Statement of Adam Brandon

President, FreedomWorks

U.S. House of Representatives Committee on Ways and Means

"Hearing on How Tax Reform Will Grow Our Economy and Create Jobs"

Thursday, May 18, 2017

On behalf of FreedomWorks' community of more than 5 million grassroots activists, I would like to thank Chairman Brady and members of the committee for beginning their work on fundamental tax reform. This is an issue of tremendous importance to FreedomWorks and a moment that comes only once in a generation.

As the Chairman and the members of the committee know, the United States tax code has not been overhauled since 1986, with the passage of the Tax Reform Act, and that effort was years in the making. This Congress, however, must approach tax reform with a sense of urgency. The American people do not have years to wait. They need and expect action that will boost economic growth and provide opportunity and prosperity for all.

The United States' economy has not seen annual economic growth of 3 percent or higher since 2005. This is an indictment of the economic policies of the past eight years. It is, however, an opportunity for Congress to reverse this trend and promote policies that let Americans keep more of the money they earn and encourage investment.

The recovery from the "Great Recession" has been anemic. As the old axiom goes, "Those who fail to learn from history are doomed to repeat it." Indeed, we have been down this road before.

During the Great Depression, President Franklin D. Roosevelt was able to get his economic agenda passed through Congress, establishing new agencies, programs, and regulations that greatly expanded the size and scope of government. Although President Roosevelt and his "New Deal" programs are heralded in the history books as ending the Depression, more recent academic research has put this assumption in doubt.[1]

[1] Harold L. Cole and Lee E. Ohanian, *New Deal Policies and the Persistence of the Great Depression: A General Equilibrium Analysis*, The University of Chicago Press, August 2004 http://www.jstor.org/stable/3555138

"President Roosevelt believed that excessive competition was responsible for the Depression by reducing prices and wages, and by extension reducing employment and demand for goods and services," said Harold L. Cole, then a professor of economics at the University of California-Los Angeles. "So he came up with a recovery package that would be unimaginable today, allowing businesses in every industry to collude without the threat of antitrust prosecution and workers to demand salaries about 25 percent above where they ought to have been, given market forces. The economy was poised for a beautiful recovery, but that recovery was stalled by these misguided policies."[2]

The aggressive tax and regulatory approach taken by President Barack Obama and his administration hampered the recovery from the Great Recession. The administration ramped up regulation on the financial and energy sectors of the economy, created or increased taxes through the so-called "Affordable Care Act,"[3] or ObamaCare, as most of us know it, and signed a $620 billion tax increase in January 2013.[4] The "fiscal cliff" deal included the addition of a seventh individual income tax rate, a significant increase in the estate tax, and an increase in the capital gains tax and dividends tax.

The tax and regulatory policies implemented by President Obama and his administration resulted in stale economic growth. Under ordinary circumstances, the economy would have been $1.4 trillion larger and could have been $2 trillion larger if the economy had grown at the same rate as it did during the recovery under President Ronald Reagan.[5]

Some believe that Congress should keep its approach on taxation simple and pass only a net tax cut. FreedomWorks, however, is focused on deficit neutrality, or budget neutrality, to ensure that changes to the tax rates are permanent. This was one of the flaws of the Economic Growth and Tax Relief Reconciliation Act of 2001, which expired after ten years. Moreover, it is imperative that Congress use this moment to simplify the tax code, making it less costly and time consuming for individuals, families, and businesses to file their tax returns.

As the committee begins its work on fundamental tax reform, FreedomWorks hopes that members will keep these broad and basic principles in mind.

Broaden the Tax Base: The approach Congress should take is: drain the swamp. The tax code is riddled with special interest tax breaks, deductions, and credits that reek of cronyism and put

[2] Meg Sullivan, "FDR's policies prolonged Depression by 7 years, UCLA economists calculate," UCLA Newsroom, August 10, 2004 http://newsroom.ucla.edu/releases/FDR-s-Policies-Prolonged-Depression-5409http://newsroom.ucla.edu/releases/FDR-s-Policies-Prolonged-Depression-5409

[3] John Kartch, "Full List of Obamacare Tax Hikes: Listed by Size of Tax Hike," Americans for Tax Reform, June 29, 2012 http://www.atr.org/full-list-obamacare-tax-hikes-listed-a7010

[4] Joseph Henchman, "Details of the Fiscal Cliff Tax Deal," Tax Foundation, January 1, 2013 https://taxfoundation.org/details-fiscal-cliff-tax-deal/

[5] Stephen Moore, "Obama's $2 Trillion Deficit," Heritage Foundation, May 1, 2014 http://www.heritage.org/budget-and-spending/commentary/obamas-2-trillion-deficit

more of the tax burden on hardworking Americans and entrepreneurs. The foundation for a good and fair tax policy is a broad base, with as few deductions and tax credits as possible.

Ideally, Congress would increase the standard deduction for all taxpayers and keep in place few deductions; eliminating the mortgage interest deduction, the federal deduction for paid state and local tax, and most other deductions.

Lower and Consolidate Individual Tax Rates: The goal should be to take the projected revenue from broadening the tax base and use it to create a tax structure with as few brackets as possible, scrapping the current seven-tier tax bracket system created under the American Tax Relief Act in January 2013. Consolidating tax brackets will make the system easier to administer and promote fairness.

Provided rates are kept reasonably low, fewer burdensome tax brackets would also boost household incomes, putting more of the money that they earned into their pockets. This will give Americans more purchasing power, as well as more money to save, and create more opportunities for businesses to invest and expand, which will, in turn, create more jobs.

Reduce Corporate Tax and Investment Tax Rates: The United States' corporate income tax is the highest in the developed world, and, along with Washington's proclivity for regulation, is driving businesses overseas through offshoring and inversions. Congress should simplify the corporate tax code and reduce rates to encourage investment at home. Additionally, Congress must reduce the capital gains tax to encourage Americans to invest their dollars in the economy.

Simplify the Tax Code: Today, there are nearly 75,000 pages in the tax code, up from 26,300 in 1984. In 2016, Americans spent nearly 9 billion hours complying with the onerous tax code, at a cost of $409 billion to the economy,[6] which is greater than the gross domestic product of the state of Maryland.

Because Congress has failed to reform the tax code, pages have continued to be added, making tax season a dreaded time for Americans. Simplification of the tax code and reducing compliance burdens should be a top priority of any tax reform effort the 115th Congress undertakes. The tax system should be so easy to understand that Americans can file their return on the back of a postcard.

Repatriation of Overseas Cash: By some estimates, there is nearly $2.5 trillion in profits overseas,[7] money that could be invested right here in America. Because the United States'

---

[6] Scott Hodge, "The Compliance Costs of IRS Regulations," Tax Foundation, June 15, 2016 https://taxfoundation.org/compliance-costs-irs-regulations/
[7] Chelsea Dulaney, "Dollar to Benefit if $2.5 Trillion in Cash Stashed Abroad Is Repatriated," Wall Street Journal, November 25, 2016 https://www.wsj.com/articles/2-5-trillion-foreign-profit-stash-could-be-another-boon-for-u-s-dollar-1480096695

corporate income tax is so burdensome, companies are holding these profits in friendlier climates. Even as Congress takes the important step of corporate income tax reform, lawmakers should incentivize the repatriation of these overseas profits to the United States with a special, low-rate tax holiday.

Budget-Neutrality, Not Revenue-Neutrality: Making tax reform revenue-neutral is the answer to the wrong question. If tax reform is attempted under budget reconciliation, Congress should seek to make the proposal budget-neutral. This ensures that tax reform will not increase the budget deficit. If changes to the tax code will lower revenues to the Treasury, Congress should seek to lower the deficit through cuts to outlays over the ten-year budget window.

Additionally, Congress should use this opportunity to repeal the estate and gift taxes, as well as the individual and corporate alternative minimum tax.

FreedomWorks and our community of activists hope that Congress will begin to move on fundamental tax reform in the coming weeks. After eight years of economically crippling policies, the 115th Congress has been presented with a generational moment to restore prosperity and opportunity for all Americans and achieve sustaining economic growth.