

## HOUSE WAYS AND MEANS SUBCOMMITTEE EXAMINES THE TAX CODE

### EXECUTIVE SUMMARY

Yesterday, the House Ways and Means Subcommittee on Select Revenue Measures held a [hearing](#) entitled “Funding our Nation’s Priorities: Reforming the Tax Code’s Advantageous Treatment of the Wealthy.” Democrats maintained that the wealth gap has been increasing over time and has been exacerbated by the pandemic and low audit rates. Further, they contended the child tax credit and the earned income tax credit (EITC) have benefited low-income individuals by reducing poverty, particularly child poverty. On the other side of the dais, Republicans expressed frustration with the increased unemployment insurance keeping people at home while employers are unable to find workers. They argued that the subsidies, like the electric vehicle subsidy, in President Biden’s tax proposals will continue to drive wealth inequality. Some Republicans were concerned that the tax proposals would negatively impact small businesses and farm owners. In addition, debates revolved around how much high-income earners should pay in taxes and if tax mechanisms, such as corporate tax rate and capital gains tax, should be lowered.

### OPENING STATEMENTS

**Chairman Mike Thompson (D-CA)** ([statement](#)) expressed frustration with the widening wealth inequality under the current tax system, claiming that it allows wealthy individuals to avoid taxes by “not properly reporting all their income and overstating their deductible expenses.” Meanwhile, Chairman Thompson emphasized that the low- and middle class “have almost all their income and their most important deductions reported to the IRS.”

**Ranking Member Adrian Smith (R-NE)** ([statement](#)) asserted the tax code is meant to “collect sufficient revenue to fund” the government and said it meets this goal in part due to the Tax Cuts and Jobs Act. He shared statistics from a Joint Committee on Taxation report that states a “taxpayer earning \$20,000 to \$30,000 per year pays 3.1 percent of their income in federal taxes.” On the other hand, those making over \$1 million, pay 31.5 percent. Further, Ranking Member Smith suspected that President Biden’s tax proposals are intended to offset the cost of the administration’s infrastructure package.

### WITNESS TESTIMONY

**Adam Looney** ([testimony](#)), Professor at the University of Utah, stressed that the current tax system is advantageous for high-income and high-wealth households, in comparison to less-wealthy households. He said this is partly due to reducing tax rates that are important to the wealthy, such as tax rates on corporations, private businesses, capital gains and dividends, and inherited wealth.

**Jason Oh** ([testimony](#)), Professor at the University of California Los Angeles School of Law, pushed for repealing step-up basis (a tax provision that allows inheritors to reduce their capital gains taxes), transitioning to a mark-to-market system, and raising the capital gains tax rate to improve and increase the taxation of top income-earners. Further, he discussed that the federal government should not only reform the current tax code, but also pair the tax increases on the wealthy with “spending programs focused on low- and middle-income households.”

**Harry Gutman** ([testimony](#)), former Chief of Staff of the Joint Committee on Taxation, argued that step-up basis should be repealed and replaced by a “regime in which death and lifetime transfers are income tax realization events” and applauded **Rep. Bill Pascrell (D-NJ)** for introducing [H.R. 2286](#) that would treat lifetime transfers and realization events. He explained that income tax realization events would allow taxes to be payable – rather than forgiven – on property that has appreciated in value.

**Chye-Ching Huang** ([testimony](#)), Executive Director of the New York University Tax Law Center, focused on three main arguments: (1) the current tax system allows for wasteful tax avoidance, sheltering, and even evasion; (2) the “very different experience” of the tax system for low- and middle-income workers; and (3) focusing on investing in workers and infrastructure rather than tax breaks for wealthy individuals.

**Chris Edwards** ([testimony](#)), Director of Tax Policy Studies at the Cato Institute, criticized the Biden administration’s proposed tax reforms and large spending measures in the Americans Jobs Plans and the American Families Plan. He noted borrowing money for this spending would “burden future generations and push the nation closer to a financial and economic crisis.” However, he also said that higher taxes would “undermine the [pandemic] recovery and reduce long-run growth.” Mr. Edwards called against federal funds going to items such as electric vehicles and childcare, disputing such areas would be more efficiently funded by states or the private sector.

## **DISCUSSION AND QUESTIONS**

### *Earned Income Tax Credit and Child Tax Credit*

- Mr. Looney explained to Chairman Thompson that the EITC and other similar credits have boosted the income of low- and middle-income households, as well as reducing child poverty. However, he stated that the tax rate for high-income households has decreased which has widened wealth and income inequality.
- Ms. Huang told **Rep. Suzan DelBene (D-WA)** making the child tax credit permanent would further help reduce child poverty and directly benefit low- and middle-class families.
- **Rep. Terri Sewell (D-AL)** discussed the underserved communities in her district and pointed out that the child tax credit will continue to help alleviate poverty. Mr. Oh echoed this sentiment and also said this credit encourages workforce participation. However, he noted the child tax credit only helps those with children.

### Tax Rates

- There were several discussions as to how much the top one percent pay in taxes, with **Rep. Tom Rice (R-SC)** claiming the top one percent pay 38.5 percent of total income tax. However, Mr. Oh told Chairman Thompson it is possible for this group of people to pay at a much lower tax rate.
- In a similar line of questioning, Mr. Oh told **Rep. Gwen Moore (D-WI)** that the percentage of taxes the top one percent pay on their wealth and income is not fully known because the total wealth of all assets is not disclosed.
- **Rep. Kevin Hern (R-OK)** said he favors lowering the corporate tax rate in order to attract businesses, to which Mr. Edwards agreed and said he also favors lowering the capital gains tax rate.
- On the topic of capital gains, Mr. Edwards told Ranking Member Smith that raising the capital gains tax to the level President Biden has proposed would only generate \$10-15 billion.
- With respect to the estate tax, Mr. Edwards pushed to repeal the tax due to increased complications with valuations. He shared the example of the Internal Revenue Service (IRS) valuing Michael Jackson's home five times more than the courts ultimately ruled.
- Mr. Edwards told **Rep. Darin LaHood (R-IL)** that raising the corporate tax rate would hinder infrastructure investment citing that most infrastructure is built and owned by the private sector.
- **Rep. Ron Estes (R-KS)** questioned why European countries have started to abandoned the annual wealth tax, to which Mr. Edwards asserted it is due to wealthy individuals avoiding the tax by moving assets to different countries and the high cost of administering the annual wealth tax.

### Wealth Inequality

- Rep. Moore asked what the consequences are of not closing loopholes, like step-up basis, all together, to which Mr. Looney explained that high-income individuals that hold assets and stock are not taxed like corporations and tend to benefit from tax breaks such as special deductions, low capital gains tax, and leaving income to their heirs. He maintained this would continue driving wealth inequality.
- **Rep. Brendan Boyle (D-PA)** and other Democratic members expressed frustration with billionaires increasing their wealth by 55 percent during the pandemic.
- **Rep. Thomas Suozzi (D-NY)** asserted that since 1990, billionaires' wealth has doubled 19 times while the bottom 50 percent's wealth has only doubled four times. To this point, he asked Mr. Edwards if wealthy individuals should share the wealth, to which he answered that they are sharing their wealth by creating jobs and through capital investments.
- **Rep. John Larson (D-CT)** questioned if the redistribution of sticks would help narrow the wealth gap, to which Mr. Oh said one of the key drivers of wealth inequality is stock ownership. However, he and Mr. Edwards said there needs to be more diversification than employees holding company stocks.

### IRS Audits

- Chairman Thompson inquired about audits for high-income individuals compared to low- and middle-income individuals, to which Ms. Huang shared that audits for the top one percent have been cut by 70 percent since 2010.
- Ms. Huang told **Rep. Linda Sanchez (D-CA)** the tax gap is between \$600 billion and \$1 trillion and noted that auditing high-income individuals at a higher rate would help close the tax gap.
- Rep. DelBene said the IRS appropriations have been reduced by 20 percent since 2010, which has resulted in a loss of personnel able to process audits. Ms. Huang agreed that audit rates for top income earners have dropped because the IRS has lost a third of the staff that can go through complicated audits. Ms. Huang argued that the IRS needs robust multi-year funding to properly restaff and train the auditors.