Testimony before the House Ways and Means Committee

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To be presented before the House Ways and Means Committee on 04/11/2024

Chairman Smith, Ranking Member Neal and members of the Ways and Means Committee, thank you for your invitation to testify today on the 2017 tax cuts. Any discussion of the merits of the 2017 tax cut must begin with the corporate tax cut, which took America from a 35% corporate tax rate, the highest in the world, to 21%, the mid-range of global corporate tax rates. All available evidence suggests that the corporate tax cut and reductions in regulatory burden which were implemented at the same time caused real Gross National Product to rise by 3% in 2018, the highest growth rate in 13 years. Yet far more impressive than the 3% growth rate, median household income soared and the poverty rate plummeted.

As a long time student of American tax policy and a former member of the Senate Finance Committee, I was astonished at the unexpected depth and breadth of the benefits that flowed from the 2017 corporate tax cut. Real median household income surged by a record $5,220, almost 50% larger than the next highest income gain and 11 times the average annual gains since 1967. The poverty rate plummeted by the most in half a century hitting a new all-time low. No tax change or spending increase in over 50 years delivered so great an impact on median income and poverty.

Obviously, the owners of American public companies benefited as the Dow, the S&P 500 and Nasdaq surged in 2017 in anticipation of the tax cuts and in 2018 and 2019 in response to the tax cuts. But who are these owners? According to *Tax Notes*, seventy-two percent of the value of all domestically held stocks are owned by pension plans, 401(k)s, individual retirement accounts, and charitable organizations, or held by life insurance companies to fund annuities and death benefits.

Corporate tax rates receive less attention than personal income tax rates only because Americans don't understand that corporations do not pay taxes. A corporate entity is just a "pass through" legal structure. When the corporate tax rate is increased, corporations try to pass the cost onto consumers. To the degree that the entire cost of the tax increase cannot be passed on to consumers, those costs are borne by workers and investors. Most economic studies suggest that 50-70% of a corporate tax increase is borne by workers and 30-50% borne by investors.

If you consume the corporate tax rate hits you once. If you consume and work at a corporation, the corporate tax hits you twice. And if you consume, work, and invest your retirement funds in corporate equities, the corporate tax rate hits you three times. Many Americans don't pay individual income taxes but *all* Americans pay corporate taxes. In fact, a recent Treasury study confirms that 92.6 million families pay more in corporate taxes than they do in individual income taxes. All of this suggests that Congress consistently underappreciates the burden of the corporate income tax on middle and lower income Americans.

The extraordinary success of the corporate tax reduction contained in the 2017 bill is now jeopardized not just by the Administration's proposed corporate rate increases but by the global corporate minimum tax which the Administration negotiated with OECD. While the U.S. Treasury has never released an estimate of how much of this corporate minimum tax will be paid by Americans, the Oxford Center for Business Taxation has estimated the U.S. will pay 64%

of the global profits tax compared with 9.5% for China, 3.8% for the UK, 1.6% for Germany and 0.7% for France. The Administration has also agreed to allow countries to tax American subsidiaries to collect the equivalent of the corporate minimum tax on their U.S. earnings if Congress refuses to adopt the global corporate minimum tax.

I urge this committee to adopt legislation to mandate retaliation against any country that seeks to tax American subsidiaries in their country to collect the corporate minimum tax on the subsidiaries U.S. earnings. America's proposed tariffs on French champagne as retaliation for France's proposed digital services tax on U.S. tech companies is a perfect example.

The global corporate minimum tax circumvents the constitutional process and at any period of my service in the House and Senate, I would have vehemently opposed such a circumvention whether it was instituted by a Democratic or a Republican administration. In my opinion the Global Minimum Corporate Tax Agreement is clearly one of the greatest abuses of the Constitution which has occurred in my lifetime.