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June 28, 2019

The Honorable Richard E. Neal
Chairman, House Committee on Ways & Means
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Kevin Brady
Ranking Member, House Committee on Ways & Means
U.S. House of Representatives
Washington, D.C. 20515

**VIA EMAIL**

Dear Chairman Neal and Ranking Member Brady:

We write to urge you to continue the excellent work investigating the effects of the 2017 Tax Cuts and Jobs Act (TCJA) already begun by the Ways and Means Committee under your leadership. Specifically, we recommend delving into new and important information and analyses about the law's corporate tax cuts, which have emerged since the committee's enlightening March 27 hearing ("The 2017 Tax Law and Who It Left Behind"). This fresh data shows a failure of the corporate tax cuts to deliver on many economic promises made prior to the law's passage.

Among the issues requiring greater scrutiny are:

- The much greater loss of corporate tax revenue than had been predicted by official scorekeepers.
- The ability of at least 60 highly profitable Fortune 500 corporations to avoid all federal income taxes last year.
- The failure of the corporate tax cuts to result in the $4,000 pay raise for each working family that the Trump administration had promised would occur.
- The absence of the corporate investment boom that was similarly promised by the law's backers.
- The major layoffs and outsourcing plans announced by many corporations in the wake of their tax cuts, which were supposed to create jobs.

Following are details on each issue.

Corporate income tax revenue plummeted by 31% in 2018—about twice as much as the 18% that the Congressional Budget Office (CBO) had estimated would happen under the TCJA. (While corporations got a 40% income tax rate cut, some portion of that was expected to be recouped through the continuing expansion of the economy, which began during the Obama administration.) Receipts have continued to fall this year—by 9%, or $11 billion—despite predictions that they would rebound significantly.

A recent report by the Institute on Taxation and Economic Policy (ITEP) determined that 60 companies in the Fortune 500—all profitable enterprises—paid no federal income taxes last year or even received a tax rebate. (ITEP's last pre-TCJA report on Fortune 500 corporate tax avoidance found that 29 profitable companies paid no U.S. income taxes in 2015, the latest year studied.) One of the companies paying zero income taxes last year was Amazon, which made $11 billion in U.S. profits and got a rebate of $129 million. Its founder and CEO, Jeff Bezos, is the richest man in the world, worth $131 billion. Other members of the tax-free group: Netflix, which made $856 million and got a $22 million rebate, and General Motors, which had $4.3 billion in U.S. profits yet got $104 million back from the government.

It's sobering to consider that a single employee of any of these companies with any tax liability at all paid more in federal income taxes in 2018 than all 60 firms combined.

Broadening the analysis to the effect of the TCJA on the economy, the Congressional Research Service (CRS) recently released discouraging findings about the law's impact on workers and investment. They belied many of the sunny predictions made by supporters of the law prior to its enactment:

- Contrary to Treasury Secretary Mnuchin's claim in 2017 that "[t]he (tax) plan will pay for itself with growth," CRS found that "[t]he data appear to indicate that not enough growth occurred in the first year to cause the tax cut to pay for itself…5% or less of the growth needed to fully offset the revenue loss from the Act" has occurred.

- In 2017, President Trump trumpeted that "[m]y Council of Economic Advisors estimates that (the tax cuts) would likely give the typical American household a $4,000 pay raise." But CRS determined that the CEA pay-hike projections—which actually ranged as high as $9,000—were based on the fantastical economic assumption that the tax cuts would boost the economy 3.8 to 8.5 times more than the tax law's cost.

- Kevin Hassett, head of the White House Council of Economic Advisors (CEA) said in 2017: "I would expect to see an immediate jump in wage growth (from the tax cuts)." CRS said "[t]here is no indication of a surge in wages in 2018 either compared to history or relative to GDP growth." … "[O]rdinary workers had very little growth in wage rates." In fact, wage growth of 2.0% in 2018 was just two-thirds the growth in the overall economy.

- In contrast to President Trump's evident satisfaction last year that "4.2 million hard working Americans have already received a large Bonus and/or Pay Increase because of our recently Passed Tax Cut & Jobs Bill....and it will only get better!", CRS found that "…[R]elatively little [of the corporate tax cuts] was directed to paying worker bonuses." … "One organization [Americans for Tax Fairness] that tracks these bonuses has reported a total of $4.4 billion. With US employment of 157 million, this amount is $28 per worker. This amount is 2% to 3% of the corporate tax cut, and a smaller share of repatriated funds." Instead, CRS found that much of the tax cuts were "used for a record-breaking amount of stock buybacks, with $1 trillion announced by the end of 2018. A similar share of repurchases happened in 2004, when a tax holiday allowed firms to voluntarily bring back earnings at a lower rate." The Economic Policy Institute found that workers' bonuses as of March 2019 have *dropped* 22% below their December 2017 level before the TCJA became law, based on Bureau of Labor Statistics data.

- While CEA head Kevin Hassett claimed earlier this year that "[t]here has been a capital spending boom," CRS found that "[w]hile it is possible that the Act increased the investment due to supply-side effects, it would be premature to conclude that the higher rate of growth of nonresidential fixed investment was due to the tax changes" and "real growth in the subcategories of equipment, structures, and intellectual property products is inconsistent with the incentive effects of the tax change."

- And, while Speaker Paul Ryan stated on his website that the TCJA would put an end to incentives for American corporations to offshore jobs, and Trump tax advisor Steven Moore claimed the tax law would make America more attractive as an investment destination, CRS determined "the evidence does not suggest a surge in [net] investment from abroad in 2018."

Not only have workers in general gained very little or nothing from the TCJA, but employees of some big companies have actually lost their jobs soon after enactment of a tax law with the word "jobs" right in the name.

As noted above, **General Motors** paid no federal income taxes in 2018 despite billions in profits, instead receiving a rebate of over $100 million. What's more, it likely got a one-time tax break of hundreds of millions of dollars more on its $6.5 billion of accumulated offshore profits. Despite all these tax savings meant to spur domestic investment, in June 2018 GM announced it would build its Chevrolet Blazer in Mexico rather than the United States. Then in November, it said it would idle five North American plants, laying off almost 15,000 workers.

**Wells Fargo** also has failed to use its corporate tax cuts to benefit its workers or customers. It's estimated the TCJA will save Wells Fargo about $3 billion annually, over 11 times the $268 million annual cost of its minimum wage increases (which a company spokesman explicitly confirmed were not a result of the tax cuts). The bank apparently has better uses for its big tax cut, such as contributing to its planned $40.6 billion in stock buybacks since passage of the TCJA—151 times the value of the wage increases and almost exclusively further enriching its already wealthy shareholders. Meanwhile, Wells Fargo's customers have suffered so many abuses that the federal government has imposed unprecedented sanctions on the bank. Despite that blatant mismanagement, the bank boosted its CEO's pay by 36% last year, to a total compensation of $17.4 million.

Proving once again that the TCJA's corporate tax cut is far from the job generator advertised, Wells Fargo announced in 2018 it would reduce its workforce by up to 10%, over three years, meaning as many as 26,500 employees could lose their jobs. The U.S. Department of Labor later determined that many of those workers were being replaced by offshore hires. According to an investigation by the leading newspaper in one of Wells Fargo's regional headquarters, the bank has been ramping up employment in low-wage hubs India and the Philippines.

**AT&T** is another example of a major corporation that used its massive tax cut to benefit top executives and shareholders, rather than workers. One of the TCJA's biggest boosters, AT&T CEO Randall Stephenson claimed that the law would increase capital expenditures by at least $1 billion so it could create 7,000 jobs. In 2017 the company reported a $20 billion increase in profits from the TCJA, and in 2018 another $718 million windfall from the tax law. Yet since the law was passed, the company has eliminated 23,000 jobs and announced the closure of seven call centers in recent months. And while AT&T operates a global web of at least 38 third-party call centers to handle customer service, sales and tech support, they have not moved to relocate this work back to America. What AT&T has done, however, is reward its top management and shareholders. The company spent $14 billion in dividends and stock buybacks in 2018, and $89 million in compensation for the company's top five executives, including $29 million for Stephenson.

Among the questions it seems the committee could usefully pursue with the CEOs of these major corporations in attendance at a hearing are:

- Why have corporate tax receipts—already historically low even before enactment of the TCJA—fallen even farther than expected in the wake of the law's big corporate tax cut?
- What loopholes did the TCJA fail to close (or possibly expand) that resulted in 60 Fortune 500 companies paying zero federal income taxes during the first year of the law?
- Why have workers generally not participated in the windfall of the corporate tax cuts through higher wages and better benefits?
- Why has the predicted big jump in corporate capital expenditures not occurred?
- What role has the huge increase in corporate stock buybacks played in increasing inequality and diverting money from investments in workers, plants and equipment?
- Why are multinationals not relocating production back to America as promised, and in many cases still outsourcing jobs and operations?

Your committee is the fulcrum of U.S. tax policy. Further exercising your investigatory powers to better reveal the true impact of the TCJA on Corporate America, the American economy and working families would help Congress craft much needed repairs to this deeply flawed law.

Sincerely,

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cc: Members of the House Ways & Means Committee