Testimony of Elizabeth H. Shuler, President, AFL-CIO
A Hearing on Tax Policy in 2025: Implications for the American Economy
Before the Subcommittee on Economic Policy of the
US Senate Committee on Banking, Housing and Urban Affairs
November 20, 2024

Chairperson Warren, Ranking Member Kennedy and members of this subcommittee, I appreciate the opportunity to appear before you today to talk about tax policy and working people.

I am here representing the nearly 13 million workers who are part of the 60 affiliated unions of the AFL-CIO. We represent workers in every sector of the economy, including construction and building trades, transportation, maritime, healthcare, education and entertainment, manufacturing, and professional athletes. We are also the voice of the labor movement representing the concerns and needs of working people broadly, whether they are in a union or not.

Today I have been asked to testify on the tax system, which is something every working-class and middle-class worker pays into with their hard-earned wages. In the next few months Congress will be discussing the fate of the expiring 2017 Trump tax cuts as well as determining the direction of our tax policy. For working people, these are the most consequential decisions that the new Congress will make because they will affect not only take-home pay, but the ability for the federal government to provide essential programs and services.

The AFL-CIO will fight for a tax system that is fair and equitable for all Americans, especially working people. The expiration of the 2017 tax cuts is an opportunity to take stock of that tax policy and get it right this time.

In 2017, President Donald Trump and his allies promised an array of benefits for the American people from the Tax Cuts and Jobs Act. Those benefits did not materialize. They said that cutting the corporate tax rate would raise the wages of working people by $4000 on average. That did not happen. Studies show that 90% of workers received no wage increase as a result of the tax cuts, and, for those who did, they were already the highest paid 10% of people at their companies.[1] Corporate executives, who last year

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[1] David S. Mitchell, "Six years later, more evidence shows the Tax Cuts and Jobs Act benefits U.S. business owners and executives, not average workers," Washington Center for Equitable Growth (December 20, 2023), at https://equitablegrowth.org/six-years-later-more-evidence-shows-the-tax-cuts-and-jobs-act-benefits-u-s-business-owners-and-executives-not-average-workers/

made 268 times what the average worker made, benefited the most.[2] The projections of increased revenue and investment from corporate America also never materialized. By 2019, a couple years into the tax cuts and even prior to the pandemic, business investment was declining quarter after quarter.[3]

The Trump tax bill's massive temporary and permanent cuts to corporate and individual taxes have had three consequences.

First, corporations benefitted most significantly from the tax cuts. The top corporate tax rate was lowered from 35% to 21% but as reported by the Government Accountability Office (GAO) the actual effective tax rate for many corporations was far below 21% and instead averaged 9% – if the corporations paid any taxes at all. Many large and profitable corporations continue to pay nothing in corporate taxes, and a larger percentage of corporations paid no corporate taxes than in previous years.[4] Corporations thus had a far lower tax rate than any middle-class worker.

Second, for all their ineffectiveness to boost wages or investments, the Trump tax cuts have been outrageously expensive. As a result of lower taxes on corporations and the ultra wealthy, the 2017 Trump tax law has lowered government revenue. While Trump tax supporters claimed the tax cuts would "pay for themselves," they have not and the Congressional Budget Office projects that the tax cuts will increase deficits by nearly $2 trillion over a 10-year period. That effect will be stronger if the measures, which are set to expire in 2025, are allowed to continue. These deficits squeeze funding for programs and agencies upon which low to moderate income working people depend.

Third, the benefits of the 2017 tax cuts, particularly on individual taxes, have overwhelmingly skewed toward the wealthy. Highest earners got the greatest tax benefits through being granted special deductions on estates and investments while middle earners saw few benefits. The Tax Policy Center estimated that the wealthiest top 5% of earners got triple the effective tax cut that the bottom 60% of the income

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[2] "New AFL-CIO Report: S&P 500 Company CEOs Made 268x Worker Pay in 2023," AFL-CIO (August 8, 2024), at
https://aflcio.org/press/releases/new-afl-cio-report-sp-500-company-ceos-made-268x-worker-pay-2023
[3] Josh Bivens, "New GDP data show that business investment slows for 3rd straight quarter," Economic Policy Institute (January 30, 2020) at
https://www.epi.org/press/new-gdp-data-show-that-business-investment-slows-for-3rd-straight-quarter-more-evidence-that-tax-cuts-have-failed/
[4] https://www.gao.gov/assets/gao-23-105384.pdf

distribution received.[5] Middle-class families, who often depend solely on wages for their income, brought home a smaller percentage of their paycheck than the billionaire class.

At the end of 2025, many provisions of the Trump tax law will expire – and most of these provisions should expire because they rig the system against working people. For example, letting the top marginal tax rate reset to the pre-2017 level and re-establishing the estate tax will improve tax revenue and restore some fairness to the system. Any talk of cutting the corporate tax rate even more deeply, with another round of massive giveaways to the rich in 2025, is an insult to working people. Corporations on the whole have been doing great in this economy, and they have been gouging the American consumer. Corporations have been experiencing a spike in profits over recent years, and, according to one study, over 40% of rising price levels between 2019 and 2022 was attributable to corporations' rising profits, not rising costs.[6] Based on prior behavior, boosting their profits even higher with even more tax cuts will do nothing to lower prices. Members of Congress who claim to represent the interests of working people should reject any tax deal that includes extending the 2017 Trump tax cuts for the wealthy.

But aside from letting the worst provisions expire and doing no further harm, we also want Congress to recognize that there are long-standing problems with our tax code that privilege corporations and the wealthy over the average households. These policies have eroded our tax base, making the deficits and debt worse.

Specifically, the tax code needs to require high-income households, the billionaire class, large profitable corporations and Wall Street to pay a greater share of their income in taxes than each one does currently under the Trump tax revisions. By restoring revenue through fairly taxing those who earn more or profit more, we can provide tax relief to middle- and lower-income families.

We also support specific measures that will promote tax fairness such as:

- Fairer and more efficient tax enforcement, including increased funding and staffing for IRS enforcement and a plan to restore audits on wealthy individuals and profitable corporations.
- Reinstating a union dues tax deduction.
- Closing the carried interest loophole that would tax income from carried interest as ordinary income.

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[5] Tax Policy Center, "Distributional Analysis of the Conference Agreement for the Tax Cuts and Jobs Act," December 18, 2017, https://www.taxpolicycenter.org/sites/default/files/publication/150816/2001641_distributional_analysis_of_the_conference_agreement_for_the_tax_cuts_and_jobs_act_0.pdf.

[6] Josh Bivens, "Profits and price inflation are indeed linked," Economic Policy Institute (September 5, 2024) at https://www.epi.org/blog/profits-and-price-inflation-are-indeed-linked/

- Continuing IRS Direct File as a free, online, user-friendly alternative to costly tax preparation services.
- Letting the SALT deduction cap expire.
- Creating a new above-the-line deduction for worker-provided tools and equipment.
- Raising the maximum income cap for the Qualified Performing Artist Deduction to update incomes to reflect inflation.
- Disallowing tax deductions for union avoidance. Tax deductible ordinary business expenses should not be allowed to include money spent on opposing union organizing.
- Taxing capital gains as ordinary income for taxpayers earning more than $1 million.
- Enacting a Wall Street Speculation Tax to discourage risky speculation.
- Taxing stock buybacks at a higher rate.
- Promoting racial equity in tax policy by refining tax data collection and analysis to root out inequities in tax policy design and enforcement.
- Repealing real estate loopholes that allow real estate investors to delay, reduce, and eliminate their tax obligations.
- Enacting a minimum tax on the ultra wealthy of 25% (e.g. annual income above $100 Million) and other taxes on those with extensive wealth.

Economist after economist, regardless of political leanings, has cautioned against the current tax system crippling the future of our economy by expanding our budget deficits and national debt. The trickle down economics model that the current system is built on is faulty in its beliefs that economic benefits will spread throughout the system. Wealth concentrates in corporations and middle- and lower-income earners are excluded from most of the benefits. We cannot continue to ignore this problem, and we must rebuild a progressive tax system that taxes those who earn more at a higher rate than those who earn less.

Thank you for the opportunity to address the committee today.