May 7, 2020

The Honorable Nancy Pelosi
Speaker of the House of Representatives
United States Capitol
Washington, D.C. 20515

The Honorable Richard Neal
Chairman, House Ways & Means Committee
1102 Longworth House Office Building
Washington, D.C. 20515

Dear Speaker Pelosi and Chairman Neal:

On behalf of Americans for Tax Fairness's more than 400 endorsing organizations, thank you for your leadership throughout the coronavirus pandemic. In particular, we appreciate your insistence that the necessary but inadequate and flawed CARES Act be swiftly followed by new legislation that will fix errors in the first bill and better focus attention and resources where most needed, such as assistance to state and local governments at the frontlines of the pandemic response.

We believe CARES 2 legislation should concentrate on workers, families, and communities. That means providing funding that protects public health, helps keep workers employed, gives more direct aid to families, and supports states and municipalities sinking under dual medical and economic crises. Costly, ineffective, and ill-timed tax cuts for the nation's richest households and biggest companies runs counter to the achievement of those goals and makes creating a better world after the pandemic that much harder.

Therefore, we urge you to use new legislation to repeal a particularly costly and outrageous $135 billion tax break that almost exclusively benefits millionaire business owners included in the CARES Act. We also urge you to reject other costly tax breaks benefiting the wealthy and corporations being proposed by President Trump, members of Congress and corporate trade associations.

Repeal the $135 billion "Millionaires Giveaway"

We recommend including in new legislation H.R. 6579, sponsored by Reps. Lloyd Doggett, Rosa DeLauro, Jamie Raskin, Steve Cohen and 49 others, which would repeal an egregious tax break in the CARES Act: a $135 billion giveaway to the wealthiest owners of noncorporate businesses, especially hedge fund investors and real estate developers. Repeal of this egregious tax break was the subject of recent letters from 66 members of Congress and nearly 200 organizations.

This outrageous provision gives over 80% of the tax cut this year—an average of $1.6 million each—to just 43,000 privileged business owners already making over $1 million a year. This contrasts starkly with the CARES Act's $1,200 one-time payment for most adults.

What to Exclude: Payroll Tax Cut & Costly Tax Handouts to Corporations

President Trump, members of Congress and corporate lobbying groups—the Business Roundtable, National Association of Manufacturers, and U.S. Chamber of Commerce—all hope to include tax cuts benefiting businesses and the wealthy into new legislation. Their proposals often would repeal the few actual tax fairness reforms in 2017's Tax Cut and Jobs Act (TCJA), or else achieve long-sought changes in the tax code that predate the TCJA. In either case, they are unrelated to the current crisis and would simply result in businesses paying an even smaller fraction of their fair share than they do now. These misguided proposals include:

- **Payroll Tax Cut:** In a period of mass unemployment, payroll tax cuts make little sense because many would get nothing: 30 million-plus jobless, as well as retirees and many people with disabilities who are unable to work. Even among those employed, payroll tax cuts dribble out too slowly to adequately respond to the economic crisis. Moreover, many businesses are operating at full steam and some, such as Amazon, are making huge profits. Clearly they do not need relief in the portion of the payroll tax paid by employers. For these reasons, 72 national organizations recently wrote Congress to oppose this proposal.

- **Capital Gains Tax Cuts:** Long-term capital gains already benefit from a huge discount—at the top end taxed at 20% while wages and salaries are taxed at 37%. Trump's proposal to lower capital gains taxes even more is another sop to the wealthy, would waste desperately needed public revenue, and do little or nothing to bail us out of the pandemic recession. Nearly 70% of the benefits from lower capital gains would go to America's richest 1%. That's why nearly every major Democratic presidential candidate this election cycle—far from advocating capital gains tax cuts—called for *raising* capital gains tax rates to match the rates paid on wages.

- **Permanent Expensing:** The TCJA temporarily allowed companies to deduct immediately ("expense") major purchases—like vehicles and machinery—and continue expensing long-term investments in research and experimentation (R&E), rather than write them both off slowly as better reflects those investments' gradual loss of value and ongoing benefits. Because the temporary authority won't run out until 2023 (and in some cases beyond that), whatever stimulative effect is provided by making expensing permanent (and it's not clear there is any) won't be available in the worst years of a recession that's already begun. The Congressional Budget Office's estimates, which predate the pandemic, are that permanent expensing of big-ticket purchases and R&E investments could lose several hundred billion dollars. Details are provided in this ATF fact sheet.

- **Deducting Business Interest:** To partially pay for the TCJA's many breaks for big companies, the deductible share of business interest was restricted to 30%, raising an estimated $250 billion. The CARES Act has already upped the limit to 50% for this year and last, giving some of that revenue back. Further loosening the rules would remove one of the few revenue-raising measures targeting businesses included in the 2017 tax law.

- **Business Meals and Entertainment Tax Deduction:** President Trump has resurrected a misguided tax break making business meals and entertainment expenses fully deductible. Half the cost of business meals are deductible now (the limit in effect for almost 30 years), while deducting entertainment costs was forbidden by the TCJA. Restaurants and entertainment venues are suffering from being shut down due to the pandemic, not because business executives can't fully deduct the cost of attending them. Eliminating the ability to deduct entertainment raised about $24 billion in the TCJA, needed revenue that would disappear along with billions more from meal deductions just so wealthy business owners could write off the cost of escorting clients to gourmet meals and Super Bowl skyboxes. Clearly this tax break would not help those businesses most in danger of not surviving the pandemic shutdown.

- **Tax Breaks on Offshore Profits:** An attempt was made in the TCJA to curb widespread offshore corporate tax dodging through "guardrails" known by acronyms including BEAT and GILTI. But according to the Congressional Budget Office, under the TCJA corporations will continue to shift about $300 billion in taxable income out of the U.S. each year (p. 127). The TCJA will only reduce that profit-shifting by $65 billion, so roughly 80% of profit shifting to avoid taxes will continue. Still, despite their inadequacy, removing or further weakening those safeguards as has been proposed would send even more profits offshore and deprive the country of much-needed revenue.

The next legislation to respond to our prolonged crisis should focus on relieving the physical suffering and economic hardship of working families and communities. Among the best ways to provide such aid and comfort is to send much more direct aid to states and localities dangerously stretched between shrinking tax revenue on the one side and escalating healthcare and other public expenses on the other. We urge you to vigorously resist shameful attempts by corporations and other large businesses and their owners to exploit the emergency to extract lucrative tax favors.

Sincerely,

Frank Clemente
Executive Director