Congressional Testimony

The Macroeconomic Impacts of Potential Tax Reform in 2025

U.S. Senate Committee on Banking, Housing and Urban Affairs

Subcommittee on Economic Policy

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Supporting a Thriving Economy through Tax Reform in 2025

Chair Warren, Ranking Member Kennedy, members of the committee, thank you for inviting me to testify today. My name is Kitty Richards, and I'm a Senior Fellow at the Groundwork Collaborative, an economic policy think tank based in Washington, D.C. I am grateful to the Committee for holding this hearing about the macroeconomic impacts of tax reform in 2025.

To support a thriving economy, tax reform must do three things:

First, it must raise substantial new revenue, well above the revenue lost to the failed 2017 Tax Cuts and Jobs Act, to support a 21st-century government that can restore a strong, secure middle class, tackle the existential threat of climate change, and ensure that every American can participate in the economy and reach their full potential.

Second, it must directly redress the skyrocketing income and wealth inequality that has characterized the past 50 years of the American economic experience, with special attention to the persistent racial and gender disparities in wages, wealth, and opportunity that hold our economy back.

Third, it must rebalance economic power away from the wealthy and corporations; putting a brake on extractive practices at the high end that weaken economic performance while enriching shareholders, executives, and highly-compensated professionals at the expense of everyone else; and enhancing the economic power and participation of low- and middle-income workers, especially those who currently provide the more than $1 trillion[1] in unpaid care work each year that allows all other work to happen.

When tax cuts starve the government, workers, families, and economic performance suffer.

Tax cuts enacted during the Bush and Trump administrations have continually diminished government revenues. As a result, the federal tax system went from raising 20 percent of GDP in revenue in the year 2000 to producing only 16.5 percent of GDP in revenue in 2023, falling trillions of dollars short of what could have been collected otherwise.[2] Had we simply allowed the Bush tax cuts to expire in 2013 and not enacted the 2017 tax cuts,

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[1] Katherine Gallagher Robbins & Jessica Mason, "New Analysis Shows Unpaid Care Work in the U.S. is Worth More Than $1 Trillion Each Year," *National Partnership for Women & Families*, (June 27, 2024)
[2] Bobby Kogan, Brendan Duke, Jessica Vela, "The Trump Tax Cuts Led to Record-Low, Not High, Revenues Outside of a Recession," *Center for American Progress*, (August 28, 2024).

revenue would have been sufficient to ensure stable funding for existing services indefinitely, even with the aging of the population and growth in health care costs.[3]

America has enormous economic opportunities and significant economic challenges, that all require government investment in infrastructure, human capital, and family economic security to meet.[4] The Biden-Harris administration has made significant strides but there is much more that needs to be done, and an ever smaller amount of revenue to meet these needs.

When we short-change government programs in favor of tax cuts for the wealthy and corporations, we lose out on the huge economic benefits many of these programs provide. Public spending expanding the Child Tax Credit would reduce poverty and deliver benefits nearly ten times greater than the cost.[5] Expanding the EITC to younger adults and those without children decreases housing hardships and food insecurity and ensures more adults are able to pay their monthly bills and participate in the workforce.[6] Across the country, families are unable to access affordable child care, elder care, and care for family members with disabilities. According to a 2021 report from the National Women's Law Center, access to child care alone could boost a mother of two's lifetime earnings by approximately $97,000.[7] Investing in education and workforce development is crucial for building a stronger workforce and driving economic growth. These investments in workers, especially young workers, equip them with the knowledge and skills necessary to succeed in the labor market, ensure economic prosperity is more widely shared, and enhance productivity in the economy.[8] A California study found for every $1 invested in public health, up to $88 is returned in benefits to society .[9] Investments in health care would not only improve overall health and well-being, but they also alleviate financial hardships for families and increase productivity in our broader economy.[10] And

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[3] Bobby Kogan, "Tax Cuts Are Primarily Responsible for the Increasing Debt Ratio," *Center for American Progress,* (March 27, 2023)
[4] Somin Park, "Public investment is crucial to strengthening U.S. economic growth and tackling inequality," *Washington Center for Equitable Growth,* (September 23, 2019).
[5] Elizabeth Ananat and Irwin Garfinkel, "The Potential Long-Run Impact of a Permanently Expanded Child Tax Credit," T*he ANNALS of the American Academy of Political and Social Science*, (November 1, 2023)
[6] Jiwan Lee, Katherine Michelmore, Natasha Pilkauskas & Christopher Wimer, "Effects of the Expansion of the Earned Income Tax Credit for Childless Young Adults on Material Wellbeing," *NBER, (*June 2024)
[7] Joint Economic Committee Democratic Staff, "The Many Economic Benefits of Investing in Early Childhood Education," *Joint Economic Committee Democrats*, (April 8, 2024).
[8] Nishesh Chalise, Violeta Gutkowski, Alice L. Kassens, Ana Hernández Kent, Lowell R. Ricketts, William M. Rodgers III, Nicole Summers-Gabr, "The State of Economic Equity: Challenges and Opportunities for Advancing Economic Security among U.S. Young Adults," *Federal Reserve Bank of St. Louis*, (March 26, 2024).
[9] Marquisha Johns and Jill Rosenthal, "How Investing in Public Health Will Strengthen America's Health," *Center for American Progress,* (May 17, 2022).
[10] Ibid.

it's important to note that investments in workers and spending that supports labor supply help reduce inflation.[11]

We also cannot talk about long-run economic performance without tackling climate change. Investing in clean energy helps mitigate the impact of climate change in the long run and grows our economy right now. In 2023, the clean energy sector accounted for 10% of growth in global GDP.[12]

Tax policy can bolster economic performance by fighting America's skyrocketing inequality, which harms economic performance in multiple ways

The past 50 years of American economic history have been characterized by skyrocketing inequality. Income inequality rose dramatically from 1979 to 2000[13] in the wake of financial deregulation,[14] anti-unionization efforts,[15] significant drops in tax rates on high incomes, and other economic changes that allowed and incentivized income extraction by those at the very top. This trend has continued in this century, with data released by the Congressional Budget Office (CBO) just this month showing that the average income for the top 1% of households is now 42 times greater than the average income for the bottom 90% of households—the biggest gap since the data have been collected[16]. Wealth inequality is even starker, as income inequality and the growth of pre-existing wealth compound year after year. The top 0.1% of American households now hold 13.6% ($20.66 trillion) of the nation's total wealth, according to data collected by the Federal Reserve. In contrast, in 1989, this group's share was 8.5%.[17] Inequality is even more pronounced among different racial and ethnic groups[18] and significantly higher in the US than in peer nations.

This inequality is not just profoundly unfair, and damaging to the welfare of the large majority of Americans who have been left behind, it also has a negative impact on economic growth through multiple channels. As Heather Boushey, co-founder of the

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[11] Rose Khattar, Christian Weller, David Correa, "Investing in Workers Can Further Ease Inflation and Boost Economic Growth," *Center for American Progress,* (August 30, 2023).
[12] Laura Cozzi, Timur Gül, Thomas Spencer, Peter Levi, "Clean energy is boosting economic growth," *International Energy Agency,* (April 18, 2024).
[13] Josh Bivens and Asha Banerjee, "Inequality's drag on aggregate demand," *Economic Policy Institute,* (May 24, 2022).
[14] Daniel Waldenström and Julia Tanndal, "Big Bang financial deregulation and income inequality: Evidence from UK and Japan," *Centre for Economic Policy Research,* (April 13, 2016).
[15] David Jacobs and Lindsey Myers, "Union Strength, Neoliberalism, and Inequality: Contingent Political Analyses of U.S. Income Differences since 1950." *American Sociological Review*, (June 9, 2014).
[16] Congressional Budget Office, "The Distribution of Household Income in 2021," *Congressional Budget Office,* (September 2024)
[17] "Distribution of Household Wealth in the U.S. since 1989," *Federal Reserve,* (June 14, 2024).
[18] Indivar Dutta-Gupta, "Ensuring Fair Taxation of the Ultrawealthy to Strengthen Our Nation," (September 12, 2024).

Washington Center for Equitable Growth and current Member of the Council of Economic Advisors explains, inequality harms growth by:[19]

> *"- Obstructing the supply of people and ideas into our economy and limiting opportunity for those not already at the top, which slows productivity growth over time.*
> *- Subverting the institutions that manage the market, making our political system ineffective and our labor markets dysfunctional*
> *- Distorting demand through its effects on consumption and investment, which both drags down and destabilizes short- and long-term growth in economic output"*

One major mechanism, explored by researchers at the OECD, is the way in which inequality hampers human capital growth for those at the bottom of the income distribution, preventing large swaths of the population from reaching their potential and contributing fully to the economy.[20] Racial and gender discrimination and inequity also have significant economy-wide costs mediated through earnings inequality.[21]

In addition to the many ways in which inequality dampens the supply of workers and capital to the economy, recent research has shed light on the way that growing inequality can lead to long-run stagnation in aggregate demand.

Close to 70% of aggregate demand is driven by consumer spending[22], but the consumers most likely to spend—those in the lower- and middle quintiles—have lost ground to those with the very highest incomes who are least likely to spend. A recent analysis by the Economic Policy Institute finds that between 1979 and 2018, income inequality reduced growth in aggregate demand by about 1.5% of GDP.[23] This lack of demand has spurred a corresponding lack of investment, with firms sitting on record-high levels of cash—even before the pandemic.[24] The best incentive for a firm to invest is the opportunity to sell its product to eager customers. Income inequality's distortionary effect on consumer demand can also drive up inflation, including, paradoxically, causing lower-income households to face higher rates of inflation as companies invest more of their resources

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[19]Heather Boushey, "Testimony by Heather Boushey before the Joint Economic Committee," *Washington Center for Equitable Growth*, (October 16, 2019)
[20] "The impact of income inequality on economic growth," *OECD,* (May 21, 2015).
[21] Shelby R. Buckman, Laura Y. Choi, Mary C. Daly, Lily M. Seitelman, "The Economic Gains from Equity," *Federal Reserve Bank of San Francisco,* (April 2021).
[22] Heather Boushey, "Testimony before the Joint Economic Committee, Hearing on 'Measuring Economic Inequality in the United States,'" *Washington Center for Equitable Growth*, (October 16, 2019).
[23]Ibid.
[24] Nina Trentmann, "US Corporate Stockpiles Grow, Soaring to Record $4.11 Trillion," *Bloomberg,* (June 13, 2024).

into competing for the dollars of the wealthy few at the expense of innovation and competition in cheaper product categories.[25]

An economy that grows from the bottom up and the middle out is a strong, resilient economy. Tax reform must turn back the tide of inequality.

The tax code should support workers and families, and discourage extractive activity by corporations and the wealthy

There is a growing body of literature exploring the many ways in which our tax system shapes economic outcomes through mechanisms beyond redistribution. When we tax income from wealth at lower rates than income from work, give outsized tax breaks to powerful multinational corporations, or support the most damaging practices of private equity firms, we distort the allocation of resources and encourage unproductive, extractive behavior, creating worse outcomes for families and the macroeconomy as a whole. Because many of these issues are highly specific, I cover the evidence in more detail below, tied to specific tax reforms.

Restore the Corporate Tax

Since the TCJA cut the maximum statutory corporate income tax rate from 35 percent to 21 percent, the United States' top corporate rate, including state corporate taxes, has dropped to below that of all other G7 countries except the United Kingdom. More importantly, because of the many ways in which U.S. corporations can avoid paying tax, we raise less revenue from our corporations as a share of the economy than almost any other country in the OECD. In fact, at 1.6 percent of GDP, our corporate tax revenues are only half of the OECD average of 3.2 percent of GDP.[26] This despite the fact that the United States has the most profitable corporate sector in the world.[27]

But the real story is even worse. According to the Congressional Budget Office, corporate revenues as a share of GDP are set to fall to 1.2 percent of GDP in the coming decade.[28]

The corporate profits tax is one of the most progressive tax instruments we have, and reducing corporate revenues thus increases income and wealth inequality. The vast

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[25] Christopher Wimer, Sophie Collyer, Xavier Jaravel, "The Costs Of Being Poor: Inflation Inequality Leads To Three Million More People In Poverty," *Groundwork Collaborative and Center on Poverty and Social Policy*, (November 2023)
[26] Tax Policy Center Briefing Book, Tax Policy Center Briefing Book:Key Elements of the U.S. Tax System" *Tax Policy Center*, (January 2024)
[27] Benji Hyam, "Most Profitable Companies: U.S. vs. Rest of the World, 2023," *Grow and Convert*, (November 29, 2023).
[28] Congressional Budget Office, "An Update to the Budget and Economic Outlook: 2024 to 2034," *Congressional Budget Office*, (June 2024)

majority of the benefit of cuts in the corporate tax flow to wealthy shareholders, including 17 percent to foreign shareholders, and the remainder accrues largely to high-income corporate executives and managers.[29]

This is exactly what we saw in the wake of the TCJA. Outlandish promises of booming business investment leading to $4,000 per year wage increases for typical workers never came true. Instead, numerous studies[30] have shown that the TCJA's corporate cuts did not spur additional investment that trickled down to workers, but instead spurred massive dividends and stock buybacks.

In fact, economic performance may actually have been *hindered* by cuts to the corporate tax rate. In a world of perfect competition, corporate taxes theoretically reduce the amount of productive investment in the economy, reducing economic growth and performance in the long run. Empirical evidence has never provided much support for this theory, and more modern techniques show that the old theories may have things exactly backwards. This is because markets are increasingly dominated by powerful firms whose profits are primarily economic rents, not the returns to productive activity. When these powerful firms are able to pay ever-higher returns to shareholders, they drive up the cost of capital for other, more productive firms, lowering investment, growth, employment and wages. This was exactly what the TCJA's corporate tax rate cuts did, according to a study by the Institute for Macroeconomic and Policy Analysis at American University, which is able to account for market rents and their effect on equity prices in their macroeconomic model.[31]

If policymakers wish to enhance macroeconomic performance, they should restore the corporate tax to a major source of progressive revenue for the U.S. Government, and ensure that it functions as a brake on corporate power and profiteering, not an accelerant. This can be accomplished by raising the corporate tax rate, including raising it back to 35 percent for the most profitable corporations, closing corporate loopholes, and eliminating current preferences for foreign-source income.

The U.S. should also move swiftly to follow Europe's lead to implement a system of international taxation that is compliant with the OECD global minimum tax agreement.[32]

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[29] Jean Ross, "The Tax Cuts and Jobs Act Failed To Deliver Promised Benefits," *Center for American Progress,* (April 30, 2024)
[30]Chuck Marr, "Record Stock Buybacks Bolster Case for Raising Corporate Tax Rate," *Center on Budget and Policy Priorities,* (June 24, 2024)
[31] Lidia Brun Carrasco, Ignacio Gonzalez Garcia, Juan Montecino, "New Macroeconomic Model Shows TCJA Corporate Tax Cut was Harmful to the Economy in both Aggregate and Distributional Terms," *Institute for Macroeconomic and Policy Analysis,* (December 7, 2023)
[32]Thomas Brosy, "A Primer On The OECD's Global Minimum Tax And How It Could Affect The US," *Tax Policy Center*, (March 5, 2024)

This will increase U.S. tax revenues and prevent corporations from forcing a global race-to-the-bottom in corporate taxation.

Restore tax rates on the highest incomes

Both the Bush and Trump Administration tax cuts, and the Obama-era partial extension of the Bush tax cuts, were incredibly skewed to the rich, and top income tax rates have fallen repeatedly and dramatically over the past 60 years.

These rate cuts were often sold as good for the economy based on trickle-down theories, but multiple studies have concluded that lower tax rates on the rich do not stoke economic growth. In fact, the highest periods of growth in incomes for most Americans have coincided with higher tax rates on the highest earners[33] In addition to funding key government services and battling distortionary inequality, higher tax rates on the rich can discourage unproductive rent-seeking behaviors by high-income workers, leaving more compensation on the table for lower-income workers to share and encouraging a more-productive distribution of resources.[34]

Simply allowing the top income tax rates to revert back to their pre-TCJA levels will not go far enough, and it is important to reform the many special tax breaks that high-income households disproportionately benefit from. Additionally, reforms geared to changing the taxation of capital income are urgently needed.

Tax wealth like work

Under the current individual income tax, the highest-income Americans often pay a much lower share of their income in taxes than working people.[35] This is primarily due to a combination of three factors: preferential tax rates on capital income, our failure to tax capital income when it accrues, and the stepped-up-basis loophole that compounds this problem by allowing income on assets held until death to go untaxed permanently.

While tax preferences for capital gains and dividends were supposed to increase economic activity by increasing savings and investment, the empirical evidence for this theory is weak. Aggregate savings in the economy is much more readily affected by government savings or dissavings than by attenuated tax incentives, and household savings rates, especially at the top where most savings accrue, are markedly

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[33] Emanual Saez, "Taxing the rich more—evidence from the 2013 federal tax increase," *Washington Center for Equitable Growth*, (2016).
[34] Kitty Richards, "Taxes and Rents: The Power of Tax Policy to Shape the Distribution of Pre-Tax Income," (February 6, 2019).
[35] Greg Leiserson and Danny Yagan, "What Is the Average Federal Individual Income Tax Rate on the Wealthiest Americans?," *Council of Economic Advisers and Office of Management and Budget*, (September 23, 2021)

nonresponsive to changes in the after-tax return.[36] Nor do tax breaks on capital income increase corporate investment in capital or workers.[37] What these tax preferences do is supercharge inequality, as low-taxed income from wealth compounds year after year.

As such, increases in individual income tax rates on dividends and capital gains have the power to reduce income and wealth inequality over time, and raise substantial revenue, without negatively affecting economic growth. In fact, a reduction in the after-tax return on equity may allow firms to access financing more cheaply, an effect which can lead increased capital gains and dividends taxes to be mildly *expansionary* in the long run.[38]

Truly taxing income from wealth on par with income from work requires not just increasing the tax rate on capital gains and dividends, but ensuring that capital gains income is taxed as it accrues, not only when it is “realized” for tax purposes through sale, transfer, or other event. There are a number of proposals for taxing so-called “unrealized gains,” and for administrative and other reasons they tend to focus on only the wealthy, and have provisions for dealing with illiquid and difficult-to-value assets.

The Biden Administration budget proposal, for example, applies the top ordinary income tax rate to realized capital gains, but also includes the Billionaire Minimum Income Tax, which would ensure that taxpayers with more than $100 million in assets pay a minimum of 25 percent of their income in taxes, using an expanded definition of income that includes unrealized capital gains.[39] It should be noted that this expanded definition of income, often referred to as "economic income," is not new. Rather, it is the textbook definition that has been used by economists for decades.[40]

Senate Finance Committee Chair Ron Wyden released a plan in 2019, introduced as legislation during this Congress with the support of members of this panel, to tax capital gains at the same rate as ordinary income with “anti-deferral accounting rules” for ultra-wealthy taxpayers, requiring that they pay tax immediately on gains on tradable property like securities (so-called “mark-to-market” accounting), and pay a deferral charge upon the realization of untaxed gains on other assets.[41]

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[36] Jane G. Gravelle and Donald J. Marples, “Can Tax Policy Increase Saving?” *Congressional Research Service*, (June 11, 2024).
[37] Danny Yagan, “Capital Tax Reform and the Real Economy: The Effects of the 2003 Dividend Tax Cut,” *American Economic Review,* (2015)
[38] Ignacio Gonzalez Garcia, Juan Montecino, Vasudeva Ramaswamy, “Assessing the Effects of a Dividend and Capital Gains Tax Increase,” *Institute for Macroeconomic and Policy Analysis*, (June 7, 2024)
[39] “Budget of the U.S. Government - FISCAL YEAR 2025,” *The White House*, (2024).
[40] Joel Slemrod, Jon Bakija, “Taxing Ourselves: A Citizen’s Guide to the Debate Over Taxes,” *MIT Press*, (2017).
[41] Senator Ron Wyden (D-OR), “Treat Wealth Like Wages,” *Senate Finance Committee Democrats*

The realization requirement allows massive tax avoidance and game-playing by the ultra-wealthy. For the very wealthiest Americans—such as the 800 or so billionaires who collectively hold more wealth than the bottom 50% of all US households—the current federal income tax system is effectively voluntary.[42] As a group of 219 economists and law professors wrote to Senate leaders in 2021, "scholars estimate that over three-quarters of the investment income of ultra-wealthy taxpayers fully and permanently escapes the existing income tax."[43] Many multibillionaires including Jeff Bezos, Elon Musk, George Soros, Warren Buffett, Michael Bloomberg and Carl Icahn each paid zero federal income taxes in recent years, despite having extraordinarily high economic incomes.[44] The non-taxation of unrealized capital gains is a huge part of this story.

The very wealthy do not have to sell their assets to access cash for consumption or new investments. Instead, they take out special bespoke loans with below-market interest rates using their assets as collateral.[45] One high-profile example from the real world involved Elon Musk's 2022 purchase of Twitter, which he sought to finance using a $12.5 billion margin loan[46] against his Tesla stock in order to use those assets like cash, without actually cashing them in and paying taxes on the sale. Similarly, Oracle CEO Larry Ellison has a personal credit line secured with 300 million shares of Oracle stock, worth roughly $45 billion.[47]

This is not just a problem for revenue. As conservative scholars at the American Enterprise Institute note in their defense of the taxation of unrealized gains: "A realization requirement is undesirable because a realization-based tax system is economically incoherent… it creates economic distortions, such as an incentive to hold on to assets that have gone up in value, as well as unfairness, as equally well-off individuals are taxed differently based on when they buy and sell…"[48] This incentive to hold assets that have gone up in value is known as "lock-in," and it reduces economic performance by keeping investment dollars stuck in lower-return assets, and entrepreneurs inefficiently managing large firms rather than creating new, high-value start-ups.[49] When coupled with the stepped-up basis, this effect also encourages the elderly to inefficiently hold on to assets, including housing, that they no longer make use of.

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[42] "THE BILLIONAIRE CENTURY," *Americans for Tax Fairness*, (July 11, 2024).

[43] "219 ECONOMISTS & LAW PROFESSORS SUPPORT THE BILLIONAIRES INCOME TAX," *Americans for Tax Fairness,* (December 9, 2021).

[44] Jesse Eisinger, Jeff Ernsthausen and Paul Kiel, "The Secret IRS Files: Trove of Never-Before-Seen Records Reveal How the Wealthiest Avoid Income Tax," *ProPublica*, (June 8, 2021).

[45] Rachel Louise Ensign and Richard Rubin, "Buy, Borrow, Die: How Rich Americans Live Off Their Paper Wealth," *Wall Street Journal*, (July 13, 2021).

[46] Cara Lombardo and Liz Hoffman, "How Elon Musk Won Twitter," *Wall Street Journal*, (April 26, 2022).

[47] Chuck Marr and Samantha Jacoby, "Arguments Against Taxing Unrealized Capital Gains of Very Wealthy Fall Flat," *Center on Budget and Policy Priorities,* (September 11, 2024)

[48] Stan Veuger, Alex Brill, Kyle Pomerleau, "This Corporate Law Case Could Accidentally Overturn U.S. Taxes," *American Enterprise Institute,* (December 4, 2023).

[49] V.V. Chari, Mikhail Golosov, Aleh Tsyvinski, "Business Start-ups, The Lock-in Effect, and Capital Gains Taxation," *Yale Department of Economics*, (February 2005).

Another key piece of the puzzle is estate, gift, and inheritance taxes. Despite the claims of the faux-populist movement of the 1990s and 2000s, inheritances are an extreme source of inequality. According to data from the Federal Reserve, analyzed by the Washington Post[50], by age 74, 60 percent of Americans have not received any inheritance at all. For those in the bottom half of the income distribution, the share never having received zero inheritance by age 74 is over 80 percent, and the same is true for Black and Hispanic respondents. For the lucky Americans who do receive an inheritance, the average value by age 74 is $344,000, but this includes the small number of Americans who receive inheritances in the millions, or even billions, of dollars.[51] Under our current tax system, people who inherit money rather than earning it are not subject to income taxes on these amounts, and thanks to serial cuts beginning in the Bush Administration and growing dramatically under the TCJA, the federal estate tax, levied at the donor level, affects a vanishingly small share of estates and fails to significantly redress the profound concentration of intergenerational wealth in the United States.[52]

Invest in Families through Expansions of the Earned Income Tax Credit and the Child Tax Credit

In the American Rescue Plan, Congress made the Child Tax Credit (CTC) fully refundable, so the poorest families were able to finally qualify for the benefit. Additionally, they increased the payment from $2000 to $3,600 and allowed families to receive payments monthly. Expanding the CTC, caused child poverty to fall to historic lows[53] and pulled approximately 3 million[54] children out of poverty in 2021.

The extended Child Tax Credit expired at the end of 2021. If the CTC expansion had been made permanent, child poverty would have remained at historic lows rather than experiencing its largest spike in 50 years.[55] Children from low-income households across

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[50]Andrew Van Dam, "How inheritance data secretly explains U.S. inequality," *Washington Post,* (November 10, 2023)
[51] Lily Batchelder, "Leveling the Playing Field between Inherited Income and Income from Work through an Inheritance Tax," *Tackling the Tax Code: Efficient and Equitable Ways to Raise Revenue, Hamilton Project and Brookings,* (January 2020)
[52]Center on Budget and Policy Priorities, "Policy Basics: The Federal Estate Tax," *Center on Budget and Policy Priorities,* (November 7, 2018)
[53] Sophie Collyer, Megan Curran, David Harris, and Christopher Wimer, "Children Left Behind by the Child Tax Credit in 2022," *Center on Poverty and Social Policy,* (2023).
[54] Joint Economic Committee Democratic Staff, "Expanded Child Tax Credit Drove Largest-Ever Drop in Child Poverty," *Joint Economic Committee Democrats*, (November 30, 2022).
[55] Sharon Parrott, "Record Rise in Poverty Highlights Importance of Child Tax Credit; Health Coverage Marks a High Point Before Pandemic Safeguards Ended," *Center on Budget and Policy Priorities*, (September 12, 2023).

all racial and ethnic backgrounds would earn 7 to 12 percent higher annual incomes by age 30, which translates to an extra $2,000 to $3,400.[56]

The Earned Income Tax Credit has also been a powerful tool for reducing poverty and supporting the labor force participation of low-wage workers, especially women with children.[57] Expanding the EITC to cover younger and older workers and provide a larger wage subsidy to workers without children in the home would enhance these effects.[58]

[56] Nikhita Airi, "Permanently Expanding the Child Tax Credit Would Increase Kids' Lifetime Earnings and Education," *Urban Institute,* (January 31, 2024).
[57]Tax Policy Center Briefing Book, "Key Elements of the U.S. Tax System," *Tax Policy Center*, (January 2024)
[58] Jiwan Lee, Katherine Michelmore, Natasha Pilkauskas & Christopher Wimer, "Effects of the Expansion of the Earned Income Tax Credit for Childless Young Adults on Material Wellbeing," *NBER,* (June 2024)

May 21, 2024

The Honorable Charles Schumer
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Dear Majority Leader Schumer, Minority Leader McConnell, Speaker Johnson, Minority Leader Jeffries, Chair Wyden, Ranking Member Crapo, Chair Smith, and Ranking Member Neal:

In 2025, we urge you to enact true pro-growth tax reform that supports public investments, brings good jobs back from overseas, combats harmful concentrations of economic power, reduces poverty and racial disparities, improves health, and directly mitigates the economic risks of climate change and an unsustainable fiscal trajectory.

The pre-2017 tax code was deeply flawed: it did not generate enough revenue to support pro-growth investments and fiscal responsibility; it reinforced economic, gender, and racial disparities; and it asked too little of the very wealthy and large corporations. In 2017, President Donald Trump and congressional Republicans pushed through a tax bill that made those problems worse. Over the unanimous opposition of congressional Democrats and against the wishes of the majority of the public, the Trump tax bill – the Tax Cuts and Jobs Act (TCJA) – made massive and permanent cuts to corporate taxes and temporary cuts to individual and estate taxes that have largely benefitted the wealthy and eroded tax revenues even further.

At the end of 2025, several provisions of the Trump tax law will expire. **We urge you to use the expiration of these provisions as an opportunity to address long-standing problems with our tax code, not just to tinker around the edges**. Congress should pursue reforms – including corporate tax reforms – that stem the decades-long tide of tax cuts for the rich and corporations that have undermined fairness, eroded revenues needed for pro-growth investments, and stifled economic opportunity.

Specifically, we believe that any 2025 tax reform effort must, at a minimum, achieve three concrete goals:

- Make the tax code **more fair** by asking high-income households (those who take home more than $400,000), the extremely wealthy, large profitable corporations, and Wall Street to pay a greater share of their income in taxes than if each of the expiring TCJA provisions were simply allowed to expire, while also restoring essential supports for children and families with low or moderate income or wealth and families who've experienced discrimination.
- Raise **more revenue** than would be generated by letting all of the temporary TCJA provisions sunset, so that we can support much-needed investments in everyday Americans; make good on our commitments to our seniors, families, and historically underfunded communities; and reduce our fiscal risks.
- Support **greater and more inclusive economic growth** by providing more financial security and opportunities for typical Americans, narrowing racial wealth gaps by boosting economic mobility, and disincentivizing economically harmful conduct by large corporations.

To begin, the latest analysis confirms that **the Trump tax bill was a failure on its own terms**. The Trump Administration claimed that the TCJA's corporate tax cuts would lead to significantly higher wages for typical workers, but in reality, workers who earned less than $114,000 – the overwhelming majority of Americans – did not experience any increase in earnings from the TCJA while the compensation of top corporate executives skyrocketed. TCJA supporters also claimed the tax cuts would "pay for themselves," but instead the Congressional Budget Office projects that they will increase deficits by nearly $2 trillion over a 10-year period.

The Trump tax bill was a large and costly mistake, and the expiration of many of its key provisions presents an opportunity for Congress to do better for the American people in 2025. The 2025 reform effort should accomplish three goals:

First, any 2025 tax reform effort must require the rich and large corporations to begin paying their fair share—meaning they pay a higher effective tax rate than they would have had the TCJA not been enacted—while also restoring essential support for children and families with low or moderate income or wealth and families who've experienced discrimination.

Over the last sixty years, the very richest Americans have lobbied for and received a dramatic reduction in their tax rates. The richest Americans today pay a far lower average tax rate than they did in decades past. A tax code that allows many wealthy individuals to pay a lower proportion of their income in tax than teachers or firefighters is fundamentally unfair.

Tax reform must result in a more progressive tax code that asks higher-income and higher-wealth households, corporations, and Wall Street to pay a greater share of their income in tax than they would in the absence of the TCJA. It must ensure that Wall Street and other highly profitable firms cannot masquerade as mom-and-pop small businesses to lower their taxes. Reform must also ensure that large firms cannot exploit the tax code to stifle competition and shift their profits, investments, and American jobs offshore. Finally, fairness means putting more money in the pockets of low-income and middle-class people—including through expanding tax credits—and not extending tax cuts or restoring tax breaks for those making over $400,000 per year.

Second, any 2025 tax reform must raise more revenue than would be generated by letting all of the temporary TCJA provisions sunset, so that we can support much-needed investments in everyday

Americans; make good on our commitments to our seniors, families, and historically underfunded communities; and reduce our fiscal risks.

Revenues have been repeatedly eroded by rounds of tax cuts under the Bush and Trump administrations. These cuts produced a tax code that generated just 16.5 percent of GDP in revenue in 2023, trillions of dollars lower than what would have been generated otherwise. Were it not for the Bush tax cuts and the Trump tax cuts, the national debt, as a percent of GDP, would also be on a permanent downward trajectory today.

We need a tax code that generates sufficient revenue to fund our national priorities while appropriately reducing fiscal risks. The pre-TCJA tax code was expected to generate roughly 18 percent of GDP, but even that level is ultimately below what is needed to ensure adequate investments in our children, reduce poverty, address racial and gender disparities, fulfill our commitments to America's seniors, veterans, and people with disabilities—and support our continued growth and prosperity as a country. That is why the 2025 tax reform must generate substantially more revenue than simply letting all of the temporary provisions in the TCJA expire.

Third, any 2025 tax reform effort should lead to greater, more sustainable, and more inclusive economic growth by providing more financial security and opportunities for typical Americans, narrowing racial wealth gaps by boosting economic mobility, and disincentivizing economically harmful conduct by large corporations.

The Trump tax cuts relied on the economic argument that huge tax cuts for the rich and large corporations would trickle down to the typical American or produce a boom in economic growth. That trickle-down approach has unequivocally failed. Tax reform must reflect that America's economy grows fastest from the bottom up and middle out, and that growth should not leave anyone behind.

True pro-growth tax reform next year must support public investments, combat harmful concentrations of economic power and the racial wealth gap, reduce poverty and racial and gender disparities, and directly mitigate the economic risks of climate change and an unsustainable fiscal trajectory. This strengthens our economy and expands opportunity for all.

Under the Biden Administration, we have seen that investments in everyday people are the real key to economic growth. Policies like investing in a robust care infrastructure facilitate economic growth as more workers – and women in particular – fully participate in the labor force and care workers see increases in pay and job quality. Expanding the Child Tax Credit plays a critical role in reducing family poverty, while climate investments build a more sustainable energy system that strengthens supply chains and cuts costs for families.

The tax code is one of our most powerful tools to shape the economy. For too long, it has been slanted towards the wealthy and large corporations, and the economy and our country have suffered as a result. The expiration of key provisions of the Trump tax bill in 2025 is a rare opportunity to correct the mistakes of the past, address long-standing problems with our tax code, and help produce an economy that works for all Americans.

Sincerely,

20/20 Vision
ACA Consumer Advocacy
Accountable.US
Affordable Homeownership Foundation Inc.
AFL-CIO
AFT
Alliance for Retired Americans
American Federation of Government Employees
American Federation of State, County and Municipal Employees (AFSCME)
American Postal Workers Union (APWU)
Americans for Tax Fairness
Autistic Self Advocacy Network
Blue Future
Care in Action
Caring Across Generations
Center for American Progress
Center for Popular Democracy
Center for the Study of Social Policy
Center on Budget and Policy Priorities
Change Machine
Chicago Political Economy Group
Children's Defense Fund
CLASP
Coalition on Human Needs
Color Of Change
Colorado Consumer Health Initiative
Communications Workers of America (CWA)
Community Catalyst
Community Change
Demos
Economic Policy Institute
Economic Security Project Action
Equal Rights Advocates
Fair Share America
Family Values at Work
Family Values@Work Action
Fast-Track Cities Institute
First Focus Campaign for Children
Foster America
Friends of the Earth
Golden State Opportunity
Greenpeace USA
Groundwork Collaborative

Health Care for America Now (HCAN)
Health Care Voices
HedgeClippers
In the Public Interest
Indivisible
Institute for Local Self-Reliance
Institute for Policy Studies, Global Economy Project
Institute for Women's Policy Research
Institute on Taxation and Economic Policy
Instituto del Desarrollo de la Juventud
International Federation of Professional and Technical Engineers (IFPTE)
Jewish Women International
Joint Center for Political and Economic Studies
Justice and Joy National Collaborative (formerly National Crittenton)
Justice in Aging
Latino Farmers & Ranchers International, Inc.
Main Street Alliance
#MEAction
Media Voices for Children
Missionary Oblates of Mary Immaculate
MomsRising
MoveOn
NAACP
National Black Justice Coalition
National Center for Lesbian Rights
National Center for Transgender Equality
National Community Action Partnership
National Consumers League
National Disability Institute
National Domestic Workers Alliance
National Education Association
National Employment Law Project
National Federation of Federal Employees
National Immigration Law Center
National Organization for Women
National Partnership for Women & Families
National Women's Law Center
NETWORK Lobby for Catholic Social Justice
Office and Professional Employees International Union (OPEIU)
Oxfam America
P Street
Patriotic Millionaires
People Power United
Peoples' Action

Poder Latinx
PolicyLink
Poverty Project at the Institute for Policy Studies
Public Advocacy for Kids (PAK)
Public Citizen
Responsible Wealth
Roosevelt Institute
RootsAction.org
SAG-AFTRA
SEIU
Sembrando Sentido
Small Business For America's Future
Social Work Grand Challenge on Reducing Extreme Economic Inequality
State Revenue Alliance
Take on Wall Street
The Leadership Conference on Civil and Human Rights
The Maven Collaborative
The National Domestic Violence Hotline
The Restaurant Opportunities Centers United (ROC UNITED)
Transgender Legal Defense & Education Fund (TLDEF)
Transport Workers Union of America
Unitarian Universalists for Social Justice
United Auto Workers
United Church of Christ
United for a Fair Economy
United Steelworkers (USW)
Unrig Our Economy
Voices for Progress
Voters Rights and Protection Taskforce
Washington Center for Equitable Growth