those billionaires are worth \$4.56 trillion. They have gone up 19 percent -- I mean, 19 times, 1,900 percent. They have gone from 240 billion to 4.56 trillion.

Mr. Boyle was talking about this earlier, about how just during the pandemic alone they increased their wealth by \$1.6 trillion, just the billionaires alone.

The bottom 50 percent in America in 1990 had more money than the billionaires, they had 380 billion, and their wealth during that same period of time to today has only gone up to 1.62 trillion. So their wealth has gone up four times, the billionaires' wealth has gone up 19 times. So we see this huge concentration and growth of wealth at the very, very top.

There are only six people in America that own more than \$100 billion, only six people. Jeff Bezos, his wealth went up 74 percent in the last 13 months. Elon Musk, his

wealth went up 599 percent in the last 13 months. Bill Gates' wealth went up 33 percent since March of 2020. Mark Zuckerberg, his fortune went up 100 percent in the past 13 months. Warren Buffett, his wealth went up 50 percent in the same period. And Larry Ellison, founder of Oracle, his wealth has gone up 71 percent since March of 2020.

I am all for people making a lot of money, but shouldn't we be, like, sharing it with the rest of the people in the country in some way? They are benefiting from the system that we have created for all the people. Shouldn't we be sharing it with the other people?

Do you disagree with that, Mr. Edwards?

Mr. Edwards. If you look at Jeff Bezos, for example, the vast majority of his wealth is his ownership of Amazon.com that has created jobs for over a million people now. Jeff Bezos started that company in his garage in 1994 and he built it.

Mr. Suozzi. I am for that. That is good. That is great news. Do you think that we should be sharing some of that wealth? I mean, just during the pandemic, with so many people suffering during the pandemic, a lot of people suffered, shouldn't we be sharing --

Mr. Edwards. He is sharing his wealth by leaving it invested in the economy and cutting prices of books and other things for many people. Many of the richest people got rich by slashing prices for the broad mass of American consumers.

Mr. Suozzi. So you don't think we should be sharing more of that wealth with the American people? You just disagree with that idea completely?

Mr. Edwards. It is being shared as capital investment in the economy, which helps overall growth.

Mr. Suozzi. You don't think we should be doing more of it is what you are saying, right?

Mr. Edwards. We should not be seizing more of his wealth, no.

Mr. Suozzi. Okay. So you think the system right now is fair, the way it is right



now, that all his wealth was created during this period and it is not being shared more than it is right now?

Mr. Edwards. There are inequities in capital income taxation, as some of the other panelists mentioned.

Mr. Suozzi. I just want you to tell me, you think it is fair the way it is now, right?

Mr. Edwards. Well, I think what happened over the last year is that a lot of lower income laborers were hurt because of all the excessive shutdowns. And I don't agree that the wealthy did well over the last year.

Chairman Thompson. The gentleman's time has expired.

Ms. Plaskett, you are recognized for 5 minutes.

Ms. Plaskett. Thank you very much, Mr. Chairman.

This has been very, very interesting and informative. And I really want to thank the witnesses for providing their perspectives for us as we are working on the tax reform and the Tax Code.

I had a question for Professor Looney.

How can the tax system better promote investment and growth in areas of the country where it is most difficult to attract private investment?

I live in the Virgin Islands, and it would be incredibly helpful to our overall economy to attract the type of investment that would bring jobs, reverse our brain drain, build our infrastructure.

But how do we promote that investment in growth in areas other than those places where they know that the money is going to bring them, yield them returns?

Mr. Looney. Thank you for that question.

So I think there are many approaches. One approach is to recognize that one of the most important sources of investment are workers and their families, for example, the ability

to invest in the health and education of children.

And so one policy is to have the child tax credit and the earned income tax credit provide support to working families raising their children and investing in their communities.

However, I recognize that there are already [inaudible] business investment, especially in small business [inaudible] Section 179 [inaudible].

So I think that there are policies like that that are in place that can provide support if they are extended.

Ms. Plaskett. Okay. Thank you.

Professor Oh, you mentioned proposals to tax gains annually under a mark-to-market system. How would a mark-to-market system work during a recession when asset prices fall?

Mr. Oh. It is a great question. It is one of the primary design questions that we have to solve in a mark-to-market system.

What you are referencing correctly is, if we are going to tax gains as they accrue, what do we do -- do we make losses deductible when -- I am starting to get a little feedback. I am sorry. When --

Chairman Thompson. Hold on. Will the gentleman suspend for a moment?

If you are not speaking, please mute your device. So we are getting some feedback.

Thank you. You may proceed.

Mr. Oh. So it is really important to design a rule -- this is one of the design questions I was referencing in my testimony -- that doesn't allow for unlimited deductibility. Because one of the things you worry about in a mark-to-market system is, if people are self-reporting how much their assets have gone up or down in value, well, surprise, they may want to understate the value of their assets.

This is another reason why we may want to stick with mark-to-market just for

publicly traded assets, as Mr. Gutman referenced, because then we will have a very accurate value and not run into these gains where a lot of taxpayers are claiming loss deductions.

Ms. Plaskett. Thank you, Mr. Chairman. I have no further questions at this time. It has been very informative hearing my colleagues and the witnesses' responses to these questions. And I look forward to additional information as it comes forward and these great hearings that we are having now.

Thank you.

Chairman Thompson. Thank you very much.

Mr. Hern, you are recognized for 5 minutes.

Mr. Hern. Thank you, Mr. Chairman. It is good to be with you. Thank you for this very important meeting.

And I just want to note, it has obviously been a long meeting and I am way down on the seniority list, so many of the questions have been asked and answered.

But I do want to point out -- and I don't want this to be lost -- the fact that we have noted on both sides that 1 percent earn roughly 20 percent of the income, but pay 40 percent of the taxes. Again, I don't know in this day and age what we describe as fair, but maybe we can get that mined out somewhere down the road in our committee as well.

The title is, "Reforming the Tax Code's Advantageous Treatment of the Wealthy," and, unfortunately, we find ourselves again hearing focus on politics instead of policy.

My home state of Oklahoma reopened for business in June of last year, and as the rest of the country followed suit, we should work together on policies that reduce unemployment and get the economy growing again. Instead, we are discussing President Biden's proposals to increase taxes on working families.

From the moment President Biden took office, he has touted his increasing taxes to pay for infrastructure packages. You know that only 6 percent of the investment is in

repairing bridges, highways, and roads and other infrastructure projects.

And despite many public calls from the left to further increase taxes on the ill-defined rich, ironically, President Biden and House Democrats are floating around ideas for government to subsidize the lifestyles of their friends living in New York and California who are driving \$80,000 Teslas.

This isn't propaganda or guesswork: it is a fact. And recent IRS data reveals that 46 of the top 50 congressional districts that benefit from the Democrats' proposal to eliminate the state and local tax/SALT cap, are Democrat-held districts. Senator Sanders, AOC, and I have vastly different economic policy but we all agree repealing the SALT cap --

Chairman Thompson. Would the gentleman suspend?

Would you please mute your device? We are getting a lot of feedback.

You may proceed. Thank you.

Mr. Hern. Thank you, Mr. Chairman.

In fact, I will tell you personally it would benefit me to have SALT repealed, but I don't think it is the right thing to do for all Americans. So I would encourage us not to do that and move on, the way we are doing it now.

President Biden seems determined to give tax breaks to his wealthiest friends. The Biden tax plan touts expansion of the electric vehicle tax credit. The bipartisan Joint Committee on Taxation found that more than three quarters of filers using this tax benefit make over \$100,000 a year. Why are we giving tax credits to those who are making over \$100,000 a year?

I point this out not because I believe the wealthy aren't paying their fair share. As we noted, the top 10 percent of earners are paying over 70 percent of the nation's taxes. But President Biden is willfully deceiving the American people, spewing divisive, untrue rhetoric about the nation's top job creators, while offering policies that hurt working class Americans.

These policies do not give Americans a hand up, they give a handout. Punishing Americans who work, and rewarding those who do not, does not help Americans get back on their feet after a shutdown.

Enough is enough. It is time to start working and talking about economic freedom and recovery.

Today's hearing should be titled, "Kick-Starting the Economy and Getting Back to Work," and we should be examining tax policies that spur business investment, like permanent full expensing; upskilling our labor force, like increasing employee deductions for education expenses; helping Americans save for their children's future education expenses, like keeping income taxes low for working families; making America a more competitive economy, like preserving our international tax policies; and incentivizing companies to come to the United States, not leave. Keep American jobs here, like maintaining the 21 percent corporate tax rate that empowers businesses to create new jobs.

Our economy needs more pro-growth policies like those included in the TCJA of 2017, which created record low unemployment levels, increased investment in the United States. Which brings me to my question.

Mr. Edwards, we have got 1 minute. What tax policies should this committee consider to kick-start the economy and get Americans back to work?

Mr. Edwards. Actually, I would favor a reduction in the capital gains tax rate back to the level at least under the Bush administration 15 years ago, down to 15 percent. That would be a good policy.

Certainly, I would agree with you, I am not in favor -- Biden proposes a lot of subsidies for corporations. Electric vehicles is just one of them. I think that is a really bad idea.

Let's make the policies that make America the best place in the world for small and

large businesses to locate, then they can create the jobs and do the investment. So, keep that corporate tax rate low, lower the capital gains tax rate, which I think is a big benefit to startup businesses and innovation and technology. And that is how we can compete with the Chinese and other countries.

Mr. Hern. Thank you so much for your testimony.

Mr. Chairman, I do appreciate us having this meeting, I honestly do, and thank you so much. And I yield back.

Chairman Thompson. I thank the gentleman.

Ms. Sewell, you are recognized for 5 minutes.

Ms. Sewell. Thank you, Mr. Chairman. Thank you for holding this important hearing regarding the range of disparity within the Tax Code that negatively impacts working class Americans.

This issue is nothing new. It is a subject that Congress and this committee have grappled with long before the onset of COVID-19.

If anything, inequality within the Tax Code has become even more apparent since the start of this pandemic. Prior to the COVID-19 outbreak, the passage of the Tax Cuts and Jobs Act had been the single largest setback in aiding those who reside in underserved communities across this Nation.

The median household income for a family of four in my Alabama district is \$38,000. That is a family of four in 2021.

Too many of my constituents already face the difficult reality of affording rent, purchasing groceries, paying for childcare, and caring for an elderly loved one.

It is for these reasons that I am honored to serve as co-chair of the Ways and Means Racial Equity Initiative. Congressmen Gomez, Horsford, and I have been appointed by Chairman Neal to expose the many economic inequities that have long plagued underserved

communities within the United States and make better policies to close that equity gap.

I can think of no place to start than the U.S. Tax Code. The child tax credit and earned income tax credit are just two examples of how the Tax Code can positively impact the lives of those most susceptible to poverty. I am proud of the role that I and many Democratic colleagues have played in crafting the American Rescue Plan.

The work done by this committee is projected to lift over 4 million children out of poverty through the expansion of the child tax credit. Along with this, the earned income tax credit expansion will provide much needed income support to millions of America's lowest wage earners.

These modifications to the Tax Code are just an example of how we as a committee can elevate working class Americans to higher quality of life and help them build back better.

My first question is to you, Professor Oh. When you testified before this committee in 2019, you discussed how the earned income tax credit could contribute to building a robust labor market.

A lot has changed in the past 2 years since you testified. In the wake of COVID-19, how can we expect disadvantaged communities, especially those communities that live within these Opportunity Zones, to fare in comparison to wealthier communities when rebounding from this economic downturn?

Mr. Oh. The EITC has been one of the most successful Federal programs ever. I mean, it provides income support for so many families. It is a program that I would love to see expanded, made more generous. It works really well in certain ways.

There are pockets where it does not. The EITC does not do enough to help single people that do not have kids. The EITC is relatively generous to households with children. It doesn't give a lot to people that do not.

And one of the things that the EITC does is, not only does it provide income support,

but encourages workforce participation. To go to something that has come up repeatedly during this hearing, we want people to go back to work. Well, EITC creates a wage subsidy and encourages people to go back to work.

Ms. Sewell. Absolutely.

I know I am running out of time, but I know that one of the things we did do in the American Rescue Plan is we did help those people who are single and would not otherwise be able to get earned income tax credit.

Now, Ms. Huang, can you discuss your thoughts on what fully re-funding the CTC beyond 2021 would mean for economic growth beyond COVID-19?

Ms. Huang. Thank you for your leadership on these really important credits. I think [inaudible] would be a really big investment in the communities that you are talking about, but also all of America, because that is the next generation of potential entrepreneurs, business people. And you want them to grow up healthy, able to go to school, able to go to college, and all of the things that the research shows that these tax credits achieve.

So we have seen the data that show that kids and low income children of all races would benefit from the CTC expansion, but it would be particularly helpful for Black and Latino children, many of whom would receive the credit for the first time because their incomes were too low to qualify under the prior law and were, therefore, disproportionately locked out of the credit.

Ms. Sewell. Very true.

I know my time is limited. I just want to say, Mr. Chairman, that I look forward to working with you and this committee and across the aisle, I hope, in really trying to uplift poverty wherever it exists.

Chairman Thompson. Thank you. The gentlewoman's time has expired.

Ms. Sewell. Thank you.



Chairman Thompson. Thank you.

Mr. Estes, you are recognized for 5 minutes.

Mr. Estes. Thank you, Mr. Chairman.

At a time when small businesses are struggling to recover and with far too many Americans still out of work, we should be looking at ways to encourage more job creation, not raise taxes or redistribute wealth.

Common sense should tell us that putting a big tax on job creators at a time when they are trying to get back on their feet after the pandemic can take away any incentive they have left to work hard and create more jobs.

As we all know, the 2017 Tax Cuts and Jobs Act was wildly successful. The United States had the best economy in decades at the start of 2020 before the COVID shutdown. By so many economic statistics, our growth was benefiting all categories of Americans. There were more job openings than there were people looking for work, there were lower unemployment rates for all demographic categories.

And maybe the most important one was we saw wage and income inequality was closing, as wages grew for the lower income brackets faster than the higher income brackets.

We need to get back to the pre-COVID shutdown timeframe and to get the economy going because of the benefits of the Tax Cuts and Jobs Act.

While a wealth tax may make a great slogan, what it will actually do is incentivize Americans to spend more on things that don't help the economy grow, rather than investing in strengthening the economy and creating more jobs.

If there is a clear lesson we should learn from other governments that have tried to punish the wealthy and redistribute their earnings, the results have been reduced wages, less investment, and lower economic growth. Instead, we should focus on getting workers off the sidelines and back into a job.

I have heard from so many in Kansas about troubles finding workers. One of my constituents, who is a mom to four children, owns a small business and says it is impossible to fill her jobs right now. In her words, she says, “nobody is coming in to work because they are getting paid by the government to stay home.”

Throughout the pandemic, she struggled to keep her company afloat while her kids were at home. She said that she now has to work additional shifts to keep the company going since she is unable to find help. I hear about concerns like hers almost daily now.

Families like hers can't afford these same failed policies that led to the worst economic recovery in our history, with so many American workers stuck on the sidelines and out of work.

Out of control spending and tax hikes are a recipe for the same slow growth that we saw after the 2008-2009 recession. That is because proposals like this will negatively impact middle America. There is no way around it.

Those who are able to protect their incomes from government will do so, and hardworking families who are struggling to save to buy a house will once again be left behind like they were under the failed economies of the Obama Administration.

Our goal must be to get the economy going. That means the entire economy, not just the economy for the elites on the coast. We need to realize the pandemic has hurt middle class and poor Americans far worse than the upper class, and the best way to assist hurting workers and families is to revitalize our economy and expand employment opportunities.

What we need to do is turn on the engine of economic growth. We do that through rewarding entrepreneurship.

We know how to do that. Prior to the pandemic, we created the greatest economy of our lives, with family incomes up and unemployment rate at a 50-year low. Our top priorities should be restoring our economic strength and helping all Americans succeed and

not punishing Americans through a wealth tax.

Mr. Edwards, we are seeing fewer European countries with annual wealth taxes today than we did 30 years ago. Can you explain why these countries have abandoned this method of increasing revenues and whether they were successful in bringing fairness and equity to their country's tax base?

Mr. Edwards. Yeah, you are right. I have written extensively about this. There used to be more than a dozen countries in Europe that imposed an annual wealth tax. They just found that the administrative burdens were just way too high and these taxes were anti-investment. Wealthy people ended up avoiding the taxes by moving their assets offshore and that sort of stuff. The taxes really didn't work.

And wealth taxes impose very high taxes on capital, which is anti-investment. Elizabeth Warren says her wealth tax would only be 2 percent. But if you have an asset that only returns 6 percent a year, that is like a 33 percent income tax on top of all the income taxes we have already.

So, wealth taxes really don't make any sense.

Mr. Estes. We have seen so many small businesses suffer immensely during the pandemic due to the shutdowns. What is your outlook for workers if small businesses are hit with a greater tax burden?

Mr. Edwards. I don't think it makes any sense. I supported a lot of the tax cuts in the 2017 tax law. I favor the lower corporate rate in permanent law. I think that is a good idea.

Congress does have to do something about these exploding deficits. I think that creates a huge amount of uncertainty in the business community.

I am worried about -- one of the panel members today mentioned the risk of inflation. Inflation is a heavy tax on moderate income people and will really damage the economy.

So, I don't trust the central bank to keep inflation low. Macro economists are terribly bad forecasters. We ought to be prudent here, we ought to be prudent in our money policy, and we ought to be prudent in our budget policy, and that means starting to get budget deficits down.

Chairman Thompson. The gentleman's time has expired.

Mr. Estes. Thank you. I yield back.

Chairman Thompson. Mr. Davis is recognized for 5 minutes.

Mr. Davis, are you there?

Mr. Pascrell is recognized for 5 minutes.

You need to unmute, Mr. Pascrell. We are not able to hear you. We will circle back.

Mr. Gomez? Is Mr. Gomez there?

Mr. Smucker.

Mr. Pascrell. Can you hear me?

Chairman Thompson. We can hear you. You are recognized, Mr. Pascrell. We can hear you.

Mr. Pascrell. Mike, can you hear me?

Chairman Thompson. We can hear you. Go ahead.

Mr. Pascrell. I can't hear you.

Chairman Thompson. Go ahead.

Mr. Pascrell. You can hear me now, Michael?

Chairman Thompson. Yes.

Mr. Pascrell. Thank you, and I am sorry.

The tax law has been slanted heavily towards the super-rich. And we have heard for 10 years now the different examples and become an exclusive club for the wealthy to abuse

and manipulate. The few who generate a living from investment assets use the tax laws to get away with it like bandits. Their income is taxed at the capital gains rate. This is a fancy way of saying they pay less.

Meanwhile, it is not fair to the American worker who goes to work every day, lives on hourly wages, pays taxes annually at a higher ordinary income rate than some billionaire living off stocks.

Now, we want to encourage people to be affluent, to work hard, save some money, and certainly have retirement income at the end. But we want everybody to work under the same system and not have a dual system where if you know the tricks of the trade and you have enough lawyers you will get away like a bandit.

The current tax system allows the super rich to defer income on their investment assets. I mean, it is in black and white. Look at the numbers. It lets them decide when to sell their property, pay taxes only upon that sale, and a special reduced rate no less.

So does the regular American worker get access to these tricks? Hell, no. America is being ripped apart by a two-tier Tax Code.

And I have been listening from the beginning, Mr. Chairman, and I think it is comical to defend that system and say how this works and that works when you know you are just defending a system that helps one group and not the other. It has destroyed public confidence in our tax system. It must be fixed.

One of the biggest loopholes involves stepped-up basis. When a wealthy property owner dies, this loophole lets them pass on their assets with no tax appreciation. The hoarding of inherited wealth is perhaps one of the main drivers of inequality in this country.

My bill, H.R. 2286, would close the loophole and tax the capital gains of America's wealthiest families. It is wrong we continue to allow the richest families on Earth to amass greater and greater fortunes without paying their fair share.

President Biden has acknowledged this widening wealth gap. His proposal in the American Families Act is similar to what I am talking about in 2286. He is on the right track.

And my question to Mr. Gutman is, regarding the stepped-up basis for family-owned farms, my bill gives everyone a million-dollar exemption for net capital gain. Is this sufficient, Mr. Gutman, or is there additional relief we should consider for farms and other family-owned businesses that would not allow these capital gains to escape taxation?

And, Mr. Chairman, I ask that question because there aren't that many of them, yet everybody is important. Everybody is important. Unlike the State tax and the local tax. There is not enough of those. There is far more of those people throughout the country, not just the 12 Blue States. There are plenty of those people who use the deductions started at the Civil War and have to listen to that diatribe.

What do you think, Mr. Gutman?

Mr. Gutman. First of all, Mr. Pascrell, you are right. A million-dollar gain exemption, which applies to everybody, is going to take an awful lot of people out of the system.

Second, your bill also provides for family farms, to be able to defer what tax would be payable over 7 years at a very low interest rate. That takes a lot of the bite out of the tax that would be necessarily paid under your bill.

A suggestion that I made was to defer the tax entirely until they sell, which goes a bit further than you did. But your bill responds very responsibly, I believe, to the issues that are raised.

Mr. Pascrell. Thank you, sir.

I yield back, Mr. Chairman.

Chairman Thompson. Thank you. The gentleman's time has expired.

Is Mr. Gomez in the queue?

Witnesses, thank you very much for joining us today. You all did an excellent job.

I want members to be advised 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.

With that, this subcommittee stands adjourned. Thank you.

[Whereupon, at 4:35 p.m., the subcommittee was adjourned.]

Questions for the Record

[Pascrell](#)

[Gutman Response](#)



Submissions for the Record

[Congressman John Larson](#)

[Fiscal Equity Center](#)

[Saez-Zucman](#)

[National Association of Manufacturers](#)

[Nicholas Lee](#)

[Democrats Abroad](#)

[Democrats Abroad Addendum](#)

[Small Business Council of America](#)