AMERICANS FOR TAX FAIRNESS STATEMENT FOR THE RECORD
"Hearing Series on Tax Reform: Growing Our Economy and Creating Jobs"
U.S. House Ways and Means Committee
Wednesday, May 16, 2018

Submitted by: Frank Clemente, Executive Director
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Dear Members of the Committee:

Thank you for the opportunity to submit comments for the record regarding the hearing "Tax Reform: Growing Our Economy and Creating Jobs." I am the Executive Director of Americans for Tax Fairness (ATF), a diverse campaign of more than 425 national, state and local endorsing organizations united in support of a fair tax system that works for all Americans. It has come together based on the belief that the country needs comprehensive, progressive tax reform that results in greater revenue to meet our growing needs. This requires big corporations and the wealthy to pay their fair share in taxes.

My comments are divided into two sections: 1) a presentation of data that ATF has compiled as part of an effort to track how businesses have been responding to the Tax Cuts and Jobs Act (TCJA), and 2) a collection of news articles and analyses that examine the law's effect on workers, jobs, and the economy.

While it is still early to judge the ultimate effects, the law will have on the economy and workers' well-being, the evidence so far shows that relatively few companies are sharing their tax cuts with their workers or significantly increasing their investments. Additionally, most experts agree that the law won't significantly boost the economy or wages in the long run.

SUMMARY DATA ON HOW CORPORATIONS ARE USING THEIR TAX CUTS

The following are topline summaries from Trump Tax Cut Truths, a website maintained by Americans for Tax Fairness, as of May 29, 2018. It is the most comprehensive database on the web tracking what corporations are doing with their savings from the TCJA. This data is collected from company press releases, news stories, and third-party estimates of corporate tax savings. The costs of announced wage increases and one-time bonuses, if not given, are estimated by Americans for Tax Fairness according to the methodology detailed in the appendix.

Few workers are getting a one-time bonus or a wage hike that their employers claim is due to the Trump-GOP tax cuts.

- Just 4.2% of American workers are getting a one-time bonus and/or a wage hike: 6.5 million out of 155 million workers.

Few employers are giving out one-time bonuses or wage hikes due to the tax cuts.

- Just 399 out of 5.9 million employers are providing a quantifiable one-time bonus and/or a wage hike to their workers. The estimated cost is $6.9 billion. The wage hikes are virtually all for entry-level workers and therefore have no effect on the incomes of middle-class employees.
- 66 of the Fortune 500 corporations are providing a quantifiable one-time bonus and/or a wage hike—the cost is estimated to be $6 billion.

Corporations are getting huge tax cuts that are not being shared with workers.

- Total tax cuts for 153 corporations in 2018 is estimated at $76 billion so far. Corporations are getting **11 times more** in tax cuts than workers are getting in pay hikes ($6.9 billion).
- Total tax cuts for 107 Fortune 500 corporations in 2018 is estimated at $72 billion so far. Fortune 500 corporations are getting **12 times more** in tax cuts than workers are getting in pay hikes ($6 billion).

Corporations are mostly sharing their huge tax cuts with wealthy CEOs and stock holders.

- 303 corporations have announced a total of $456 billion in stock buybacks since the tax law passed Congress in December. They are spending **66 times more** to buy back stock that mostly benefits the already wealthy than they have promised to workers in pay hikes ($6.9 billion).
- 91 Fortune 500 corporations have announced a total of $380 billion in stock buybacks. They are spending **63 times more** to buy back stock that mostly benefits the already wealthy than they have promised to workers in pay hikes ($6 billion).
- Stock buybacks overwhelmingly benefit the wealthy because they own the most corporate stock. The richest 1% own 40% of all stock; the richest 10% own 84%. [National Bureau of Economic Research/Washington Post] Stock buybacks waste money that corporations could instead use to make new investments, create jobs and increase pay. Additionally, by reducing the number of shares outstanding, buybacks raise the corporation's "earnings per share"—the preferred method of judging a company's performance—without the company having to increase profits.

There are many corporate cheapskates.

- 434 of the Fortune 500 corporations (86%) are failing to provide quantifiable bonuses or wage hikes in response to their tax windfall.
- 908 of the Fortune 1000 (91%) are failing to provide any bonuses or wage hikes in response to their tax windfall.

After getting large tax cuts, many corporations are slashing their workforces.

- Since the tax law was passed, more than 141,000 jobs have been cut by 219 companies.

New investments claimed by corporations are way overstated, and in most cases are nothing new.

- 74 corporations, 29 from the Fortune 500, have announced they are planning to make "new investments" due to the tax cuts. However, ATF's review of some of the largest promised investments indicate that many offer nothing new.
- Of the $485 billion in "new investments" recorded in ATF's New Investments spreadsheet, a total of $435 billion is by three companies—Apple, Comcast and ExxonMobil. A close examination of their "investments" there and in the Corporate Stories section of the website indicate this new spending is unlikely to be due to the tax cuts.
    - Apple announced it will contribute $350 billion to the U.S. economy and add 20,000 jobs over five years. Nowhere in its announcement does Apple link any of its plans to the recently enacted tax law. Nor does it say its $350 billion "contribution" to the economy is a new investment—and for good reason, since it included standard, ongoing business expenses like employee wages and purchases from domestic suppliers. Apple's claim of creating 20,000 jobs is also misleading. Apple noted it has 84,000 U.S. employees, which is up from 80,000 at the end of 2016 and 76,000 in 2015. If it were to keep adding jobs at this rate, it would have added 20,000 U.S. jobs over the next five years without the tax cuts.
    - Comcast announced it will make $50 billion in infrastructure investments over the next 5 years. Since it made $9.6 billion in capital expenditures in 2017, this is likely what it would have spent without the tax cuts.
    - ExxonMobil announced it would invest $50 billion in the U.S. over 5 years (only $35 billion of which was newly announced). Exxon spent $50 billion on U.S. capital investments from 2012-2016, so it is unlikely that this investment is due to the tax cuts.

Pharmaceutical and financial corporations are winning big from tax cuts but sharing little with workers.

- ATF's report, Bad Medicine: How GOP Tax Cuts Are Enriching Drug Companies, Leaving Workers & Patients Behind [4/26/2018] shows that America's 10 biggest prescription-drug corporations—the "Pharma Big 10"—are among the biggest winners from the Trump-GOP tax cuts but they are sharing few of the benefits with their employees and are offering no pricing relief to their customers. Five of the Pharma Big 10 could save more than $6.3 million in taxes in 2018 alone. Only 2 of the Pharma Big 10 have announced one-time bonuses, estimated to cost $169 million. Instead, they are mostly rewarding their CEOs and other wealthy shareholders with fat stock buybacks and dividend hikes, recent public announcements and analysis reveal.
- The Big 6 financial institutions have already saved $2.9 billion in taxes in the first quarter of this year. Extrapolating these savings forward, the Big 6 could save $11.6 billion for the whole year, assuming the tax savings are roughly the same in each quarter. If third-

party estimates of the full-year tax savings for JP Morgan, Bank of America, and Wells Fargo are used instead, the savings could reach about $14 billion. Only three of the Big 6 have announced bonuses or pay increases, costing about $550 million—less than 4% of the estimated tax cuts for the Big 6. Yet they have already returned $22.7 billion to shareholders in the first quarter through stock buybacks and dividends.

NEWS STORIES & REPORTS

There has been a considerable number of analyses by news outlets, economists and Wall Street investment firms that provide rich evidence of the limited economic benefit of the Trump tax cuts. The data has thus far not shown any jumps in wages or business investment that can be attributed to the tax cuts, nor do analysts predict that workers will see significant benefits from the law in the long run. As several commentators have noted, the one-time bonuses and minimum wage increases announced by companies in the wake of the tax cuts are not evidence that the corporate tax cuts are already trickling down to workers, but rather a public relations stunt. On the other hand, corporate payouts to shareholders through stock buybacks and dividends are on track to reach unprecedented levels. Below is a collection of excerpts from news stories and analyses, categorized into four topics: 1) wages and other worker benefits; 2) jobs, investment, and economic growth; 3) shareholder returns; and 4) the international corporate provisions of the TCJA.

WAGES/WORKER BENEFITS

CNBC Fed Survey [1/30/2018]: "Workers are estimated to get just 12 cents of every dollar of additional savings from the corporate tax cut."

New York Times: Bonuses After Tax Cut Don't Always Live Up to Their Billing [2/2/2018]: "A survey of 241 companies by Aon Hewitt in December found that 83 percent did not expect the tax cuts to result in any changes in future salary increases."

Bloomberg: Tax Cuts Still Don't Seem to Be Helping Workers [5/5/2018]:

- "From December through April, average hourly earnings increased at an annualized pace of 2.3 percent, significantly slower than in 2017."
- "Also, industries getting bigger tax breaks aren't giving bigger raises. Two months ago, there was no correlation between the size of tax cuts and wage gains across sectors. Now it's strongly negative. Companies engaged in wholesale trade reduced wages, even though they're supposed to save 40 percent during the next decade (according to the Penn Wharton Budget Model). Utilities, among the biggest losers in the tax reform, raised wages at a 6.4 percent annualized rate."

Washington Post: Three months into the tax cuts, significant wage gains seem elusive [4/6/2018]:

- The weekly earnings increase for non-supervisory employees in first three months of 2018 was lower than in the previous three quarters: "The overall weekly earnings increase for all nonsupervisory/production employees was 0.9 of a percent in the second quarter of 2017, 0.5 of a percent in the third, 1.1 percent in the fourth and 0.2 of a percent in the period from January to March."

New York Times – Krugman: Tax Cuts and Wages Redux [3/25/2018]:
"The failure to raise wages immediately comes as no surprise. It's what even supporters of the tax cut would have predicted, if they'd followed through on the logic of their own analysis.

"The prevalence of stock buybacks is, however, another story. The pro-tax-cut case didn't predict a short-run rise in wages, but it did predict a big rise in investment, financed by capital inflows – not simple recycling of the tax cut to investors.

"So far, however, as Dean Baker points out, there is no indication of an investment boom. Orders for capital goods aren't up, actual investment spending doesn't seem to [be] rising any faster than before, investment intentions haven't spiked. What this means is that the process that was supposed to raise wages in the long run isn't happening, at least not yet."

Economic Policy Institute: Why economics tells us that crediting the TCJA for wage increases is just PR [2/5/2018]:
Explains how the TCJA cannot be credited for the recent corporate announcements of wage increases, which are most likely a result of factors such as the tightening labor market, state-level minimum wage increases, and corporate public relations efforts to build support for the TCJA. Mainstream economics suggests that any real effects of the corporate tax cuts on wage levels will take years to materialize and will be modest.

The Hill – Alan Viard: Tax cut supporters should stop talking about corporate bonuses [1/17/2018]:
"The timing of the bonuses makes clear that they do not fit the economic theory's depiction of productivity-driven responses to the tax cut. The one-time bonuses give workers extra money now, although it is too soon for the tax cut to have increased investment and raised productivity, but offer workers nothing in upcoming years, when the tax cut would have had time to push up productivity.

"The bonuses may be a public relations response to the corporate tax cut, possibly even an attempt to curry favor with the Trump administration. Or, the bonuses may be due to the ongoing economic expansion and labor market tightening, with companies attributing them to the tax cut for public relations purposes.

"Either way, the one-time bonuses cannot undergird a convincing case for the corporate tax rate cut. Public relations initiatives will not produce lasting or widespread wage gains because companies will not long pay workers more than is warranted by their productivity. Unsurprisingly, the large majority of the nation's companies have not announced bonuses."

JOBS/INVESTMENT/ECONOMY

Bloomberg: Corporate America Is Investing, But Tax Cuts Aren't Top Reason [5/7/2018]:
"About a third of purchasing and supply executives say they've recently boosted their capital spending plans for the next 12 months, according to the Institute for Supply Management's

latest semi-annual forecast, released Monday. Within the share that said they're ramping up their investment plans, the recent tax overhaul was cited as the reason by just 14.4 percent of respondents at factories and 18.6 percent at service providers.

"The 'general business outlook' was the primary catalyst -- cited by 69 percent in manufacturing and 58 percent in services, according to ISM."

Tax Policy Center: Has The TCJA Supercharged The Economy? The Data Don't Show It. [5/2/2018]:

- GDP growth in 1st quarter was 2.3%, down from 2.9% in 4th quarter 2017
- Growth in consumer spending also down to 1.1% from 4% last quarter
- Job creation about the same as before the tax cuts

Associated Press: Survey: Economists' outlook is sunny but not due to tax cuts [4/23/2018]: Survey of 107 National Association for Business Economics members– 2/3 of respondents said that tax cuts haven't affected their hiring or investment plans.

Businesses for Responsible Tax Reform survey [3/1/2018]: Survey of 385 small business owners in four states (AZ, TN, ME, NV)

- 69% don't plan on increasing hiring due to tax law
- 59% don't plan to give out raises due to tax law

Atlanta Fed [3/23/2018]:
Surveyed firms in November and again in February about plans for capital expenditures, found that 63% had no plans to change capex plans in November, and 75% had no plans to change them in February survey. While 34% had plans to increase expenditures if the TCJA passed in November survey, the percentage decreased to 24% in February survey. (February survey was restricted to the same firms that responded to November survey).

New York Times: Investment Boom From Trump's Tax Cut Has Yet to Appear [4/30/2018]:
"Data on the gross domestic product, released Friday, showed that business investment grew at a 6.1 percent annual clip during the first three months of 2018, down from 7.2 percent during the first quarter last year. Excluding oil and gas investment, which is particularly volatile, the investment pace grew slightly over the past year.

While the first-quarter investment numbers were more robust than they were in 2015 and 2016 — when a bust in oil prices curtailed a large chunk of American corporate spending — they weren't radically different from the roughly 5 percent rate of growth for business investment that has prevailed since 2010." (Original BEA Release, 4/27/2018)

MarketWatch: Tax overhaul will have a limited effect on U.S. economy, Moody's says [1/31/2018]:
"We do not expect a meaningful boost to business investment because U.S. nonfinancial companies will likely prioritize share buybacks, M&A and paying down existing debt," said Moody's analysts led by Rebecca Karnovitz. "Much of the tax cut for individuals will go to high earners, who are less likely to spend it on current consumption."

Economic Policy Institute: The Trump administration doubles down in the Wall Street Journal on why trickle-down really does work [4/18/ 2018]:
In response to CEA Chair Kevin Hassett's *Wall Street Journal* op-ed suggesting that we're already seeing the positive effects of the TCJA, EPI points out some logical flaws in Hassett's arguments and shows that the current economic data do not display any significant increases in investment resulting from the tax cuts.

SHAREHOLDER RETURNS

Bloomberg: New Grist in Tax-Cut Debate Is $800 Billion Buyback Estimate [3/2/2018]:
"JPMorgan Chase & Co. strategists … estimate that gross share repurchases will reach a record of around $800 billion this year, up from $530 billion in 2017."

CNBC: Companies to return a record $1 trillion to investors this year in form of buybacks and dividends, estimates S&P [5/1/2018]:
"Through the end of April, S&P 500 companies are on track to give back a record $1 trillion to investors through dividend increases and stock buybacks, according to data compiled by Howard Silverblatt, senior index analyst at S&P Dow Jones Indices."

Wall Street Journal: Record Buybacks Help Steady Wobbly Market [5/18/2018]:
"Goldman Sachs expects S&P 500 companies' spending on buybacks and dividends to increase by 22% to $1.2 trillion in 2018, outpacing the expected increase in capital expenditures and R&D in 2018, which it sees jumping 11% to $1 trillion."

New York Times: Well-Heeled Investors Reap the Republican Tax Cut Bonanza (editorial) [2/25/2018 and 2/9/2018]:
"Morgan Stanley analysts estimated that 43 percent of corporate tax savings would go to buybacks and dividends and nearly 19 percent would help pay for mergers and acquisitions. Just 17 percent would be used for capital investment, and even a smaller share, 13 percent, would go toward bonuses and raises."

CNBC: Companies are putting tax savings in the pockets of shareholders [3/12/2018]:
"Share buybacks in 2018 have averaged $4.8 billion a day, double the pace for the same period last year, according to market data firm TrimTabs."

Band of America/Merrill Lynch [1/5/2018]:
Survey of 300 S&P companies in 2017 found 46% said they'd use repatriated foreign cash for repurchases, 29% would use it for dividends, 42% would use it for M&A, 35% would use it for capital expenditures, 65% would use it to pay down debt (multiple answers were allowed.)

INTERNATIONAL TAX ISSUES

Congressional Budget Office: The Budget and Economic Outlook: 2018 to 2028 [4/9/2018]:
Estimates that profit shifting by multinational corporations costs the U.S. $300 billion in lost revenue each year and that the new tax law will only reduce profit shifting by $65 billion a year. [p. 127]

Kimberly Clausing, Reed College: Profit Shifting and Offshoring, Then and Now (Presentation at EPI Forum "Will the Trump tax cuts accelerate offshoring by U.S. multinational corporations?" [5/7/2017]:
Explains that the international provisions of the TCJA will not significantly reduce profit-shifting, increase investment in the U.S., or make U.S. businesses more competitive.

Rebecca Kysar, Brooklyn Law School: Profit Shifting and Offshoring in the New International Tax Regime (Presentation at EPI Forum "Will the Trump tax cuts accelerate offshoring by U.S. multinational corporations?" [5/7/2017]:
Demonstrates how the TCJA's international provisions will largely preserve profit shifting as well as create new incentives for multinational corporations to move real assets and jobs offshore.

Center on Budget and Policy Priorities: New Tax Law Is Fundamentally Flawed and Will Require Basic Restructuring [4/9/2018]:
A wide-ranging critique of the tax law that includes a description of how changes to the international tax regime create new incentives for offshoring and outsourcing.

David J. Lynch, Washington Post: Trump promised 'America First' would keep jobs here. But the tax plan might push them overseas [12/15/2017]
Details how the realities of the tax law conflict with the claim that it will help protect U.S. jobs and includes opinions from experts on how the law will exacerbate outsourcing.

Steven M. Rosenthal, Tax Policy Center: Current Tax Reform Bills Could Encourage US Jobs, Factories and Profits to Shift Overseas [11/28/2017]
Explains how three features of the new foreign minimum tax may encourage offshoring and outsourcing, including the exemption of foreign returns below 10% of tangible assets, the low minimum tax rate, and the fact that the tax is determined on a global basis rather than a country-by-country basis.

APPENDIX: EXCERPTS FROM TRUMP TAX CUT TRUTHS METHODOLOGY

EMPLOYEE BONUSES

Due to the assumptions described below, ATF's estimates of the costs of employee bonuses are very generous and should be considered upper limits on the number of employees receiving bonuses and the total cost to employers.

The data tracker includes all companies on the "List of Tax Reform Good News" being maintained by Americans for Tax Reform (ATR) that have announced employee bonuses in the wake of the tax law passage. Whenever possible, a link to the company press release or news article substantiating the information on the ATR list is provided in the Employee Bonuses Data Summary spreadsheet. In rare cases when these sources cannot be found, we rely on the information provided on the ATR list.

When the number of employees promised bonuses or the estimated cost of the bonuses is provided in the company press release or news article, we use these amounts. If these are not available, we made estimates using the following assumptions:

- If the per-employee bonus amount and the number of employees to receive bonuses are given, we simply multiply these numbers to estimate the cost of the bonuses. Due to payroll taxes and fringe benefits, these estimates are not precise.
- When the number of employees eligible for bonuses is unknown, we generously assume that all the company's employees will receive the bonus. For public companies that file financial reports with the SEC, the number of employees is generally taken from the company's most recent 10-K filing, which specifies the number of people employed at the end of the company's last fiscal year. This number is often given in terms of full-time equivalent employees. For companies that do not have 10-K filings, the estimated number of employees is taken from a variety of sources, including iBanknet.com (for financial institutions), Buzzfile.com, Manta.com, and companies' websites.
- When a company specifies that bonuses will only go to U.S. employees but there is no available information about how many of a company's employees are U.S.-based, we assume that all worldwide employees will get the bonuses.
- In some cases, if the number of employees receiving bonuses is unknown, but the per-employee bonus amount and the total cost is given, we estimate the number of employees affected by dividing the total cost of the per-employee amount.
- If the per-employee bonus amount is given as a range, as in cases where the bonus amount is dependent on length of service or full-time versus part-time status, and it is unknown how many employees are eligible for each bonus level, we generously assume that all employees will receive the *maximum bonus amount*. In rare cases, the company's 10-K filing with the SEC specifies how many employees are full-time and part-time, and when this is available we use these numbers to estimate the overall cost of the bonuses.
- For companies that have announced they would be giving bonuses related to the tax law but did not specify the per-employee bonus amount, we assume that employees will receive $1,000, which is by far the most common bonus amount announced.

WAGE INCREASES

Very few companies that have announced wage increases in the wake of the tax law passage have disclosed how many employees will be affected, and even fewer have disclosed the estimated cost of the increases over the course of the year. When this information is not available, we have estimated these numbers based on the following assumptions:

- Using May 2017 Occupational Employment Statistics data from the Bureau of Labor Statistics, we analyze the median wage by detailed occupational group for the relevant industries, by North American Industry Classification System (NAICS) code. For each industry appearing in our data, we determine the percentage of occupations with a median wage under the new minimum/base wage announced by companies (usually $15/hour). We multiply this percentage by the company's total number of employees—found in the same sources described above in the Employee Bonus section—to estimate the number of employees affected by a minimum wage increase. For example, as shown in the table below: for commercial banks, which make up most of the companies promising wage increases, 25% of the workforce earns median wages less than $15. We apply this 25% to all banks for which the number of employees getting raises is unknown. Most banks in the data tracker have promised to increase their minimum wage to $15, though there is some variation. For banks that have announced new minimum wages other than $15, we still assume 25% of the workforce is making less than that amount, since these banks likely have wage ranges below the median.

- When a company's previous minimum wage is unknown, we use the median wage for the detailed occupational group earning below the new minimum wage that makes up the largest percentage of the workforce in the industry. (See the table below for the estimates we use for included industries.) To calculate the estimated cost of the wage increases, we take the difference between the new and previous minimum wage and multiply it by the estimated number of employees affected and then multiply by 2,080 hours—assuming full-time work. Note that these estimates do not take into consideration geographical variations in wages.
- In a few instances where a company's new minimum wage is lower than the BLS median wage we use for the industry, GlassDoor.com or Indeed.com is used to estimate the company's previous minimum wage.
- In cases where the company reports wage increases that apply to some or all of their hourly workers, we use BLS data on the number of workers paid hourly rates by NAICS sector or supersector (Table 5) and the total number of employees by sector to estimate the percentage of hourly workers by sector. (This data is not available at the narrower level of specific industries.)
- We do not estimate the cost of wage increases when the amounts are not specified or employees plan to increase pay across the board by a certain percentage, as information is not available on payroll costs for prior years.
- When another method is used for estimating the cost of wage increases, it is noted in the "Source" column of the Wage Increases Data Summary.
- Since there is some overlap between the number of employees receiving bonuses and the number getting wage increases for many companies, we estimate the number of employees that are receiving bonuses *and/or* wage increases by taking the larger of the two numbers for each company, unless additional information is available.