

SENATE FINANCE COMMITTEE HOLDS HEARING ON 2025 TAX POLICY

EXECUTIVE SUMMARY

On September 12, the Senate Finance Committee held a [hearing](#) to discuss tax policy and tax avoidance strategies. The focus of the hearing centered on the sunset of policies contained within the 2017 Tax Cuts and Jobs Act ([TCJA](#)), which could result in major changes to the tax code depending on the outcome of the 2024 election.

Witnesses and members were particularly concerned with the 199A Qualified Business Income Deduction (QBI) which allows small business owners to deduct up to 20 percent of their qualified business income.

Committee Democrats, led by **Chair Ron Wyden (D-OR)**, focused primarily on tax avoidance by high income taxpayers, emphasizing the benefits of the potential increased tax revenue. In contrast, Republicans on the panel focused on the tax increases that would result from the expiration of the TCJA. They cited the impact of the loss of the QBI as a major concern. Additionally, GOP senators advocated for the creation of a less complex tax code, stating that this would reduce compliance costs for taxpayers.

OPENING STATEMENTS

Chair Ron Wyden (D-OR) ([statement](#)) emphasized the importance of the upcoming debate on future tax legislation. Voicing concerns about former President Donald Trump's economic agenda, he stated that relying on taxing foreign and consumer goods would result in large deficits for the federal government. Chair Wyden then explained that the Democratic Party's priorities for an upcoming tax bill would seek to address rising housing and family expenses by increasing taxes for high-income earners.

Ranking Member Mike Crapo (R-ID) ([statement](#)) stated that TCJA had a significant positive effect on the economy. He cited increases to the standard deduction and expansions for the Child Tax Credit (CTC) as "valuable" provisions at risk of expiring, expressing that these expirations would result in large tax increases for individuals and small businesses. Ranking Member Crapo also argued that making the 20 percent qualified business deduction permanent should be a top priority.

WITNESS TESTIMONY

Mr. Indivar Dutta-Gupta ([testimony](#)) Doris Duke Distinguished Visiting Fellow at the McCourt School of Public Policy at Georgetown University and Roosevelt Institute Tax Fellow, expressed his

intention to provide context for the committee about tax avoidance performed by high-income individuals. He stated that income and wealth inequality in the United States are currently at historic highs, citing this uneven distribution of wealth as a cause of inhibited economic growth, inhibited economic mobility, and increases in political polarization. Mr. Dutta-Gupta then suggested that increases in funding for Internal Revenue Service (IRS) enforcement and taxes on unrealized capital gains could address this problem.

Mr. Bob Lord ([testimony](#)) Senior Advisor on Tax Policy for Patriotic Millionaires, highlighted his previous career advising high-income taxpayers as a tax lawyer. He then explained common tax avoidance strategies to the committee, including what he referred to as “buy, borrow, die,” a strategy where individuals purchase investment assets and borrow against these investments, which are sold with no income taxes by their inheritors following their death. Mr. Lord then expressed his belief that bipartisan legislation could successfully address similar instances of tax avoidance.

Mr. Jeff Brabant ([testimony](#)), Vice President of Federal Government Relations at the National Federation of Independent Business (NFIB), stated that his organization’s top priority is making the [Section 199A](#) Qualified Business Income (QBI) deduction permanent, presenting a petition signed by 81,100 small businesses. He then expanded on the history of this deduction, explaining to the committee that it was initially implemented to ensure that pass-through businesses, where income “passes through” to become part of the owner’s personal income tax, are able to compete with larger corporate entities. He emphasized that it is crucial for the QBI deduction to remain in place.

Mr. Daniel Bunn ([testimony](#)) President and CEO of the Tax Foundation, expressed that efforts to address tax avoidance should promote the development of a simple, neutral tax code to reduce compliance costs. Mr. Bunn explained that allowing TCJA provisions to lapse would result in “overwhelming” tax increases for families, stating that the TCJA was beneficial for individuals and businesses and prevented high compliance costs and unnecessary government interference.

DISCUSSION AND QUESTIONS

Child Tax Credit (CTC)

- **Sen. Michael Bennet (D-CO)** cited the many benefits of the child tax credit. Mr. Dutta-Gupta responded that expansions to the CTC benefited low income children and would result in a significant return on investment.
- Responding to **Sen. Maggie Hassan (D-NH)**, Mr. Dutta-Gupta stated that the CTC had allowed families to afford essential necessities.

Tax Cuts and Jobs Act (TCJA)

- Mr. Bunn and Ranking Member Crapo agreed that TCJA reduced taxes while also reducing complexity within the tax code itself.
- Mr. Bunn stated that 62 percent of Americans would see a significant tax increase if the TCJA is allowed to expire, responding to a question from **Sen. James Lankford (R-OK)**.

- Responding to a question from **Sen. John Thune (R-SD)**, Mr. Bunn stated that an expiration of the TCJA would result in widespread high tax increases for individuals.
- Mr. Brabant responded to **Sen. John Barrasso's (R-WY)** question about the effect of TCJA expirations on small businesses, stating that businesses would have to raise prices and delay planned investments.

Section 199A Qualified Business Income Deduction

- Ranking Member Crapo asserted that Democrats are attacking Section 199A QBI deductions in an attempt to target high income taxpayers. He asked Mr. Brabant which entities signed the petition to keep Section 199A. Mr. Brabant stated that the petition was signed by small businesses, none of which were over Small Business Administration size standards.
- **Sen. Chuck Grassley (R-IA)** asked what tax increases would mean for small businesses. Mr. Brabant stated that tax increases would compound existing inflation by forcing small businesses to increase the price of goods and services. He added that the removal of 199A QBI deductions would have the largest negative impact.
- Sen. Lankford asked Mr. Brabant how many small businesses would be impacted by a lapse in 199A QBI. Mr. Brabant responded that over 26 million small businesses claim the deduction.
- **Sen. Steve Daines (R-MT)** expressed concerns about Vice President Harris's proposed tax plan, asking Mr. Brabant what impact these policies would have on small businesses. Mr. Brabant stated that small businesses would likely increase prices and delay planned capital investments if the Vice President's plans were enacted.
- Responding to a question from **Sen. George Helmy (D-NJ)**, Mr. Dutta-Gupta stated that without an imposed cap, the state and local tax (SALT) deduction could primarily go to high-income families.

Tax Avoidance

- Chair Wyden asked Mr. Lord if typical taxpayers have access to the same level of tax advice as high income earners. Mr. Lord responded that high income taxpayers could retain thousands of dollars by paying for his advice, while low- and middle-income taxpayers would find costs prohibitively expensive for a less significant return.
- In response to a question from Chair Wyden, Mr. Lord stated that tax avoidance strategies may involve real estate transactions structured to minimize income tax or GRATS to avoid gift and estate taxes.
- Mr. Dutta-Gupta responded to Chair Wyden, stating reducing taxes for high-income individuals would not result in future returns.
- Chair Wyden asked Mr. Dutta-Gupta if there is evidence that high income earners will stop making valuable investments if they pay more in taxes. Mr. Dutta Gupta responded that there is no evidence of this.
- **Sen. Sheldon Whitehouse (D-RI)** stated that billions of dollars have been lost to tax avoidance. Mr. Dutta-Gupta responded that trillions of dollars in tax revenue could be gained if tax avoidance was addressed.

- Responding to a question from Sen. Whitehouse, Mr. Dutta-Gupta stated that over 60 percent of U.S. multi-national foreign profit is harbored in tax havens.
- Mr. Lord stated that high-income individuals accumulate income by borrowing against existing assets at favorable rates in order to avoid income taxes, responding to a question from **Sen. Elizabeth Warren (D-MA)**.
- Mr. Lord responded to **Sen. Geroge Helmy's (D-NJ)** on best practices to address tax avoidance, stressing the need to ensure that the IRS is fully staffed and funded.

Compliance Costs

- Responding to a question from Ranking Member Crapo, Mr. Bunn urged Congress to examine the tax code in the context of compliance costs. He expressed his belief that Inflation Reduction Act ([IRA](#)) credits had added unnecessary complexity to the tax code, reiterating that tax code should prevent government interference.
- **Sen. Ben Cardin (D-MD)** asked if a multi-year modernization of the IRS is necessary. Mr. Dutta-Gupta stated that modernization would be extremely beneficial, emphasizing the positive impacts of the direct-file system.
- **Sen. Mark Warner (D-VA)** stated that social security, technology, and artificial intelligence should be considered when approaching future tax policy.

Stepped Up Basis

- **Sen. Ron Johnson (R-WI)** questioned if removing IRS Code [1014](#), known as the “stepped up basis” provision, would constitute a double tax. Mr. Lord responded that tax avoidance strategies could be used to avoid estate and gift tax while still benefiting from stepped-up basis.
- Mr. Brabant responded to Sen. Johnson, expressing that removing stepped-up basis would likely result in family businesses being sold and numerous tax increases

Other Topics

- Sen. Hassan cited the Chinese Government’s research and development tax deduction, asking the panel what the U.S. should be doing to further incentivize its companies to ensure competition with China. Mr. Bunn responded that U.S. investments in research and development should be incentivized through tax deductions.
- Responding to a question from Sen. Hassan, Mr. Dutta-Gupta urged Congress to encourage a larger supply of affordable housing by improving the low-income tax credit and stabilizing rent and rental assistance.
- Sen. Barrasso asked Mr. Bunn if unrealized capital gains should be taxed as income. Mr. Bunn responded to Sen. Barrasso, stating that taxing unrealized capital gains would complicate the tax code.
- Mr. Brabant responded to a question from Sen. Johnson, stating that estate taxes often result in small family businesses being sold to larger entities.
- In response to a question from Sen. Harris, Mr. Dutta-Gupta stated that the income acquired as a result of the Biden-Harris administration’s proposed [Billionaire Income Tax](#) could lower the cost of childcare and provide significant benefits for children and families.

