Business Roundtable

1000 Maine Avenue, SW, STE 500
Washington, DC 20024
202.872.1260
brt.org

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The Honorable Jason Smith
Chairman
Committee on Ways and Means
U.S. House of Representatives
Washington, DC 20515

The Honorable Richard Neal
Ranking Member
Committee on Ways and Means
U.S. House of Representatives
Washington, DC 20515

Dear Chairman Smith and Ranking Member Neal:

On behalf of Business Roundtable, an association of more than 200 chief executive officers of America's leading companies, I want to thank you for holding a hearing on "Expanding on the Success of the 2017 Tax Relief to Help Hardworking Americans." We ask that you include this letter in the hearing record.

Generating long-term U.S. economic growth and opportunity for American workers depends on a competitive tax rate for companies and tax rules that allow American companies to compete on a level playing field internationally.

Reforms in the 2017 Tax Cuts and Jobs Act (TCJA) resulted in historic wage and job growth and investment in the United States. To support continued long-term U.S. economic growth and opportunity for American workers, we urge Congress to maintain and strengthen these reforms.

<u>Background</u>

Prior to the 2017 reforms, the U.S. corporate tax rate was the highest among industrialized countries. There was widespread bipartisan agreement that the United States had an outdated, anti-competitive tax code, resulting in the continued loss of investment, jobs and innovation. In response, Congress lowered the corporate rate. The new combined federal and state corporate rate of 25.8% puts the U.S. 2% higher than the average for Organization for Economic Cooperation and Development (OECD) countries and higher than 23 of our 38 OECD competitors, including Belgium, Spain and the UK.

Congress offset 75% of the cost of the corporate rate reduction with tax increases. About half ($695 billion) was offset from domestic corporate base broadeners, including:

- The limitation on interest deductibility.
- The modification of the net operating loss deduction.
- The repeal of the deduction for domestic production activities.

Another quarter ($324 billion) was paid for with aggressive international tax changes, including:

- The establishment of the Base Erosion and Anti-Abuse Tax (BEAT) to apply a surtax on certain otherwise deductible payments between a U.S. company and its foreign affiliates.
- The first global corporate minimum tax was adopted in the Global Intangible Low-Taxed Income (GILTI) regime.
- To address foreign income earned prior to the implementation of the new rules, a transition tax was applied to foreign earnings that had not previously been subject to U.S. tax, even if that income was never repatriated to the United States.

The economic response to the 2017 reforms was immediate and profound. Wage growth across a variety of cohorts was stronger in the two years after the 2017 reforms than at any point since prior to the global financial crisis. The unemployment rate hit generational lows. Prime-age labor force participation was at a 15-year high as the strong labor market brought in more people off the sidelines. Economists estimate that the TCJA increased domestic investment by 20%.

Tax Reform Benefited Workers

Prior to passage of TCJA, a survey of Business Roundtable members indicated that 76% of CEOs would increase hiring at their company if tax reform was enacted. Indeed, after passage and prior to the pandemic, the 3.5% unemployment rate was the lowest rate since 1969 and nearly 3 percentage points below the average for the 15 years from 2003 through 2017.

This low unemployment drove wage growth – median real wage growth immediately after passage doubled the total growth in real wages over the 15 prior years. The Atlanta Federal Reserve Bank found low-income workers to be the greatest beneficiary, as wage growth was largest for those in the lowest quartile of the wage distribution.

A recent analysis Business Roundtable conducted in partnership with The Burning Glass Institute estimated that from 2018 to 2022, 7.1 million American workers at leading U.S. companies were elevated into jobs with middle-class wages, averaging out to just over 1.4 million workers per year.

Tax Reform Benefited the Economy

Analysis from the National Bureau of Economic Research showed that companies that saw larger reductions in tax rates from TCJA also grew investment more in the years that followed. Economy-wide, business investment was a larger share of real GDP in the six years following TCJA enactment than at any point in the last three decades.

Business responded to the pro-growth changes in TCJA and brought money back home. Overall, firms have repatriated nearly $2.5 trillion in past overseas earnings since passage of TCJA. By neutralizing the favorable tax treatment of foreign operations, Congress created an incentive for American corporations to repatriate foreign earnings. International transactions data from the Bureau of Economic Analysis showed that in the years leading up to 2017, firms were repatriating only 34% of prior-year foreign earnings. Since 2019, they have on average repatriated 55%.

Further, base broadening and pro-growth tax reform have resulted in record high corporate tax receipts that exceeded pre-TCJA Congressional Budget Office (CBO) estimates by tens of billions. In dollar terms, FY2023 corporate tax revenue was 6% higher than CBO's pre-tax reform FY2023 forecast. CBO forecasts record breaking corporate receipts again this year.

Tax Reform Made the United States a Better Place to Do Business

TCJA's reforms also stemmed the flow of corporations moving out of the United States through mergers and acquisitions, also known as "inversions."

After the passage of TCJA, the dollar share of outbound transactions (acquisitions by U.S. companies of foreign assets and companies) grew by 50% and inbound transactions (acquisitions by foreign companies of U.S. assets and companies) fell by 25%. The Tax Policy Center also concluded that there have been no major tax-motivated inversions since the enactment of TCJA. In addition, a 2017 Business Roundtable study concluded that if a globally competitive U.S. corporate income tax rate had been in place earlier, it would have kept 4,700 companies in the United States from 2004 to 2016.

Any attempts to increase the corporate tax burden would immediately undo these pro-growth effects, undermine U.S. global competitiveness and risk resuming that trend.

The Impact of Corporate Tax Policy Changes

Because of base broadeners in TCJA, 75% of the revenue cost of a lower corporate rate was offset in the bill. Moreover, U.S. corporations face additional tax increases enacted after TCJA. For example, the 2022 Inflation Reduction Act included nearly $300 billion in corporate tax increases through the corporate alternative minimum tax ($222 billion) and the excise tax on stock buybacks ($74 billion).

As a result of the base broadening and international changes in TCJA and additional tax increases in subsequent years, even what may seem like small increases in the corporate tax rate would result in most corporate earnings being taxed at a higher effective tax rate than prior to 2018, when the United States had the highest corporate tax rate among developed countries.

There is widespread agreement, including from CBO, the Joint Committee on Taxation and the OECD that a significant portion of the corporate tax burden is borne by workers in the form of lower wages. The Treasury Department estimates that families making less than $72,500 pay more in corporate income taxes than they do in individual income taxes. Failure to maintain a competitive tax code will hurt hardworking Americans.

Conclusion

Thank you for the Committee's continued leadership in highlighting the importance of a competitive tax code for economic growth and job creation in the United States. We look forward to working with you as Congress debates tax policy changes in the coming months.

Sincerely,

Catherine G. Schultz

Catherine Schultz
Vice President, Tax and Fiscal Policy
Business Roundtable
cschultz@brt.org