July 2, 2020

U.S. House of Representatives
Ways & Means Committee
Select Revenue Measures Subcommittee
1100 Longworth House Office Bldg.
Washington, DC  20515
Via email to: WMdem.submission@mail.house.gov

Re: Hearing on “Tax Relief to Support Workers and Families During the COVID-19 Recession”

Dear Chairman Thompson, Ranking Member Smith and Honorable Subcommittee Members:

On behalf of Americans for Tax Fairness (ATF) and its coalition of more than 400 endorsing organizations, we commend you for holding this important hearing on supporting the working families who are taking the brunt of the economic impact of the coronavirus pandemic. Over 45 million Americans have lost their jobs.\(^1\) CBO has predicted that the coronavirus pandemic will reduce GDP close to $16 trillion over the next decade,\(^2\) which suggests it will take years for unemployment in the U.S. to return to pre-pandemic levels. And this dismal economic picture doesn’t begin to capture the health impact of the pandemic, which has already claimed over 125,000 lives,\(^3\) a figure that includes a vastly disproportionate share of people of color.\(^4\)

While working families—particularly Black and Latino families—are struggling, the same cannot be said for our nation’s billionaires. An analysis performed by ATF and the Institute for Policy Studies on Forbes billionaire data found that between March 18 and June 17, the total net worth of the 640-plus U.S. billionaires jumped by $584 billion, or 20%, from $2.948 trillion to $3.531 trillion.\(^5\) March 18 is the date Forbes released its most recent annual report on billionaires’ wealth and the rough start date of the pandemic shutdown, when most federal and state economic restrictions were in place.

We implore Congress to keep these facts in mind as it crafts new legislation to meet the challenge of the pandemic. A new relief package must not further exacerbate economic inequality. To this end, we urge you to support repeal of costly tax breaks for millionaire business owners and corporations contained in the CARES Act and to oppose any other tax cuts for the rich and corporations in future COVID-19 relief and recovery bills. Instead, we recommend that your priorities be providing a major infusion of support to maintain state and local public services communities depend on, including public safety, healthcare, schools and sanitation; helping workers stay employed or providing them with robust unemployment benefits; giving more direct aid to families; and adequately funding public health.
SUPPORT A $250 BILLION REVENUE BOOST BY REPEALING THE “MILLIONAIRES GIVEAWAY”

The Millionaires Giveaway is a huge tax cut for the wealthiest owners of noncorporate businesses, especially hedge fund investors and real estate developers. Repeal of this egregious handout is sought by more than 230 organizations. According to the Joint Committee on Taxation (JCT), this outrageous tax break 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.

The HEROES Act (H.R. 6800) recently passed in the House repeals the “Millionaires Giveaway” and makes permanent the revenue-raising provision from the 2017 Tax Cuts and Jobs Act (TCJA) that the Giveaway temporarily suspended but that was otherwise scheduled to expire in 2026. By making the correction to this provision of the CARES Act permanent, the HEROES Act would raise $246 billion over the next decade according to the JCT.

The HEROES Act also reforms another business-loss provision in the CARES Act that allows businesses (including corporations) to extract big refunds from taxes paid in prosperous years going back to 2013. Allowing carrybacks to years before 2018, when tax rates were higher, makes losses that much more valuable, thereby super-sizing tax refunds. The oil and gas industry is already exploiting this provision to the tune of hundreds of millions of dollars. This HEROES Act reform, which the JCT estimates would raise $8 billion, would also ensure that companies paying excessive executive compensation and engaging in significant stock buybacks do not qualify for relief.

OPPOSE COSTLY NEW TAX HANDOUTS TO CORPORATIONS

President Trump and major business groups are seeking to exploit the pandemic to repeal the few actual reforms in 2017’s TCJA, or else achieve long-sought changes in the tax code that predate it. In either case, their proposals 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:

- Making Business Tax Credits Refundable: Refundable business tax credits are the kind of unfocused relief measure that make no demands on the recipients. Unlike targeted forms of economic relief like the “Paycheck Protection Program (PPP),” business tax cuts give cash to large corporations and business owners without any requirement that they maintain payroll or make other socially useful investments. That cash is likely to be used instead to reward wealthy shareholders with higher dividends and stock buybacks, as corporations did with their savings from the 2017 Trump-GOP tax law. While promoted as a means to help small businesses with liquidity, the truth is the largest tax credit – the R&D credit – is already effectively refundable for qualified small businesses, so only bigger companies would benefit from the change proposed now. This reality is confirmed by a Center on Budget and Policy Priorities analysis of IRS Statement of Income data, which determined 85% of the research credit goes to businesses with $250 million or more in gross receipts.
• **Payroll Tax Cut:** President Trump has made this a priority, but it makes little sense because the hardest hit—the millions who are now unemployed as a result of the crisis—would not benefit from this provision at all.\(^{15}\) Even for those still employed, such cuts dribble out too slowly to adequately respond to the economic crisis. Furthermore, businesses like Amazon actually benefitting from the pandemic or at least still fully operating do not need relief from the portion of the payroll tax paid by employers. For these reasons, 72 national organizations recently wrote Congress to oppose this proposal.\(^{16}\)

• **Capital Gains Tax Cuts:** Trump’s goal of further lowering taxes on capital gains—which already enjoy a huge tax discount (a top rate of 20% vs. 37% on wages)—would waste desperately needed public revenue and do little or nothing to advance economic recovery.\(^{17}\) The benefits of such a tax cut would skew heavily to the rich, since three-quarters of all long-term capital gains go to the richest 1% and 55% to the richest 0.1%.\(^{18}\)

• **Permanent Expensing:** This would make permanent the TCJA’s temporary provision allowing companies to deduct immediately (“expense”) major purchases\(^{19}\) 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.\(^{20}\) Badly timed and probably ineffective as stimulus, permanent expensing could cost hundreds of billions of dollars in lost revenue.\(^{21}\) More details are provided in this ATF fact sheet\(^{22}\) and in this Institute on Taxation and Economic Policy report that found 20 corporations alone got $26.5 billion in tax breaks in 2018-19 and paid an effective tax rate of just 6.7%.\(^{23}\)

• **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.\(^{24}\) The CARES Act has already relaxed the limit to 50% for 2019 and 2020, giving some of that revenue back.\(^{25}\) Further loosening the rules would remove one of the few revenue-raising measures targeting businesses included in the 2017 tax law.

• **Double Dipping on Tax Deductions Under the Paycheck Protection Program (PPP):** An effort is underway to allow businesses whose Paycheck Protection Program (PPP) loans are forgiven to deduct payroll and other expenses the loans were intended to cover. Because the CARES Act expressly provides that forgiven PPP loans are excluded from income for tax purposes, permitting such deductions amounts to businesses double dipping: firms that have their expenses reimbursed by taxpayers through forgiven PPP loans could then deduct those same expenses, reducing taxes on other income.\(^{26}\) Hundreds of billions of dollars in deductions are at stake—and it is the wealthy who would benefit given that they receive 50% of all pass-through income and own 50% of all stock.

• **Business Meals and Entertainment Tax Deduction:** This is another Trump priority.\(^{27}\) Restaurants and entertainment venues are suffering because they are shut down, not because business executives cannot fully deduct the cost of attending them. By eliminating the entertainment write-off, the TCJA raised about $24 billion, revenue that would
disappear if the deduction came back, along with billions more from removing the TCJA limit on meal deductions.\textsuperscript{28} High-end spots would benefit most, not neighborhood eateries most hurt by the pandemic.

- **Tax Breaks on Offshore Profits and Tax Cuts for Insourcing Jobs:** By imposing lower tax rates on foreign corporate profits than on domestic ones, the TCJA—despite claims to the contrary—made it even easier to move money and jobs offshore, offering only weak “guardrails” against the practice known by acronyms like BEAT and GILTI. Though the guardrails are inadequate, removing or further weakening them as has been proposed would send even more profits offshore, depriving the country of much-needed revenue.\textsuperscript{29} The Trump Administration has also floated the idea of slashing the domestic corporate tax rate in half, from 21% to 10.5%, for corporations that bring back outsourced jobs.\textsuperscript{30} With the pandemic recession wiping out profits and therefore tax liability for so many companies, the only firms benefitting from the break would be the lucky few prospering during the crisis, for whom it would be a windfall.\textsuperscript{31} The answer is not to tax U.S. income at tax haven rates, but instead to collect a fair share of taxes on U.S. corporate profits, whether earned here or abroad, which will help combat outsourcing while also ensuring that we can sustainably fund needed services.

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\textsuperscript{5} Americans for Tax Fairness (ATF), “3 Months into Covid-19 Pandemic: Billionaires Boom as Middle Class Implodes” (June 18, 2020). \url{https://americansfortaxfairness.org/issue/3-months-covid-19-pandemic-billionaires-boom-middle-class-implodes/}


\textsuperscript{11} JCT, “Estimated Revenue Effects of The Revenue Provisions Contained in H.R. 6800.”
12 ATF, “Corporate & Business Tax Provisions Sought by President Trump & Trade Associations in Covid Legislation” (May 7, 2020). https://docs.google.com/spreadsheets/d/1Leohd2BIPalsUcOd0Kg_7hiCV3paVldW0f7g2KZf4/edit?usp=sharing
28 JCT, “Estimated Budget Effects of The Conference Agreement for H.R. 1”