ANALYSIS OF HOUSE WAYS AND MEANS COMMITTEE-PASSED TAX PLAN & SOME WAYS TO SIGNIFICANTLY STRENGTHEN IT

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ANALYSIS OF HOUSE WAYS AND MEANS COMMITTEE-PASSED TAX PLAN & SOME WAYS TO SIGNIFICANTLY STRENGTHEN IT

The tax plan approved by the House Ways and Means Committee takes a very important step towards a fairer tax system in which corporations and the wealthy contribute more to better serve the common good. As explained below, the $2.1 trillion the plan will raise from corporations and the wealthy is a significant down payment on what they would expect to pay under a fully reformed tax code.

President Biden proposed raising more than $3.5 trillion over 10 years from the rich and corporations, and the Ways and Means Committee plan gets us about two-thirds of the way there. The $2.1 trillion represents significant momentum in the right direction, and we hope before the plan is taken up by the full House and when the Senate acts, much more can be done to create a fairer tax system and build back better.

To put that $2.1 trillion in perspective, it is a little more than the $1.9 trillion lost from the 2017 Trump-GOP tax cuts, which is mostly benefiting the rich and corporations. Moreover, the country's 700-plus billionaires saw their total wealth increase by $1.8 trillion, or 62%, since the beginning of the Covid-19 pandemic. Their skyrocketing wealth increase over 17 months could finance one-half of the proposed $3.5 trillion ten-year investment plan, and they would still be as rich as they were before the pandemic.

At a moment in history when national needs, a sense of justice and widespread public opinion combine to demand corporations and the wealthy start paying their fair share of taxes, Congress must do even better and propose even bolder reforms than the tax plan approved by the Ways and Means Committee, which has taken a lot of criticism in the media for not taxing the ultra-rich much if at all.

The strengthened tax-reform plan outlined below would do a better job of raising the revenue needed to fund vital public services while at the same time narrowing the economic inequality that destabilizes our economy and imperils our democracy.

All revenue estimates in this analysis are from the Joint Committee on Taxation, unless otherwise noted).

MAJOR REFORMS TO THE TAX CODE IN THE COMMITTEE-PASSED PLAN

Tax Reforms on High Income Households ($1 trillion)

- Applies health-care taxes more fairly to wealthy business owners ($252 billion).
- Restores the top individual tax rate on wage income to 39.6% on income over $400,000 ($450,000 per couple) ($170 billion). This rate was cut just four years ago by the Tax Cuts and Jobs Act (TCJA).

- Limits abusive use of losses to lower taxes ($167 billion).
- Applies a 3% surcharge on incomes over $5 million ($127 billion). In 2018, less than 0.04% of taxpayers reported more than $5 million of adjusted gross income according to IRS data.
- Raises the top capital gains rate to 25% and applies it to gains over $400,000, a lower threshold than now is subject to the current capital gains rate ($123 billion). President Biden wants to equalize the top ordinary income and capital gains tax rates at 39.6% on gains of over $1 million. Over three-quarters of the current discount tax-rate on capital gains goes to taxpayers with over $1 million of income.
- Caps the 20% tax deduction for the owners of pass-through businesses at $500,000 of deduction value for married filers ($78 billion). Under the current system with no cap, more than 60% of this deduction's benefits go to the richest 1%, including billionaires who lobbied for it.
- Reduces the amount of fortunes exempt from the estate tax to $5 million indexed for inflation ($54 billion). Under the current exorbitant exemption of $23.4 million for couples and $11.7 for single individuals, less than 0.1% of estates pay any estate tax. The higher exemption levels were already set to expire in 2026.
- Other individual-tax changes ($29 billion, net).

Tax Reforms Benefiting Working Families (-$789 Billion)

- Extends the American Rescue Plan Act (ARPA) Child Tax Credit (CTC) expansion through 2025, and makes the entire CTC fully refundable on a permanent basis (-$556 billion). By increasing the credit and who it covers, and making it fully available to even the poorest families, this expansion will lift over 4 million children out of poverty.
- Makes permanent ARPA's temporary expansion of the Earned Income Tax Credit (EITC) eligibility, phase-in rates, and amount (-$135 billion). The expansion of this proven poverty fighter is especially helpful for millions of low-income workers without qualifying children, who are often nonetheless still parents with parental responsibilities.
- Makes permanent ARPA's modifications to the Child and Dependent Care Tax Credit (CDCTC) (-$98 billion). By enlarging the credit and making it available to even the poorest families, this reform will free up millions of parents to pursue work and educational opportunities knowing their kids are secure.

Corporate Tax Reforms ($950 billion)

- Raises the corporate tax rate from 21% to 26.5% ($540 billion). The 2017 law cut the rate for large corporations from 35% to 21%, a massive windfall for corporations that failed to deliver the positive effects that its boosters promised.
- Revises the Global Intangible Low-Tax Income (GILTI) tax so that it applies on a country- by-country basis, which, along with an increase of the GILTI rate to 16.56%, limitations on abusive interest expense practices, and other reforms to the Base-Erosion and Anti-Abuse (BEAT) tax, can decrease incentives to offshore investment and make it harder for U.S. firms to shift profits to offshore tax havens.
- Accelerates the expansion—from 2027 to 2022—of how many top corporate executives are covered by a curb on excessive compensation ($17 billion).

- Energy and excise taxes and other loophole closures and changes (including crypto wash sale rules) ($75 billion, net).

Enhanced IRS Enforcement Focused on Wealthy Tax Evaders ($200 billion net)
In a major advance for law enforcement, fiscal reform, racial equity and basic fairness, the plan's $79 billion increased IRS funding will enable the agency to reverse its increasingly lax response in recent years to rampant tax evasion by wealthy individuals and large corporations. The plan includes language clarifying that the new enforcement resources are intended to be focused on those with incomes over $400,000.

Energy and Excise Taxes, and Other Changes ($177 billion)

SUMMARY OF IMPROVEMENTS NEEDED TO THE COMMITTEE-PASSED PLAN

Ways to Strengthen Tax Reforms on the Wealthy

- **Close the billionaires loophole known as stepped-up basis on capital gains, as President Biden proposes**
  The exemption amount not subject to tax proposed by President Biden is $1.25 million (per individual) and $2.5 million (per couple), including home sales. If Congress is concerned that Biden's exemption levels and other special protections are not enough to shield small businesses and family farms, it can make the exemption levels higher. A less effective alternative would be to replace stepped-up basis with "carryover basis," which would raise about $100 billion with no exemptions.

- **Increase the 3% surcharge and apply it to incomes lower than $5 million**
  Sen. Chris Van Hollen and Rep. Don Beyer are sponsoring legislation that would apply a 10% surcharge on incomes of $2 million, which would raise more than $600 billion and affect just 0.2% of taxpayers.

- **Additional capital-gains tax reform:**
  - Equalize the capital gains rate with the rate on ordinary income. President Biden proposed such equalization for capital gains over $1 million.
  - Further curb dynasty fortunes with more reforms to estate and gift taxes.
  - Raise the effective gift-tax rate to equal the effective estate-tax rate.
  - Expand the plan's "valuation discount" reforms to cover business assets.

- **Do more to curb dynasty trusts that avoid taxes on the passage of wealth between generations, often in perpetuity:**
  - Clarify the plan's reform of Intentionally Defective Grantor Trusts to make plain it applies to existing trusts and not just ones created after enactment.
  - Reform abusive Grantor Retained Annuity Trusts (GRATs) so that assets are required to stay in trust longer and more of them are retained by the grantor.

- Reform the Generation-Skipping Transfer (GST) tax to prevent the lifetime GST exemption being used to fund tax-free-forever dynasty trusts.

- **Close or make additional reforms to the carried interest loophole**
  The plan should eliminate the carried interest loophole, which is indefensible. Alternatively, Sen. Ron Wyden has proposed to treat carried interest income as an interest-free loan. The foregone interest would have to be reported as ordinary income on which tax is due each year, instead of on a deferred basis as happens now. This reform would raise $63 billion, whereas the House committee plan would raise only $14 billion.

  If all else fails, at a minimum the plan should:
  - Extend the proposed 5 year holding period of an asset to at least 10 years.
  - Include all types of investment gains, including those from real estate.
  - Mandate revaluations through tiers of partnerships where you effectively own more than 50% of the next lower tier partnership to preserve the proper allocation of gain.

- **Further limit the extent to which high-income pass-through owners can take advantage of the pass-through deduction:**
  Adopt Senator Wyden's proposal, which would phase out the deduction for pass-through owners with at least $400,000 in income. It would raise $147 billion, approximately double what the Ways and Means proposal would raise.

- **Enact partnership tax reforms that would limit complexity and tax avoidance:**
  - Adopt Senator Wyden's proposal to reform Subchapter K, which applies to partnerships. It would, for example, limit the ability of partnerships to shift income among partners for tax avoidance reasons.
  - The proposal, which also includes closing a capital gains loophole that benefits ETFs, would raise an estimated $172 billion.

- **Close a loophole that lets ETFs avoid capital gains taxes by making in-kind redemptions to shareholders**
  Adopt Senator Wyden's proposal to repeal a special exception from the capital gains tax for "regulated investment companies," which includes ETFs and would raise $205 billion.

Ways to Strengthen Corporate Tax Reforms

- **More fully close offshore tax loopholes used by multinational corporations as President Biden proposed (Roughly $1 trillion compared to current law)**
  - President Biden's international corporate tax reform proposals are estimated to raise $1 trillion by the Treasury Department. The Ways and Means proposals will raise around $330 billion.
  - Raise the Global Intangible Low-Tax Income (GILTI) rate to at least 21%, as proposed by Biden, up from the plan's proposed 16.6% rate ($531 billion).

- Tax the foreign income that's currently not taxed at all by the U.S.—the "return" on so-called Qualified Business Asset Investment (QBAI)—like all other income to remove another subsidy for foreign investment. (Revenue included in figure above)
- Repeal altogether the special lower tax rate on Foreign Derived Intangible Income (FDII), rather than merely setting it closer to the domestic rate as proposed by the plan ($124 billion).
- Replace the current and ineffective Base Erosion Anti-abuse Tax (BEAT) with Biden's proposed Stopping Harmful Inversions and Ending Low-Tax Developments (SHIELD) program to curb tax-dodging and profit-shifting to offshore tax havens by U.S. Corporations ($390 billion).
- Include stricter anti-inversion provisions such as are in the President's SHIELD proposal. (Revenue included in figure above)

- **Impose a corporate minimum tax to prevent profitable corporations from paying no taxes**
  President Biden has proposed a 15% minimum tax on the roughly 120 corporations that earn over $2 billion a year, raising about $150 billion. Sen. Elizabeth Warren's plan to impose a 7% tax on corporate profits that exceed $100 million would affect about 1,300 firms and raise around $700 billion.

- **Tax stock buybacks that further enrich wealthy shareholders**
  Sens. Sherrod Brown and Ron Wyden have proposed a 2% tax on the value of corporate share repurchases, which is estimated to raise about $100 billion. It would not apply to repurchases that aided workers (such as to fund a pension or ESOP) or fell below a *de minimis* amount.

- **End fossil fuel subsidies that subsidize harmful global climate change**
  President Biden's proposal would raise $35 billion by eliminating these subsidies..

Further Enhance IRS Enforcement Focused on Wealthy Tax Evaders

House legislation should include President Biden's robust financial industry reporting regime, which would enable the IRS to find wealthy business owners and investors who are hiding income from taxation. This could raise an additional $460 billion.

DETAILED ANALYSIS OF IMPROVEMENTS NEEDED TO COMMITTEE TAX LEGISLATION

Ways to Strengthen Tax Reforms on the Wealthy

- **Close the billionaires loophole known as stepped-up basis on capital gains**
  The Ways and Means plan raises capital gains tax rates much less than President Biden proposed—a top rate of just 25% vs. Biden's 39.6%—and it also does not close any capital gains loopholes that result in huge revenue losses and billionaires paying little or no federal income taxes in many years.

As recently reported by ProPublica, the federal income taxes paid by Amazon owner and America's richest person, Jeff Bezos, between 2014 and 2018 represented 1% of his $99 billion income from capital gains over that period. (His capital-gains income, which increases his wealth, grew by another $75 billion over the first 17 months of the pandemic.)

In two earlier years, 2007 and 2011, Bezos paid no federal income taxes—undoubtedly because nearly all of his income was in the form of capital gains. Under current law, Bezos pays no income taxes on that increased wealth unless he sells the underlying stock or other asset. But he doesn't need to sell his investments to live off them because he can get low-interest loans backed by all his wealth. And under the stepped-up basis loophole,after Bezos dies those hundreds of billions of dollars—by then, perhaps well over $1 trillion—in lifetime investment income will disappear for tax purposes, passed onto his heirs forever untaxed.

President Biden proposes closing this loophole for the ultrawealthy, which combined with his higher capital gains tax rate would raise about $325 billion. His plan would tax as yet untaxed capital gains of over $1 million ($1.25 million including the increased value of a primary residence) at the owner's death. For a married couple the first $2 million ($2.5 million) would be tax-exempt.

Biden's plan excludes all but the biggest family farms and businesses. Based on recent sales data, the average value of a small business is about $300,000. The Agriculture Department reports that 98% of family farms would not pay a penny under this reform. Moreover, there would be no tax due even from the tiny fraction of family farms and businesses large enough to be subject to the tax for as long as those enterprises continue to be operated by the family.

Without closing this loophole, billionaires like Jeff Bezos could wind up not paying a nickel more in taxes.

Alternatives to fully closing the stepped-up basis loophole
A majority in the House may not support closing the stepped-up basis loophole. If so, there are alternatives that will affect fewer taxpayers and raise considerably less revenue, but they should be pursued as an alternative to no reform:

- The exemption proposed by President Biden is $1.25 million for singles and $2.5 million for married couples, which includes home sales of $250,000 and $500,000, respectively. If Congress is concerned that Biden's exemption levels and other special protections are not enough to shield small businesses and family farms, it can make the exemption levels higher.
- A less effective alternative to closing the Billionaires Loophole—one that would raise about $100 billion based on no exemption levels—is to replace stepped-up basis with "carryover basis." Carryover basis means that the inheritor of an asset keeps the same cost basis in that asset as the original owner, instead of changing the basis to the asset's value at the time of inheritance. If stock bought for $10 was inherited when it was worth

$30, the cost basis would remain $10 for the inheritor just as it was for the original owner.

- **Increase the 3% surcharge and apply it to incomes lower than $5 million**
  The Ways and Means 3% surcharge on all forms of income above $5 million (in adjusted gross income) could be applied to high incomes lower than $5 million and at a higher tax rate. The Millionaires Surtax—sponsored by Sen. Chris Van Hollen and Rep. Don Beyer—would apply a 10% surcharge to individual incomes over $1 million and married couples above $2 million. It would raise more than $600 billion and affect only about 0.2% of taxpayers.

  A lower threshold for the surcharge makes sense from a structural viewpoint. Because the surcharge in essence creates an extra tax bracket, it's odd to have such a large spread between it and the second-lowest bracket that begins at roughly $400,000 and the new essentially $5 million bracket from the 3% surcharge.

  Even under the committee's current parameters, the application of the 3% surcharge to capital gains—in addition to the other tax increases proposed by the committee—would by the scoring system used by the Joint Committee on Taxation actually raise less revenue than a lower total capital gains rate. That's because the JCT assumes behavioral changes by the taxpayers subject to this new rate of 31.8%: that is, they would simply avoid selling assets to avoid the tax, instead leaving their gains tax-free to their descendants. This strategy by the super wealthy could be overcome if the committee adopted the proposal described above to end stepped-up basis.

- **Equalize the capital gains rate with the rate on ordinary income**
  Few loopholes in the tax code are more offensive than the tax-rate discount afforded unearned income over work income. In 2021, an unmarried middle-income worker like a teacher or truck driver will pay 22% of income tax on every dollar of taxable salary she makes over $40,525. A billionaire living entirely off long-term capital gains (or related investment income known as dividends) will pay no more than 20% on his millions of dollars of unearned income.

  Common sense and economic justice demand that no one who lives off the sweat of their brow should pay a higher tax rate than someone who lives off a pile of money. But as noted above, wealthy investors faced with equalized capital-gains tax rates could simply avoid selling assets to avoid the tax, instead leaving their gains tax-free to their descendants. This strategy by the super wealthy could be overcome if the committee adopted the proposal described above to end stepped-up basis.

- **Further curb dynasty fortunes with more reforms to estate and gift taxes**
  The Ways and Means plan makes important improvements to estate- and gift-tax rules that would curb some of the worst abuses of the ultra-rich and provide some limits on the creation of family dynasties, but further reforms are needed.

- The plan accelerates to January 1, 2022, the reduction in the lifetime estate and gift tax exclusion to $5 million ($10 million per couple) and adjusted for inflation, currently scheduled to occur in 2026. This raises $54 billion. But it does not address the lower effective rate on taxable gifts, which are supposed to be taxed at the same rate as bequests. **A provision raising the effective gift-tax rate to equal the effective estate-tax rate should be added.**

- The plan ends the "valuation discount" for nonbusiness assets, which allows wealthy taxpayers to manipulate the manner in which they hold assets to artificially lower the value of those assets for estate and gift tax purposes. **This reform should also be expanded to cover business assets held through family-controlled entities.**

- The plan should also do more to curb dynasty trusts that avoid taxes on the passage of wealth between generations, often in perpetuity. Following is a summary of recommendations for making the proposed reforms to estate and gift taxes stronger, which are explained here in more detail:
  - Apply the plan's reform of Intentionally Defective Grantor Trusts to the portion of existing trusts attributable not only to assets contributed to the trust but also to assets transferred to the trust through sales or exchanges.
  - Reform abusive Grantor Retained Annuity Trusts (GRATs) so that assets are required to stay in trust longer and that no more than 75% of the value is retained by the grantor.
  - Reform the Generation-Skipping Transfer (GST) tax to prevent the lifetime GST exemption being used to fund transfer-tax-free-forever dynasty trusts.

- **Close the carried interest loophole**

  Carried interest is an indefensible loophole and should be closed. It allows one narrow class of workers—fund managers—to pay a deeply discounted tax rate on the income they generate through their work by allowing them to falsely characterize management fees as capital gains. Carried interest also allows fund managers to defer tax on their compensation until the fund's investments are sold. All other workers pay tax on their labor income currently.

  The Ways and Means plan leaves the carried interest loophole mostly open. It extends from 3 years to 5 years the holding period required on fund assets for fund managers to qualify for the capital gains treatment. That will cause some management fees that would be taxed at capital gains rates under current law to be taxed as ordinary income. It will raise $14 billion. But because most fund investments are held longer than 5 years, the plan largely does not curtail the unjustifiable taxation of management fees at much lower capital gains rates. The plan does not address at all the deferral of taxation on management fees under carried interest. It also exempts real-estate gains from the longer holding requirements.

At a minimum House legislation should:

- Extend the proposed 5 year holding period of an asset to 10 years.
- Include all types of investment gains, including those from real estate.
- Mandate revaluations through tiers of partnerships where you effectively own more than 50% of the next lower tier partnership to preserve the proper allocation of gain.

But the better solution if the carried interest loophole is not eliminated, and which would also raise a lot more revenue—$63 billion, is to adopt a more sweeping reform by Sen. Wyden, Ending the Carried Interest Loophole Act (S. 2617). It fully closes the carried interest loophole and addresses both the unfair preferential tax rate and the unfair deferral of income. Wyden has proposed to treat carried interest income as an interest-free loan. The foregone interest would have to be reported as ordinary income on which tax is due each year, instead of on a deferred basis as happens now. Fund managers will pay tax on their management fees as they earn them and at ordinary income rates. In short, it levels the playing field between fund managers and all other workers.
This reform would raise $63 billion; the House committee plan would raise only $14 billion.

- **Further limit the extent to which high-income pass-through owners can take advantage of the pass-through deduction**

  The pass-through deduction enacted as part of the TCJA allows business owners to claim a 20% deduction on their pass-through income. It is heavily tilted towards the wealthy, with 61% of the benefits going to the top 1% of households in 2024, according to JCT. Further, the pass-through deduction adds significant complexity to the tax code and introduces arbitrary distinctions between different industries and different kinds of income, resulting in vastly different tax rates with little rationale. (For example, independent contractors are often eligible for the deduction but employees aren't.) This arbitrariness creates significant gaming opportunities. For these reasons, tax law and policy experts have called the deduction "Congress' worst idea ever," and "the very worst kind of tax policy."

  The Ways and Means plan only limits, but does not eliminate, the ability of high-income business owners to claim the 20% deduction. Under the committee's plan, the deduction's value would be capped at $500,000. This means that business owners with up to $2.5 million in pass-through income would not see any reduction in their deduction compared to current law. Further, limiting the deduction's value to $500,000 does not eliminate opportunities for gaming the deduction.

  The House should instead adopt a proposal from Senator Wyden that would start phasing out the deduction for filers with more than $400,000 in income, with the deduction unavailable for those making over $500,000. (The measure would also remove certain restrictions on claiming the deduction for those at lower incomes.) Wyden's proposal would raise $147 billion, approximately double what the Ways and Means plan would raise. This revenue difference would come exclusively from very high-income business owners.

- **Enact partnership tax reforms that would limit complexity and tax avoidance**
  The tax rules applicable to partnerships (known as Subchapter K of the tax code) grant partnerships a large degree of flexibility with respect to allocation of income and tax attributes (e.g., losses) to partners. This flexibility creates large opportunities for abuse. For example, partners can take advantage of rules that allow them to shift income among partners for tax avoidance reasons (e.g., by contributing appreciated property to a partnership and shifting the gain to a tax-exempt partner).

  The Ways and Means plan does not currently address needed partnerships tax reforms, but Senator Wyden recently released draft legislation to reform Subchapter K. Wyden's proposal would prevent abuse by, for example, requiring partnership allocations to match the partners' economic arrangement and limiting the ability of partners to shift income between partners for tax reasons by contributing appreciated property.
  Moreover, the complexity of these rules combined with high rates of partnership noncompliance and low IRS audit rates create even more urgency around Subchapter K reform.

  Wyden's proposal would raise an estimated $172 billion. The House should include in its proposal these much needed reforms to partnership taxation.

- **Close a loophole that lets ETFs avoid capital gains taxes by making in-kind redemptions to shareholders**
  A quirk in the law currently allows ETFs, which represent a basket of securities that often track a larger indicator, such as the S&P 500, to redeem shareholders without triggering capital gains tax if they pay the redeeming shareholder via distribution of underlying securities that have increased in value (as opposed to making a cash redemption). Known as "heartbeat trades," these transactions do not trigger capital gains for the ETF or its remaining investors, and have been termed a "sham," a "swindle," and "Wall Street's dirty little secret."

  The Ways and Means plan does not currently close this loophole, but Senator Wyden recently released draft legislation to eliminate it by removing the provision of the tax code that exempts "regulated investment companies," which includes ETFs, from tax on in-kind distributions of appreciated property. The House should adopt this proposal, which would raise $205 billion.

Ways to Strengthen Corporate Tax Reforms

- **More fully close offshore tax loopholes used by multinational corporations**
  U.S. corporations currently dodge an estimated $60 billion a year by offshoring profits to tax havens. That's one reason 55 big corporations—including FedEx, Nike and Salesforce.com — paid zero federal income taxes last year, despite over $40 billion in earnings. A couple years before that 1,500 multinational firms paid an effective tax rate of just 7.8%.

The tax code encourages corporate offshoring by taxing the foreign profits of U.S. firms at just half the rate of domestic earnings, 10.5% vs. 21%. The committee's plan would raise the top tax rate on offshore profits to just 16.6%, as opposed to the 21% rate proposed by President Biden. (Biden's proposed foreign rate would still be lower than his proposed 28% domestic rate.)

Moreover, under the Ways and Means plan the difference between the foreign and domestic rates *would actually widen*, which increases the incentive to move investment, jobs and profits overseas. The Ways and Means plan is estimated to raise only about $330 billion from tax-dodging multinationals through international tax changes compared to the $1 trillion raised by Biden's plan. A draft plan proposed by Senators Wyden, Brown and Warner, may come close to splitting the difference. Multinationals should not continue to be rewarded by the tax code for investing offshore and stashing profits in tax havens, while Main Street businesses pick up the tab.

Following are specific recommendations for making the proposed reforms to offshore corporate taxation stronger:

- The Global Intangible Low-Tax Income (GILTI) rate should be raised to at least 21%. The bill's proposed 16.6% rate could immediately *widen the gap* between the U.S. tax rates on foreign and domestic corporate profits by decreasing the haircut on foreign tax credits. Taking into consideration GILTI increases already scheduled under the TCJA in 2025, the plan actually might *increase the incentive to offshore* compared to current law. A higher GILTI rate increases the incentive to invest in the U.S. Also, the foreign income that's currently not taxed at all by the U.S.—the "return" on so- called Qualified Business Asset Investment (QBAI)—should instead be taxed like all other income to remove another subsidy for foreign investment.
- The special lower tax rate on Foreign Derived Intangible Income (FDII) should be repealed altogether, rather than merely made closer to the domestic rate as proposed by the bill. FDII is discriminatory to domestic businesses and may well violate international trade agreements.
- A new mechanism—Biden's proposed Stopping Harmful Inversions and Ending Low-Tax Developments (SHIELD) provision—should be used to curb tax-dodging profit-shifting to offshore tax havens by U.S. corporations. It should replace the current, ineffective Base Erosion Anti-abuse Tax (BEAT). Alternatively, the BEAT minimum rate should at least be raised to match the GILTI minimum rate.
- The legislation should include stricter anti-inversion provisions such as are in the President's SHIELD proposal. Inversions are accounting fictions that allow American corporations to dodge U.S. taxes simply by assuming a foreign mailing address.

The claims by lobbyists that curbing offshore corporate tax dodging will hurt American competitiveness are false. Even after Biden's reforms are enacted, U.S. firms would still pay a lower tax rate than their self-identified rivals in other industrialized nations, according to a study of 52 of the biggest American corporations.

- **Impose a corporate minimum tax to prevent profitable corporations from paying no taxes**
  Last year, 55 profitable corporations—including FedEx, Nike and Salesforce.com—paid zero federal income taxes, despite a combined $40 billion in profits. Over the past three years, 39 profitable corporations—including FedEx and Salesforce again, and T-Mobile—paid zero federal income taxes, despite combined earnings of almost $122 billion.

  The scandal of zero- and nearly-zero-taxed corporations has to stop for both practical and moral reasons. It loses tens of billions of dollars in revenue every year, undermines public trust in the tax system and is simply unfair. The problem is that corporations figure their profits one way for tax purposes and another way for financial reports to investors. They have obvious incentives to report as little as possible to the IRS and as much as possible to Wall Street.

  Imposing a minimum tax on the profits reported to investors—so-called "book income"—could raise hundreds of billions of dollars depending on how many companies were covered and the rate of tax. President Biden has proposed a 15% minimum tax on the roughly 120 corporations that earn over $2 billion a year, which would raise around $150 billion. Sen. Elizabeth Warren's proposed 7% tax on profits that exceed $100 million would affect about 1,300 public firms, which she estimates would raise nearly $700 billion.

- **Tax stock buybacks that further enrich wealthy shareholders**
  When corporations buy back their own stock, they waste money further enriching already wealthy shareholders instead of investing in the company and its workers. The Stock Buyback Accountability Act, authored by Senators Sherrod Brown and Ron Wyden, would impose a 2% tax on the value of corporate share repurchases. The tax would not apply to repurchases that aided workers (such as to fund a pension or ESOP) or fell below a *de minimis* amount. It is estimated to raise about $100 billion.

- **End fossil fuel subsidies that subsidize harmful global climate change**
  Tax breaks for the fossil fuel industry must be abolished to raise revenue and shift the country to a clean energy economy that meets the existential crisis of climate change**.** President Biden has proposed raising $35 billion by ending fossil fuel tax subsidies. The Ways and Means plan is silent on this reform. The president has the right approach—stop giving tax breaks to an industry that is destroying the planet. Our cities are drowning, our forests are burning and our polar ice caps are melting—taxpayers must not provide subsidies that make this crisis worse.

Further Enhance IRS Enforcement Focused on Wealthy Tax Evaders

In recent years, Republicans repeatedly cut the IRS budget, in the process losing one-third of its enforcement staff. Audits of millionaires fell by almost three-quarters (71%), to the lowest rate in 60 years. All the biggest corporations used to be audited annually, but now only half are.

Rich tax cheats, who fail to pay $160 billion in taxes they owe each year, and corporations must no longer be able to get off scot-free. The Ways and Means plan increases the IRS budget by $79 billion over 10 years, providing a lot more money for audits and other enforcement activities targeting the wealthy and corporations. This is expected to raise about $200 billion net new revenue, but it is not scorable by the Joint Committee on Taxation.

But the Ways and Means plan does not include President Biden's robust financial industry reporting regime, which would enable the IRS to find wealthy business owners and investors who are hiding income from taxation.

Unlike the wages of workers, which are reported every paycheck to the IRS and out of which taxes are automatically deducted, much of the income of the wealthy is mostly or entirely self-reported. That makes it easy for tax cheats to hide these sources of income, which include rent, capital gains and business profits. Business income is the largest single portion of the tax gap, and misreporting rates can reach as high as 50% for some forms of business income.

The House should include in its legislation President Biden's robust financial industry reporting regime that could raise an additional $460 billion. Wall Street banks and other opponents of this reform claim their opposition centers on privacy and practicality, but the practical effect will be to keep illegal tax evasion by their wealthy clients an easy-to-commit crime.