

**SECOND MEMBER DAY HEARING ON
FUNDAMENTAL TAX REFORM PROPOSALS**

HEARING
BEFORE THE
SUBCOMMITTEE ON TAX POLICY
OF THE
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
ONE HUNDRED FOURTEENTH CONGRESS

SECOND SESSION

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SECOND MEMBER DAY HEARING ON FUNDAMENTAL TAX REFORM PROPOSALS

WEDNESDAY, APRIL 13, 2016

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON TAX POLICY,
Washington, DC.

The Subcommittee met, pursuant to notice, at 3:34 p.m., in Room 1100, Longworth House Office Building, Hon. Charles W. Boustany, Jr. [Chairman of the Subcommittee] presiding.

[The advisory announcing the hearing follows:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON TAX POLICY

FOR IMMEDIATE RELEASE
Wednesday, April 6, 2016
No. TP-06

CONTACT: (202) 225-3625

Chairman Boustany Announces a Second Member Day Hearing on Fundamental Tax Reform Proposals

House Ways and Means Tax Policy Subcommittee Chairman Charles Boustany (R-LA), today announced that the Subcommittee will hold a hearing on Member proposals relating to fundamental reform of the income tax system. **The hearing will take place on Wednesday, April 13, 2016, in Room 1100 of the Longworth House Office Building, beginning at 3:30 p.m.**

This hearing will focus in particular on tax reform proposals within the context of an income tax system. It is the second hearing in a series of Subcommittee hearings on tax reform proposals by Members of Congress, following the Subcommittee's March 22 hearing focused on cash-flow and consumption-based tax reform proposals.

Oral testimony at this hearing will be limited to Members of Congress who have either introduced or cosponsored legislation that represents a fundamental reform within the context of an income-based tax system. Members wishing to testify at this hearing should contact the Subcommittee at (202) 225-5522 or robert.cusmano@mail.house.gov by no later than noon on Friday, April 8, 2016. However, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Subcommittee and for inclusion in the printed record of the hearing.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Please Note: Any person(s) and/or organization(s) wishing to submit written comments for the hearing record must follow the appropriate link on the hearing page of the Committee website and complete the informational forms. From the Committee homepage, <http://waysandmeans.house.gov>, select "Hearings." Select the hearing for which you would like to make a submission, and click on the link entitled, "Click here to provide a submission for the record." Once you have followed the on-line instructions, submit all requested information. ATTACH your submission as a Word document, in compliance with the formatting requirements listed below, **by the close of business on Wednesday, April 27, 2016**. For questions, or if you encounter technical problems, please call (202) 225-3625.

FORMATTING REQUIREMENTS:

The Committee relies on electronic submissions for printing the official hearing record. As always, submissions will be included in the record according to the discretion of the Committee. The Committee will not alter the content of your submission, but we reserve the right to format it according to our guidelines. Any submission provided to the Committee by a witness, any materials submitted for the printed record, and any written comments in response to a request for written comments must conform to the guidelines listed below. Any submission not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All submissions and supplementary materials must be submitted in a single document via email, provided in Word format and must not exceed a total of 10 pages. Witnesses and submitters are advised that the Committee relies on electronic submissions for printing the official hearing record.

2. All submissions must include a list of all clients, persons and/or organizations on whose behalf the witness appears. The name, company, address, telephone, and fax numbers of each witness must be included in the body of the email. Please exclude any personal identifiable information in the attached submission.

3. Failure to follow the formatting requirements may result in the exclusion of a submission. All submissions for the record are final.

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202-225-1721 or 202-226-3411 TDD/TTY in advance of the event (four business days notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

Note: All Committee advisories and news releases are available online at <http://www.waysandmeans.house.gov/>.

Chairman BOUSTANY. The Subcommittee will come to order. Today the Subcommittee on Tax Policy will hold the second in a series of hearings to focus on fundamental tax reform. At the last hearing we concentrated on Member proposals that would reform the U.S. tax system by moving away from an income tax-based system to a cash-flow or consumption as the basis for taxation.

This afternoon we will look at tax reform proposals within the context of an income tax system. And we are honored to have two of our esteemed colleagues here today to testify about bills they have developed to reform our current income tax system, reforms that fundamentally change our complex, unfair, and outdated Tax Code to make it more conducive to economic growth.

These are important ideas, and our colleagues have invested time and energy to develop and put them forward. I appreciate the seriousness of their commitment to advancing a pro-growth tax system for the 21st century.

We are also fortunate to have a second panel with Tom Barthold, Chief of Staff of the Joint Committee on Taxation. Mr. Barthold will help us explore key considerations and broad-based tax reform. He will use our former Chairman's tax reform plan, Dave Camp's plan, as an illustration of the kinds of choices that must be made in fundamental income tax reform. I know that discussion will be very beneficial to the Subcommittee.

Our hearing today is particularly timely, given that the deadline for individuals to file their tax returns is fast approaching. This year is a bit unusual because of the calendar. Tax Day is officially April 18th, which gives taxpayers a few more days to complete their annual tax filing obligation. But even that extra weekend is cold comfort when faced with all the forms, schedules, worksheets, and special rules that make up our broken Tax Code.

Tax reform should minimize the burden on American taxpayers so the billions of hours and tens of billions of dollars they spend on tax compliance today could be freed up and dedicated to creating a growing, vibrant economy.

As I said at our first hearing last month on this, our efforts on tax reform require that we take a fresh look and consider all ideas and proposals, including those being presented today. Ultimately, the Ways and Means Committee must weave the most pro-growth

concepts and ideas into a bold plan that fundamentally and comprehensively reforms our tax system. This hearing continues that effort, and the Subcommittee will continue to solicit and evaluate all ideas as we build consensus for a path forward.

Thank you again to each of our witnesses for taking time from your busy schedules to be with us today, and we look forward to hearing about your bold proposals.

And now I would yield to the distinguished Ranking Member, Mr. Neal, for the purposes of an opening statement.

Mr. NEAL. Thank you, Mr. Chairman, and I want to again acknowledge your efforts in calling this hearing today on income tax reform proposals. It is the second hearing that we have had in a month, and I do not believe, as you know—and we have discussed privately as well as professionally—that we are really any closer to reforming our broken and inefficient Tax Code.

Time is of the essence, Mr. Chairman. The American people are imploring us to act. We need to replace our current Code with one that promotes job growth, lifts wages for all workers, and grows the middle class.

The *Panama Papers* have highlighted the urgent need to crack down on those who engage in exotic tax schemes nationally and internationally in order to evade paying their share. If the recent wave of inversions were not enough to spur this Committee to action, perhaps the *Panama Papers* will.

Mr. Chairman, at the very least I hope that we can use this Subcommittee to hold hearings on these recent revelations. Reforming our Tax Code remains of the utmost importance. I look forward to hearing from our witnesses today on—as they offer their ideas and plans on how to create jobs, promote economic growth, and address those that knowingly and willfully engage in tax avoidance and tax evasion. Thank you, Mr. Chairman.

Chairman BOUSTANY. I thank the gentleman. We have a distinguished panel today. We will start with two of our fellow Members of the House of Representatives. And first we have the Honorable Bob Goodlatte, representing the Sixth District of Virginia. He will be testifying about H.R. 27, the Tax Code Termination Act, which would terminate the Internal Revenue Code by the end of 2019, with any new Federal tax system adhering to a set of principles that promotes simplicity and fairness.

And next we will hear from the Honorable Roger Williams, representing the 25th District of Texas. He will be testifying about a suite of bills that represent the Jumpstart America Act, which would consolidate individual tax rates, lower the corporate tax rate, and encourage business investment through immediate expensing.

Each of your tax reform bills will be made part of the formal hearing record. Traditionally, the Committee allots 5 minutes to each witness to deliver oral remarks. I might be a little lenient on this, but not too lenient, so we can get on with this.

But we will now begin with our good friend, Representative Goodlatte.

**STATEMENT OF HON. BOB GOODLATTE, A REPRESENTATIVE
IN CONGRESS FROM THE COMMONWEALTH OF VIRGINIA**

Mr. GOODLATTE. Well, thank you, Chairman Boustany and Ranking Member Neal. It is an honor to be here, and I appreciate the opportunity to testify before the Committee today.

You need look no further than Article 1, Section 8 of the Constitution, which grants that Congress shall have the power to lay and collect taxes, to see the role of this legislative body in crafting our Nation's tax policy. The American people have entrusted us with a great responsibility. Our constituents rightfully expect us to spend their hard-earned tax dollars responsibly, but they also expect that we collect tax revenues fairly, simply, and in a way that does not hinder job growth.

Both sides of the Federal ledger, revenues and expenditures, should reflect the fact that the American people are owners of this country, not just customers. For far too long, an unacceptable, complex Tax Code has remained the law of the land. Is it not enough that we collect the taxes we do from our neighbors, that we must also spend more of their resources complying with the Tax Code itself?

Tax Day is quite possibly the day that most reminds us of this unfairness. Citizens across the country will have spent weeks—and in some cases months—completing their tax returns by next Monday. They will devote billions of hours complying with the Tax Code, and will spend billions of hard-earned dollars on tax software, tax preparers, and other expenses related to collecting and filing their Federal income taxes.

I recommend the House Committee on Ways and Means—I commend them—for holding this hearing in advance of Tax Day. There is no time like the present to find real solutions to this complex problem.

While there are many in Congress with ideas for what a new tax system looks like, I have introduced legislation that would set a foundation to ensure we follow through with creating one. The Tax Code Termination Act simply puts a date certain on the expiration of our current Tax Code and, with a simple structure, directs Congress to establish a new tax system before that expiration. The bill is as simple as it sounds.

First it sets December 31, 2019 as the sunset date for our current Tax Code with exceptions for self-employment taxes, Federal insurance contribution taxes, and railroad retirement. Seniors health and retirement programs need to be debated and addressed separately and in a manner that isn't clouded by countless other issues and interests.

Second, it outlines a simple framework for a new tax system, one that applies a low rate to all Americans, provides tax relief for working Americans, protects the rights of taxpayers, and reduces collection abuses, eliminates the bias against savings and investment, promotes economic growth and job creation, and does not penalize marriage or families. To be clear, this legislation does not choose one proposal over another.

Third, the Tax Code Termination Act declares that a new tax system should be approved by July 4, 2019. And lastly, the bill requires a two-thirds majority for a change in these dates.

This legislation has twice passed the House of Representatives in the 105th and 106th Congresses, and is supported this Congress by 130 Members of the House, who all support different plans and ideas for tax reform. I am also proud to have the support of several Members of the Ways and Means Committee, including Chairman Brady and Subcommittee Chairman Boustany.

I have been proud to introduce this legislation for the past few congresses, and it would be my honor to work with each of you to see this legislation passed by the 114th Congress. I have yet to hear an argument for maintaining our current Tax Code, but I hear argument after argument for why we need a new one.

Comprehensive tax reform will not come overnight, but we should not delay taking a first step. Setting a date certain to implement a new tax system by 2020 will provide a real timeline for debating and approving a new tax system for our Nation.

Thank you for the opportunity to testify and I will be happy to answer any questions.

[The submission of The Honorable Bob Goodlatte follows:]



114TH CONGRESS
1ST SESSION

H. R. 27

To terminate the Internal Revenue Code of 1986.

IN THE HOUSE OF REPRESENTATIVES

JANUARY 6, 2015

Mr. GOODLATTE (for himself, Mr. MARINO, Mr. JOYCE, Mr. WALBERG, Mr. WILSON of South Carolina, Mr. FLORES, Mr. POE of Texas, Mr. PITTENGER, Mr. FRANKS of Arizona, Mr. MULVANEY, Mr. YOHIO, Mr. JONES, Mr. CHABOT, Mr. DUNCAN of Tennessee, Mr. CHAFFETZ, Mr. ROE of Tennessee, Mr. LONG, Mr. SENSENBRENNER, Mr. BILIRAKIS, Mr. GARRETT, Mr. GRIFFITH, Mr. CULBERSON, Mr. AMASH, Mr. SCHWEIKERT, Mr. AMODEI, Mr. WESTMORELAND, Mrs. BLACKBURN, Mr. WEBER of Texas, Mr. FORBES, Mr. NEWHOUSE, Mr. GOSAR, and Mr. WOODALL) introduced the following bill; which was referred to the Committee on Ways and Means, and in addition to the Committee on Rules, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned

A BILL

To terminate the Internal Revenue Code of 1986.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 SECTION 1. SHORT TITLE.

4 This Act may be cited as the “Tax Code Termination
5 Act”.

1 **SEC. 2. TERMINATION OF INTERNAL REVENUE CODE OF**
2 **1986.**

3 (a) IN GENERAL.—No tax shall be imposed by the
4 Internal Revenue Code of 1986—

5 (1) for any taxable year beginning after Decem-
6 ber 31, 2019; and

7 (2) in the case of any tax not imposed on the
8 basis of a taxable year, on any taxable event or for
9 any period after December 31, 2019.

10 (b) EXCEPTION.—Subsection (a) shall not apply to
11 taxes imposed by—

12 (1) chapter 2 of such Code (relating to tax on
13 self-employment income);

14 (2) chapter 21 of such Code (relating to Fed-
15 eral Insurance Contributions Act); and

16 (3) chapter 22 of such Code (relating to Rail-
17 road Retirement Tax Act).

18 **SEC. 3. NEW FEDERAL TAX SYSTEM.**

19 (a) STRUCTURE.—The Congress hereby declares that
20 any new Federal tax system should be a simple and fair
21 system that—

22 (1) applies a low rate to all Americans;

23 (2) provides tax relief for working Americans;

24 (3) protects the rights of taxpayers and reduces
25 tax collection abuses;

1 (4) eliminates the bias against savings and in-
2 vestment;

3 (5) promotes economic growth and job creation;
4 and

5 (6) does not penalize marriage or families.

6 (b) TIMING OF IMPLEMENTATION.—In order to en-
7 sure an easy transition and effective implementation, the
8 Congress hereby declares that any new Federal tax system
9 should be approved by Congress in its final form no later
10 than July 4, 2019.

11 **SEC. 4. DELAY OF TERMINATION DATES.**

12 (a) TWO-THIRDS MAJORITY REQUIRED.—In the
13 House of Representatives or the Senate, a bill or joint res-
14 olution, amendment, or conference report carrying a
15 change of the dates specified in section 2(a) of this Act
16 may not be considered as passed or agreed to unless so
17 determined by a vote of not less than two-thirds of the
18 Members voting, a quorum being present.

19 (b) RULES OF THE SENATE AND HOUSE.—The pro-
20 visions of subsection (a) are enacted by the Congress as
21 an exercise of the rulemaking power of the House of Rep-
22 resentatives and the Senate, respectively, and as such they
23 shall be considered as part of the rules of each House,
24 respectively, or of that House to which they specifically

- 1 apply, and such rules shall supersede other rules only to
- 2 the extent that they are inconsistent therewith.

○



Chairman BOUSTANY. I thank the gentleman.
Mr. Williams, you may proceed.

**STATEMENT OF HON. ROGER WILLIAMS, A REPRESENTATIVE
IN CONGRESS FROM THE STATE OF TEXAS**

Mr. WILLIAMS. Thank you, Mr. Chairman, for allowing me to testify this afternoon. Mr. Chairman, my tax plan, simply titled, "Jumpstart America," focuses on a business perspective tax reform. Other tax reform measures might focus on loopholes or pick winners and losers; mine does not. Frankly, we must begin to empower America's great assets, the small business community, the last real hope to turning our economy around and cash-flowing America.

Last Congress, when the conversation on tax reform began to take shape, I asked myself what areas were important to me, someone who is a second-generation small business owner with over 44 years of experience still owning my business, and someone who has just about seen it all when it comes to our national economy. I remember dollar gasoline, I remember 20 percent interest. I remember the '88 meltdown. We all remember 9/11. And I can tell you that Main Street America is hurting more now than ever before.

As I traveled around my district, and even since my first election, I talked to my fellow small business owners, I talked to manufacturing sector people. I talked to people in distribution, my friends in the oil and gas industry, and frankly, the average American entrepreneur just starting out.

So, Mr. Chairman, this is what I hear. First, they want a simplified Tax Code, both on the individual and corporate side. While there is debate on just how long it is, I think we can all agree the Tax Code needs to be simplified. H.R. 2842, the Individual Rate Simplification Act, brings the personal Code down to 20 percent for the first million and 30 percent for everything over a million. As many of the Members already know here today, business owners often use their personal tax returns as a flow-through for their companies. Taking the individual tax rate to a simple 20 percent creates a unified business income tax rate which is globally competitive.

Next, all businesses, big or small, want to spend less time on taxes. According to a poll conducted by the National Federation of Independent Business, most surveyed wanted a less complex tax system. Small business owners in particular found it frustrating to devote much of their time to taxes when they could instead focus on revenues and their company.

H.R. 2946, the Incentivize Corporate America Act, reduces the corporate tax rate to 20 percent. The United States current rate is around 39 percent, the highest statutory rate of any developed country in the free world. As we have seen over the last few years, companies are literally moving their headquarters to avoid rates. That is wrong and un-American. Lowering the tax rate would incentivize corporations to move their businesses back to the United States, helping us to regain our competitive edge in the global economy.

The next set of bills focuses on moving to a cash-flow tax base. H.R. 3017, the Invest in America Act, cuts the capital gains and dividends to 15 percent.

H.R. 3213, the Fixed Asset Relief Act, allows 100 percent expensing of fixed assets, providing businesses the ability to deduct tangible personal property from the tax base in their year of purchase. Instead of having to schedule out deductions, a small business owner will be able to take the entire deduction immediately. As someone who has personally done this, I can tell you this is a game changer. Bonus depreciation reduces the tax bias against investment and allows businesses to create new jobs and put more people to work.

Finally, H.R. 3216, the Paycheck Relief Act, reduces the payroll tax for not only the employee, but also the employer, by 2 percent. From 2011 to 2012, employees enjoyed a reduced rate that helped boost take-home pay for Americans. In addition, if future Administrations want to empower small business owners who employ half the private-sector jobs, combining a reduction in employee payroll taxes is crucial.

In 2010 the CBO explained that the Congress, by cutting the payroll taxes, would boost employment more if given to the employer, as well.

If these three bills sound familiar, well, they are not new ideas. Capital gains and dividend rates at 15 percent, accelerated depreciation on assets, and lowering the payroll tax all have been used before to help jumpstart the American economy in the past. And I believe it will help jumpstart America again.

The next pillar of my tax reform plan deals with keeping America competitive with other nations. We absolutely need to lower the repatriation tax rate in this Nation to 5 percent, while making it permanent, not on a one-time holiday basis. H.R. 3083, the Bring Jobs Back to America Act, is self-explanatory. It creates more jobs and brings jobs back to America we never had.

In addition, this plan recommends not eliminating last in/first out as an accounting method, or using an international method that puts American companies at a disadvantage. Industries that use the LIFO accounting method include car dealers, the beer and wine distributors, and almost anyone in the manufacturing industry, also in oil and gas. Although proponents of doing away with the LIFO point to a \$100 billion pot of money—a carry-forward, as we call it—I assure you any LIFO will destroy American companies and kill Main Street.

In addition, using international financing reporting standards or eliminating LIFO all together will not solve America's debt problem. Frankly, I was extremely disappointed to see LIFO used as a pay-for in the bill produced by the Committee's former Chairman last time. Over the last year I have worked closely with Members of the LIFO Coalition that advocate that LIFO not be used as a revenue offset in any tax plan moving forward. I hope their message is clear.

Mr. Chairman, lastly I would like to conclude that the bill is very personal to me. Under the leadership of Chairman Brady, the House just last year passed H.R. 1105, a bill that would repeal the estate tax. I would like to take a moment to tell Members of this Committee a quick story.

In 1939 a young man started a car dealership to realize the American Dream. When he died that dealership was passed to his

son, along with a death tax liability. A mere 3 days after the father's death, the IRS came to collect and wanted 55 percent of the value of the business. His son nearly declared bankruptcy, but was fortunate to gather enough resources to keep the business afloat and save hundreds of jobs. The son still runs his dealership and employs over 100 people. Mr. Chairman, that son is me.

My story, unfortunately, is not uncommon, as many farmers and ranchers in my district have similar stories. Let's end this tax once and for all. And I appreciate your continued support.

So, in closing, Mr. Chairman, I spent the last 2 years talking about this tax reform plan. And although my staff might be tired of it, I hope you can tell that I am very passionate about it. Jumpstart has the support of Douglas Holtz-Eakin, the former Director of the Congressional Budget Office, and former FDIC Chairman, Don Powell, who said the plan was a thoughtful, common-sense approach to one of the most important issues facing America.

Last month I was honored to have Grover Norquist's Americans for Tax Reform call my plan a model for pro-growth tax reform. I encourage the Committee to consider cash-flow, pro-growth, pro-business-friendly tax reform ideas when considering tax reform in the future.

I want to again thank you for allowing me this time this afternoon, and I welcome any questions you may have. Thank you.

[The submissions of The Honorable Roger Williams follow:]



114TH CONGRESS
1ST SESSION

H. R. 2842

To amend the Internal Revenue Code of 1986 to simplify individual income tax rates.

IN THE HOUSE OF REPRESENTATIVES

JUNE 18, 2015

Mr. WILLIAMS introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To amend the Internal Revenue Code of 1986 to simplify individual income tax rates.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 SECTION 1. SHORT TITLE.

4 This Act may be cited as the “Individual Rate Sim-
5 plification Act of 2015”.

6 SEC. 2. SIMPLIFIED INDIVIDUAL INCOME TAX RATES.

7 (a) IN GENERAL.—Section 1(i) of the Internal Rev-
8 enue Code of 1986 is amended by striking paragraphs (2)
9 and (3), by redesignating paragraph (4) as paragraph (3),

1 and by inserting after paragraph (1) the following new
2 paragraph:

3 “(2) 20- AND 30-PERCENT RATE BRACKETS.—

4 “(A) IN GENERAL.—In the case of taxable
5 years beginning after December 31, 2015, the
6 rate of tax under subsections (a), (b), (c), and
7 (d) on taxable income which would (without re-
8 gard to this paragraph) be taxed at a rate over
9 15 percent shall be—

10 “(i) 20 percent on taxable income not
11 over \$1,000,000, and

12 “(ii) 30 percent on taxable income
13 over \$1,000,000.

14 “(B) INFLATION ADJUSTMENT.—In pre-
15 scribing the tables under subsection (f) which
16 apply with respect to taxable years beginning
17 after 2016, the \$1,000,000 amount in subpara-
18 graph (A) shall be increased by an amount
19 equal to—

20 “(i) such dollar amount, multiplied by

21 “(ii) the cost-of-living adjustment de-
22 termined under subsection (f)(3) for the
23 calendar year in which the taxable year be-
24 gins determined by substituting ‘calendar

1 year 2015' for 'calendar year 1992' in sub-
2 paragraph (B) thereof.

3 If any adjustment under the preceding sentence
4 is not a multiple of \$100, such amount shall be
5 rounded to the next lowest multiple of \$100.”.

6 (b) EFFECTIVE DATE.—The amendments made by
7 this section shall apply to taxable years beginning after
8 December 31, 2015.

○



114TH CONGRESS
1ST SESSION

H. R. 2946

To amend the Internal Revenue Code of 1986 to reduce the corporate income tax rate to 20 percent.

IN THE HOUSE OF REPRESENTATIVES

JUNE 25, 2015

Mr. WILLIAMS introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To amend the Internal Revenue Code of 1986 to reduce the corporate income tax rate to 20 percent.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Incentivize Corporate
5 America Act of 2015”.

6 **SEC. 2. 20-PERCENT CORPORATE TAX RATE.**

7 (a) IN GENERAL.—Subsection (b) of section 11 of the
8 Internal Revenue Code of 1986 is amended to read as fol-
9 lows:

1 “(b) AMOUNT OF TAX.—The amount of the tax im-
2 posed by subsection (a) shall be 20 percent of taxable in-
3 come.”.

4 (b) CONFORMING AMENDMENTS.—

5 (1) Paragraphs (2)(B) and (6)(A)(ii) of section
6 860E(e) of such Code are each amended by striking
7 “section 11(b)(1)” and inserting “section 11(b)”.

8 (2)(A) Section 1445(e)(1) of such Code is
9 amended—

10 (i) by striking “35 percent” and inserting
11 “the rate of tax in effect for the taxable year
12 under section 11(b)”, and

13 (ii) by striking “of the gain” and inserting
14 “multiplied by the gain”.

15 (B) Section 1445(e)(2) of such Code is amend-
16 ed by striking “35 percent of the amount” and in-
17 serting “the rate of tax in effect for the taxable year
18 under section 11(b) multiplied by the amount”.

19 (C) Section 1445(e)(6) of such Code is amend-
20 ed—

21 (i) by striking “35 percent” and inserting
22 “the rate of tax in effect for the taxable year
23 under section 11(b)”, and

24 (ii) by striking “of the amount” and in-
25 serting “multiplied by the amount”.

1 (D) Section 1446(b)(2)(B) of such Code is
2 amended by striking “section 11(b)(1)” and insert-
3 ing “section 11(b)”.

4 (3) Section 852(b)(1) of such Code is amended
5 by striking the last sentence.

6 (4) Section 7874(e)(1)(B) of such Code is
7 amended by striking “section 11(b)(1)” and insert-
8 ing “section 11(b)”.

9 (c) EFFECTIVE DATE.—

10 (1) IN GENERAL.—Except as otherwise pro-
11 vided in this subsection, the amendments made by
12 this section shall apply to taxable years beginning
13 after December 31, 2015.

14 (2) WITHHOLDING.—The amendments made by
15 subsection (b)(2) shall apply to distributions made
16 after December 31, 2015.

○



114TH CONGRESS
1ST SESSION

H. R. 3017

To amend the Internal Revenue Code of 1986 to make the maximum capital gains rate for individuals 15 percent.

IN THE HOUSE OF REPRESENTATIVES

JULY 9, 2015

Mr. WILLIAMS introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To amend the Internal Revenue Code of 1986 to make the maximum capital gains rate for individuals 15 percent.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 SECTION 1. SHORT TITLE.

4 This Act may be cited as the “Invest in America Act
5 of 2015”.

6 SEC. 2. 15 PERCENT MAXIMUM CAPITAL GAINS RATE.

7 (a) IN GENERAL.—Section 1(h) of the Internal Rev-
8 enue Code of 1986 is amended by striking subparagraphs
9 (C) and (D), by redesignating subparagraphs (E) and (F)
10 as subparagraphs (D) and (E), respectively, and by insert-

1 ing after subparagraph (B) the following new subpara-
2 graph:

3 “(C) 15 percent of the adjusted net capital
4 gain (or, if less, taxable income) in excess of the
5 amount on which a tax is determined under
6 subparagraph (B),”.

7 (b) EFFECTIVE DATE.—The amendments made by
8 this section shall apply to taxable years beginning after
9 December 31, 2014.

○



114TH CONGRESS
1ST SESSION

H. R. 3083

To amend the Internal Revenue Code of 1986 to make permanent the dividends received deduction for repatriated foreign earnings, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

JULY 15, 2015

Mr. WILLIAMS introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To amend the Internal Revenue Code of 1986 to make permanent the dividends received deduction for repatriated foreign earnings, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Bring Jobs Back to
5 America Act of 2015”.

1 SEC. 2. MODIFICATION AND PERMANENT EXTENSION OF
2 THE INCENTIVES TO REINVEST FOREIGN
3 EARNINGS IN THE UNITED STATES.

4 (a) REPATRIATION SUBJECT TO 5 PERCENT TAX
5 RATE.—Section 965(a)(1) of the Internal Revenue Code
6 of 1986 is amended by striking “85 percent” and inserting
7 “85.7 percent”.

8 (b) PERMANENT EXTENSION TO ELECT REPATRI-
9 ATION.—Section 965(f) of such Code is amended to read
10 as follows:

11 “(f) ELECTION.—The taxpayer may elect to apply
12 this section to any taxable year only if made on or before
13 the due date (including extensions) for filing the return
14 of tax for such taxable year.”.

15 (c) REPATRIATION INCLUDES CURRENT AND ACCU-
16 MULATED FOREIGN EARNINGS.—

17 (1) IN GENERAL.—Section 965(b)(1) of such
18 Code is amended to read as follows:

19 “(1) IN GENERAL.—The amount of dividends
20 taken into account under subsection (a) shall not ex-
21 ceed the sum of the current and accumulated earn-
22 ings and profits described in section 959(c)(3) for
23 the year a deduction is claimed under subsection (a),
24 without diminution by reason of any distributions
25 made during the election year, for all controlled for-
26 eign corporations of the United States shareholder.”.

1 (2) CONFORMING AMENDMENTS.—

2 (A) Section 965(b) of such Code is amend-
3 ed by striking paragraph (2) and by redesignig-
4 nating paragraphs (3) and (4) as paragraphs
5 (2) and (3), respectively.

6 (B) Section 965(c) of such Code is amend-
7 ed by striking paragraphs (1) and (2) and by
8 redesignating paragraphs (3), (4), and (5) as
9 paragraphs (1), (2), and (3), respectively.

10 (C) Section 965(c)(3) of such Code, as re-
11 designated by subparagraph (B), is amended to
12 read as follows:

13 “(3) CONTROLLED GROUPS.—All United States
14 shareholders which are members of an affiliated
15 group filing a consolidated return under section
16 1501 shall be treated as one United States share-
17 holder.”.

18 (d) CLERICAL AMENDMENTS.—

19 (1) The heading for section 965 of such Code
20 is amended by striking “**TEMPORARY**”.

21 (2) The table of sections for subpart F of part
22 III of subchapter N of chapter 1 of such Code is
23 amended by striking “Temporary dividends” and in-
24 serting “Dividends”.

1 (e) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to taxable years ending after the
3 date of the enactment of this Act.

○



114TH CONGRESS
1ST SESSION

H. R. 3213

To amend the Internal Revenue Code of 1986 to make 100 percent bonus depreciation permanent.

IN THE HOUSE OF REPRESENTATIVES

JULY 23, 2015

Mr. WILLIAMS introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To amend the Internal Revenue Code of 1986 to make 100 percent bonus depreciation permanent.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 SECTION 1. SHORT TITLE.

4 This Act may be cited as the “Fixed Asset Relief Act
5 of 2015”.

6 SEC. 2. BONUS DEPRECIATION INCREASED TO 100 PER- 7 CENT AND MADE PERMANENT.

8 (a) INCREASE.—Section 168(k)(1)(A) of the Internal
9 Revenue Code of 1986 is amended by striking “50 per-
10 cent” and inserting “100 percent”.

1 (b) MADE PERMANENT.—Section 168(k)(2) of the
2 Internal Revenue Code of 1986 is amended to read as fol-
3 lows:

4 “(2) QUALIFIED PROPERTY.—For purposes of
5 this subsection—

6 “(A) IN GENERAL.—The term ‘qualified
7 property’ means property—

8 “(i)(I) to which this section applies
9 which has a recovery period of 20 years or
10 less,

11 “(II) which is computer software (as
12 defined in section 167(f)(1)(B)) for which
13 a deduction is allowable under section
14 167(a) without regard to this subsection,

15 “(III) which is water utility property,
16 or

17 “(IV) which is qualified leasehold im-
18 provement property, and

19 “(ii) the original use of which com-
20 mences with the taxpayer.

21 “(B) EXCEPTION FOR ALTERNATIVE DE-
22 PRECIATION PROPERTY.—The term ‘qualified
23 property’ shall not include any property to
24 which the alternative depreciation system under
25 subsection (g) applies, determined—

1 “(i) without regard to paragraph (7)
2 of subsection (g) (relating to election to
3 have system apply), and

4 “(ii) after application of section
5 280F(b) (relating to listed property with
6 limited business use).

7 “(C) SPECIAL RULES.—

8 “(i) SALE-LEASEBACKS.—For pur-
9 poses of clause (ii) and subparagraph
10 (A)(ii), if property is—

11 “(I) originally placed in service
12 by a person, and

13 “(II) sold and leased back by
14 such person within 3 months after the
15 date such property was originally
16 placed in service,

17 such property shall be treated as originally
18 placed in service not earlier than the date
19 on which such property is used under the
20 leaseback referred to in subclause (II).

21 “(ii) SYNDICATION.—For purposes of
22 subparagraph (A)(ii), if—

23 “(I) property is originally placed
24 in service by the lessor of such prop-
25 erty,

1 “(II) such property is sold by
2 such lessor or any subsequent pur-
3 chaser within 3 months after the date
4 such property was originally placed in
5 service (or, in the case of multiple
6 units of property subject to the same
7 lease, within 3 months after the date
8 the final unit is placed in service, so
9 long as the period between the time
10 the first unit is placed in service and
11 the time the last unit is placed in
12 service does not exceed 12 months),
13 and

14 “(III) the user of such property
15 after the last sale during such 3-
16 month period remains the same as
17 when such property was originally
18 placed in service,

19 such property shall be treated as originally
20 placed in service not earlier than the date
21 of such last sale.

22 “(D) COORDINATION WITH SECTION
23 280F.—For purposes of section 280F—

24 “(i) AUTOMOBILES.—In the case of a
25 passenger automobile (as defined in section

1 280F(d)(5)) which is qualified property,
2 the Secretary shall increase the limitation
3 under section 280F(a)(1)(A)(i) by \$8,000.

4 “(ii) LISTED PROPERTY.—The deduc-
5 tion allowable under paragraph (1) shall be
6 taken into account in computing any re-
7 capture amount under section 280F(b)(2).

8 “(iii) INFLATION ADJUSTMENT.—In
9 the case of any taxable year beginning in
10 a calendar year after 2015, the \$8,000
11 amount in clause (i) shall be increased by
12 an amount equal to—

13 “(I) such dollar amount, multi-
14 plied by

15 “(II) the automobile price infla-
16 tion adjustment determined under sec-
17 tion 280F(d)(7)(B)(i) for the calendar
18 year in which such taxable year begins
19 by substituting ‘2014’ for ‘1987’ in
20 subclause (II) thereof.

21 If any increase under the preceding sen-
22 tence is not a multiple of \$100, such in-
23 crease shall be rounded to the nearest mul-
24 tiple of \$100.

1 “(E) DEDUCTION ALLOWED IN COMPUTING
2 MINIMUM TAX.—For purposes of determining
3 alternative minimum taxable income under sec-
4 tion 55, the deduction under section 167 for
5 qualified property shall be determined without
6 regard to any adjustment under section 56.”.

7 (c) EFFECTIVE DATE.—The amendments made by
8 this section shall apply to property placed in service after
9 December 31, 2014.

○



114TH CONGRESS
1ST SESSION

H. R. 3267

To amend the Internal Revenue Code of 1986 to reduce the rate of payroll and self-employment taxes, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

JULY 28, 2015

Mr. WILLIAMS introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To amend the Internal Revenue Code of 1986 to reduce the rate of payroll and self-employment taxes, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 SECTION 1. SHORT TITLE.

4 This Act may be cited as the “Paycheck Relief Act
5 of 2015”.

6 SEC. 2. FICA TAX RATE REDUCTIONS.

7 (a) OLD-AGE, SURVIVORS, AND DISABILITY INSUR-
8 ANCE.—Sections 3101(a) and 3111(a) of the Internal
9 Revenue Code of 1986 are each amended—

1 (1) by striking all that follows “section
2 3121(b))” and inserting a period, and

3 (2) by striking “the following percentages of the
4 wages” and inserting “3.1 percent of the wages”.

5 (b) HOSPITAL INSURANCE.—

6 (1) EMPLOYEES.—Section 3101(b) of such
7 Code is amended—

8 (A) by striking “1.45 percent” in para-
9 graph (1) and inserting “0.725 percent”, and

10 (B) by striking “0.9 percent” in paragraph
11 (2) and inserting “0.45 percent”.

12 (2) EMPLOYERS.—Section 3111(b) of such
13 Code is amended—

14 (A) by striking all that follows “section
15 3121(b))” and inserting a period, and

16 (B) by striking “the following percentages
17 of the wages” and inserting “0.725 percent of
18 the wages”.

19 (c) EFFECTIVE DATE.—The amendments made by
20 this section shall apply remuneration paid after December
21 31, 2015.

22 **SEC. 3. TAX ON SELF-EMPLOYMENT INCOME.**

23 (a) OLD-AGE, SURVIVORS, AND DISABILITY INSUR-
24 ANCE.—Section 1401(a) of the Internal Revenue Code of
25 1986 is amended—

1 (1) by striking all that follows “for such taxable
2 year” and inserting a period, and

3 (2) by striking “the following percent” and in-
4 serting “6.2 percent”.

5 (b) HOSPITAL INSURANCE.—Section 1401(b) of such
6 Code is amended—

7 (1) by striking all that follows “for such taxable
8 year” in paragraph (1) and inserting a period,

9 (2) by striking “the following percent” in para-
10 graph (1) and inserting “1.45 percent”, and

11 (3) by striking “0.9 percent” in paragraph
12 (2)(A) and inserting “0.45”.

13 (c) EFFECTIVE DATE.—The amendments made by
14 this section shall apply with respect to remuneration re-
15 ceived after December 31, 2015.

○

Chairman BOUSTANY. Well, we thank—I want to thank both our colleagues for bringing these important ideas forward. And to my friend from Texas, I would say that you—thanks for sharing your personal story with us. I think it is important to understand the real-life consequences of our tax policies, so I want to thank you for that. And I thank you for bringing these pro-growth ideas forward. They are very important, and should be incorporated in what we do.

And to my friend from Virginia, clearly you are trying to impart a sense of urgency with Congress to move forward. And I was having that conversation with my colleague here, the Ranking Member of the Subcommittee, about the need for urgency to do something, because the problems are mounting rapidly. Whether it is a small business here in the United States or a U.S.-headquartered company with subsidiaries around the world, U.S. business is under assault, and U.S. business needs tax relief.

So I just want to thank both of you.

And with that, Mr. Neal, if you have a few comments or questions?

Mr. NEAL. Thanks, Mr. Chairman. I thought that the way that we acted on incremental tax reform at the end of the year is probably not the best way to do it. But nonetheless, it provided some momentum. And I think that it was actually a pretty skilled bipartisan piece of legislation, and I think there is an opportunity here to go forward. Whether or not the lesson of incrementalism or a much broader tax package can be accomplished I think is something we are going to have to continue to discuss and debate. And—but I did think that, at the end of the year, we found a way forward with, really, minimal controversy.

Chairman BOUSTANY. Mr. Reichert.

Mr. REICHERT. Thank you, Mr. Chairman. I just have a comment. I was going to ask a question, but your testimony answered it for me from both of you. Thank you for your hard work.

To me, tax reform is really about—it is a pro-growth effort that creates an environment where businesses can grow and, obviously, create jobs. Your ideas and thoughts that you shared with us today, I think, fall directly in line with what I envision tax reform to be. And I look forward to working with both of you and thank you for your hard work and thank you for your testimony today.

Chairman BOUSTANY. Mr. Thompson. You have nothing? Okay. Mr. Kelly. No? Mr. Renacci.

Mr. RENACCI. A question.

Chairman BOUSTANY. Yes.

Mr. RENACCI. Thank you, Mr. Chairman, and thank you for holding the hearing.

I want to re-emphasize how important it is to understand who bears the burden of high corporate tax rates. I mean I have said it before, I will say it again: The burden of corporate tax does not ultimately fall on the corporations, it is borne by the people, either customers, investors, or workers. Larry Kudlow re-emphasized this point in a column he authored just last week: “Companies don’t just pay corporate taxes out of their own pockets. They pass it along in the form of lower wages and benefits to workforce, higher prices for consumers, and low stock valuations for investors.”

So, with that, I have often said we have to look at our corporate tax rate, and I am a big believer we have to reduce that, just to be competitive, worldwide.

I have sensed some Members here today understand this, and I am grateful they are here, really, to discuss their ideas.

Mr. Goodlatte, urgency, I agree with you. We have to have reasons and be forced—you know, forcing Congress and the Administration to act on tax reform. We have been talking about it, we need to get it done. It is nearly impossible to defend the status quo, the problem.

However, when you want to talk about the importance of taxpayers having some level of certainty and predictability, I would be extremely concerned that we have a deadline and we don't have an answer, and we bring uncertainty and unpredictability really to the taxpayer. We saw that in the extenders. Every 2 years we extended, we brought uncertainty, we had unpredictability, we had deadlines, we forced deadlines, and all we did was extend, extend, extend, until most recently, when we had the PATH Act and had some permanency to it.

So, I guess I would just ask you. What are your thoughts there? Because I am not big on deadlines. In fact, I had a bill last year in—as far as the user fee gas tax. It said we had—Congress had 2 years, and if they didn't come up with an answer, that the gas tax would go up. And everybody got upset that—nobody wanted to have a deadline. So explain to me your thoughts on, you know, the downside of forcing a deadline when we have to make sure we have an answer.

Mr. GOODLATTE. Well, this deadline is quite a ways into the future, and it is really designed to move tax reform to the front burner. We don't have to wait anywhere near that deadline if we come up with—and, you know, it can be any kind of tax reform. We don't specify whether it is a flat income tax or a consumption-based tax, or a major overhaul of our current tax structure like the excellent one just described by my colleague from Texas. But the problem is everybody here agrees that our current Tax Code really stinks, but nobody has anywhere close to the consensus on how to do substantial tax reform.

I agree with the gentleman from Massachusetts, that a small amount of progress was made at the end of last year. But compared to what needs to be done, not just with regard to our corporate rates but the complexity of the Tax Code, the disincentives to invest in this country and so on, we need to move it to the front burner.

And so, I think the only way you are going to get that kind of focus and put it on the front burner is to say to folks, "This is our top priority." Because as soon as you say we are ending the current Tax Code by a certain date, you are going to accomplish that goal. And that is going to focus everybody on, well, what are you going to do to avoid that uncertainty 3, 4 years down the road from now?

And that is why I think it is important for us to take this stand now, to move it to the front burner and deal with it now, so we don't get to the point that you are making well, and that is that what if you get right up to the end of 2019 and you didn't have anything done? You would have created greater uncertainty.

Mr. RENACCI. I agree with you. And again, the only issue I continue to go back to is we extended the highway bill, we extended a highway infrastructure bill 33 times. So that is the problem—

Mr. GOODLATTE. This will require a super-majority to extend it beyond 2019.

Mr. RENACCI. I understand.

Mr. GOODLATTE. I think it will focus the mind. That is the goal.

Mr. RENACCI. I understand. Mr. Williams, I also agree with some of the concepts you put forward in your package of bills. I do have a couple of questions.

I have also had a couple of ideas for tax reform. And as soon as you get it scored either conventionally or using dynamic scoring, you realize that there are some serious issues with it. Have you ever had your proposal scored to see what the effects are of the dynamic—or even a conventional?

Mr. WILLIAMS. We have had it unofficially dynamic scored. That is—and basically, what we see is that for 2 years your revenue may go down, but after that it climbs because you are putting more people to work, you are heading toward your 5 percent unemployment, 4 percent growth.

And, I mean, that is the last thing we have to do. We have tried a lot of things that haven't worked, zero percent and stimulus. Job creators are the ones left to rely on getting people back to work again and on creating more revenue. And we can put this plan to use and it will generate more income and hopefully reduce some debt along the way.

Mr. RENACCI. Well, I am a big believer we have to lower taxes. I just want to make sure we get it scored and see what the score is.

One other thing. You have in your bill, the Paycheck Relief Act, the bill reduces payroll taxes by 2 percent. That is—is that 2 percent for both employers and employees? But the other thing I want to bring up is the Social Security Trust Fund is projected to be insolvent in less than 20 years. Do you have the data detailing the impact of cutting the payroll taxes and the amount that it would have on the solvency of the Social Security Trust Fund?

Mr. GOODLATTE. Well, we have to fix those accounts, but I will tell you this. I believe that we can have more people paying in the system if we get more people to work. And the employee is going to have more money in their pocket, we know that. And the employer is going to have more money, because he doesn't have to match that. And when we have more money, most businesses don't save. They spend, they hire people, they create jobs.

And, you know, eventually, you have one person paying, I guess. But we have—this gives you more customers buying into the system, generating more revenue.

Mr. RENACCI. Thank you. I yield back.

Chairman BOUSTANY. Mr. Holding.

Mr. HOLDING. Thank you. I want to thank my colleagues, Chairman Goodlatte and Mr. Williams, for being here today and discussing their income-based proposals for reforming the Tax Code. I also want to thank Chairman Boustany for holding this hearing. You know, we really need to encourage the kind of bold

thinking, innovative proposals we have discussed over the past two hearings that we have had now.

As has been made clear today, and in the numerous other hearings we have had, our Tax Code has become overly complicated and uncompetitive, compared to foreign jurisdictions. We have seen other jurisdictions lower their rate. In some cases, like the United Kingdom, over and over again. I think they just lowered it in the last budget to 17 percent. And foreign jurisdictions have increased incentives to draw businesses to their shores. And yet we have failed to act to keep pace.

So, Chairman Goodlatte, I applaud your efforts to lock Congress into a deadline and drive action on overhauling the Tax Code.

Thank you.

And Chairman Goodlatte, I would like to direct a question to you. Earlier this morning we held a markup here in the Ways and Means Committee on a number of IRS oversight bills. And in your proposal you specifically single out the need for the Tax Code to protect the rights of taxpayers and reduce collection abuses, which is definitely an important goal, I think, of all of us.

In your role as Chairman of the Judiciary Committee what issues or concerns have you seen with regard to these abuses? And how do you think we should shape the Tax Code to adequately protect our citizens?

Mr. GOODLATTE. Well, I think it is very important that the Congress maintain very active oversight over the Internal Revenue Service. Other branches of the agency, as well. But the trust of the public in the tax system to be fair is of paramount importance. And I think some of that has been lost in recent years, particularly with regard to scandals such as the targeting by the IRS of certain types of organizations as to whether or not they could qualify for certain tax statuses. And the evidence, I think, is quite strong that that took place and, therefore, engenders a sense of unfairness on the part of the public as to how our Tax Code, which is extraordinarily complex to begin with, is being administered, isn't being fairly administered with regard to each and every citizen, each and every taxpayer of our country.

So, we take that very seriously in the Judiciary Committee, and we hope that the same thing will be true here in the Ways and Means Committee, where I know you have investigated some of the same matters.

Mr. HOLDING. Thank you. Thank you, Mr. Chairman, and thank you, Mr. Chairman. I yield back.

Chairman BOUSTANY. Mr. Tiberi.

Mr. TIBERI. Thank you, Mr. Chairman. I apologize for being late. I had some constituents here.

I appreciate both of you testifying. I really don't have any questions. But, Mr. Williams, I was excited to see 3213, the expensing provisions. As you know, we passed a bill out of this Committee onto the House floor that became law, expanding 179 and making it permanent. And 50 percent bonus depreciation for 5 years. And I was excited to see your proposal about expensing, as well. So good luck with that.

Mr. WILLIAMS. Thank you.

Mr. TIBERI. I think you are on the wrong—right track.

Mr. WILLIAMS. Let's make it work.

Mr. TIBERI. Yes, thank you. Thank you both.

Chairman BOUSTANY. I thank the gentleman.

Well, I want to thank both of our colleagues for bringing these ideas forward. And rest assured we are going to take these under consideration as we move forward. And I do appreciate, Mr. Goodlatte, your sense of urgency. I think those of us on the Committee share that, and are hopeful that we can continue to move the needle forward with regard to getting tax reform done.

So, with that, we will move on to the second panel, and we thank you. I should also say be advised that over the next 2 weeks Members may have some additional questions they may submit in writing to you, and we ask that you make those answers promptly so we can make them part of the record. We thank you.

[Pause.]

Now we will hear from our second panel in the person of the Chief of Staff of the Joint Committee on Taxation, Mr. Thomas Barthold. Mr. Barthold will discuss considerations in broad-based income tax reform using former Ways and Means Chairman Dave Camp's Tax Reform Act of 2014 for illustration. The Committee has received your written statement, and it will be made part of the formal record. And so you will have 5 minutes to proceed, as is customary.

And I know you have been with us pretty much all day, Mr. Barthold, so we appreciate you returning for this Subcommittee hearing.

**STATEMENT OF THOMAS A. BARTHOLD,
CHIEF OF STAFF, JOINT COMMITTEE ON TAXATION**

Mr. BARTHOLD. Well, thank you very much, Chairman Boustany and Mr. Neal, Members of the Subcommittee.

The Chairman and Ranking Member asked me if I could just—if I could use former Chairman Camp's H.R. 1 as an example of broad-based income tax reform. I think it is a good example that highlights a number of the important questions that face the Members in considering any tax reform proposal.

Just in analyzing any tax system or any reform there is really kind of four key questions that we are always asking: Does the tax system or reform promote economic efficiency; does it promote growth; is the system fair; is the tax system administrable, both for the taxpayer and the tax administrator, the Internal Revenue Service.

In crafting any tax reform proposal, there are tradeoffs because, often, a proposal that promotes efficiency we might determine isn't as fair as we would like. And so we are always trading off one goal against another.

Now, another factor that was dealt with by former Chairman Camp, in crafting his proposal, is he added on additional constraints. He wanted his proposal to be revenue neutral, as conventionally estimated. He wanted to maintain approximately the distribution of tax burdens. He wanted to not have a shift in business taxes between flow-through businesses, C corporations, and from domestic C corporations to multinational enterprises. So there is a number of different constraints, and I think you can see a lot of

the tradeoffs if we just tick through, as my testimony does, the outcomes as expressed in H.R. 1.

On the individual side, H.R. 1 achieved a rate reduction. It reduced effective marginal tax rates on individual income tax to 10 percent, 15 percent, and 35 percent, while maintaining a 40 percent deduction for dividends and capital gains. So that produced effective tax rates commensurately of 6 percent, 15 percent, and 21 percent.

Well, reducing rates generally costs the Treasury revenues. How is that achieved—how was that offset? Base broadening. H.R. 1 repealed all deductions for State and local taxes, modified a number of other deductions, such as the charitable deduction, mortgage interest deduction, deduction for moving expenses. Repealed the dependent care credit. Repealed all of the non-business energy personal credits, repealed or modified a number of other exclusions, such as some of the exclusions for employee fringe benefits.

Now, in addition to broadening the base to achieve lower rates, a number of these decisions also had the effect of increasing the simplicity of the individual income tax. Repealing a number of different credits and deductions means there is less paperwork required. We are not choosing between different possibilities. That promotes economic efficiency. But explicitly to improve simplification, H.R. 1 also repealed the individual income tax. It consolidated the American Opportunity Tax Credit.

On the business side, H.R. 1 again reduced the corporate income tax rate to 25 percent, further reduced the tax rate for a number of corporate taxpayers by repealing the Alternative Minimum Tax while maintaining a fairly strong research credit. Again, rate reductions tend to cost money. How was this achieved? Well, the base broadening.

The H.R. 1 repealed bonus—allowed bonus depreciation to expire and required straight-line depreciation over the ADS recovery periods. It required amortization at 50 percent of advertising expenses over a 10-year period. It required amortization of research expenses. It repealed LIFO, which was just noted on the last panel. It phased out the present law deduction for our domestic manufacturing under Section 199.

Now again, base broadening in this context served multiple purposes. To the extent that certain activities are favored and these distinctions were repealed, that improved economic efficiency and neutrality.

In cross-border taxation, again, you see H.R. 1 established a 95 percent participation exemption system. That has the effect of reducing the residual U.S. tax liability on foreign source income earned through CFCs, effectively again lowering the rate of tax applicable for repatriated foreign source income.

However, the bill achieved this in part by establishing a new category of subpart F income, foreign based company intangible income, that, while taxed at a reduced rate of 15 percent, had the effect of broadening the amount of tax base currently subject to U.S. tax.

If I may take an extra 30 seconds? Well, what was the overall effect? Did H.R. 1 meet its goals? H.R. 1 was roughly revenue neutral, raising \$3 billion over the budget period. I think that it is im-

portant to note that in context that is out of over a 10-year budget estimate of over \$20 billion in—\$20 trillion, excuse me, in individual income tax receipts and \$4 trillion in corporate tax receipts.

Distributionally, the average tax rates under present law, and as we estimated them for H.R. 1, were roughly the same. And to refer to the note that Mr. Renacci had made, our analysis does assume that the corporate tax burden is borne by individuals, that corporations are not entities of themselves in terms of a tax burden.

And on the growth front, you—I am sure you remember from the materials that we put out that we estimated that H.R. 1 would be likely to increase real gross domestic product by between a tenth of a percent and 1.6 percent by the end of the budget period.

I would be happy to answer any more detailed questions that the Members have. And I think what you see in H.R. 1 was a lot of tradeoffs in base broadening, tradeoffs between simplicity, tradeoffs between neutrality. Thank you.

[The prepared statement of Mr. Barthold follows:]



JOINT COMMITTEE ON TAXATION
April 13, 2016
JCX-26-16

**TESTIMONY OF THE STAFF OF THE JOINT COMMITTEE ON TAXATION
BEFORE THE HOUSE WAYS AND MEANS TAX POLICY SUBCOMMITTEE
HEARING ON FUNDAMENTAL TAX REFORM PROPOSALS¹**

APRIL 13, 2016

My name is Thomas Barthold. I am the Chief of Staff of the Joint Committee on Taxation. The purpose of today's hearing is to discuss issues arising in attempting to reform the Federal tax system. Beginning 100 years ago, the Congress has relied primarily on the income tax to fund the Federal government. While considering alternatives,² in the Tax Reform Act of 1986 the Congress and President Reagan decided to reform the existing Federal income tax generally by broadening the base of income tax and lowering statutory tax rates.

In this subcommittee's hearing on March 22, 2016, Members of Congress presented proposals that would reform the Federal tax system by shifting the tax base from an income tax base to what economists refer to as a consumption tax base. For today's hearing, Chairman Boustany and Ranking Member Neal have asked me to briefly review the legislation introduced by former Ways and Means Committee Chairman Dave Camp in the 113th Congress, H.R. 1, the "Tax Reform Act of 2014."³ That legislation, like the Tax Reform Act of 1986, proposed broadening the base of income tax while lowering statutory tax rates.

¹ This document may be cited as follows: Joint Committee on Taxation, *Testimony of the Staff of the Joint Committee on Taxation Before the House Ways and Means Tax Policy Subcommittee Hearing on Fundamental Tax Reform Proposals* (JCX-26-16), April 13, 2016. This document can also be found on the Joint Committee on Taxation website at <http://www.jct.gov>.

² Department of the Treasury, *Tax Reform for Fairness, Simplicity, and Economic Growth*, 1984, vols. 1-3.

³ H.R. 1 (113th Cong.), introduced December 10, 2014, by then Chairman Dave Camp. Additional Joint Committee on Taxation staff analysis of H.R. 1 can be found in *Technical Explanation, Estimated Revenue Effects, Distribution Analysis, and Macroeconomic Analysis of the Tax Reform Act of 2014, A Discussion Draft of the Chairman of the House Committee on Ways and Means to Reform the Internal Revenue Code* (JCS-1-14), September 2014. This document can also be found on the Joint Committee on Taxation website at <http://www.jct.gov>.

In assessing any tax system or reform, policymakers make their assessment across four dimensions.

1. Does the tax system promote economic efficiency? That is, is the tax system neutral or does it create biases in favor of or against certain economic activities when compared to choices taxpayers would make in the absence of taxes?
2. Does the tax system promote economic growth? How does the tax system affect the potential for citizens to be better off in the future than they are today?
3. Is the tax system fair? Are similarly situated individuals treated similarly? Are tax burdens assessed recognizing that different taxpayers have different abilities to pay?
4. Is the tax system administrable for both the taxpayer and the Internal Revenue Service? Does the tax system economize on compliance costs by taxpayers and administrative costs of the tax administrator?

There may, of course, be other important policy considerations.

How one addresses these questions shapes the reform. It is invariably the case that these different policy goals are in conflict. Policy design to promote economic neutrality may conflict with goals of fairness. Policy design to promote fairness may lead to complexity and increased compliance costs. Among the goals former Chairman Camp set as additional constraints were maintaining budget neutrality as conventionally estimated, maintaining the current distribution of tax burdens across income groups, and not achieving low tax rates on C corporate business income at the expense of higher taxes on pass through business income. There are always tradeoffs. Former Chairman Camp's introduced legislation is the result of such tradeoffs.

Taxation of Individual Income

H.R. 1 reduces the top effective marginal tax rate on individual income to 35 percent, broadens the tax base by repealing a number of itemized deductions and credits, and simplifies tax filing by increasing the standard deduction.

Rate reduction

- Reduces effective marginal tax rates on individual income to 10, 25, and 35 percent.
 - a. 40 percent deduction for individuals' dividends and capital gains (creating effective marginal tax rates of 6, 15, and 21 percent).

Base broadening

- Repeals deduction for all State and local taxes.
- Modifications of other deductions (*e.g.*, charitable deduction, mortgage interest deduction, moving expense deduction).
- Repeals dependent care credit.

- Repeals non-business energy property credit, credits for energy-efficient property, and credits for alternative fuel vehicles.
- Repeals or modifies certain other exclusions (*e.g.*, exclusions for employee fringe benefits).

Simplification

- Increases the standard deduction and repeals deduction for personal exemptions.
- Repeals the individual alternative minimum tax (“AMT”).
- Consolidates tax incentives for education.
 - a. Repeals seven different tax incentives for education.
 - b. Modifies and makes permanent the American Opportunity Tax Credit.

Reducing income tax rates and broadening the tax base may promote growth by increasing labor supply and eliminating distortions that create non-neutralities in the marketplace. However, these measures also have distributional consequences, and H.R. 1 maintains distributional neutrality by increasing the child tax credit, modifying the earned income tax credit, and increasing the standard deduction (among other measures).

Taxation of Business Income

H.R. 1 promotes investment by reducing the corporate income tax rate to 25 percent, but at the same time increases the cost of capital through several base-broadening measures.

Rate reduction

- Reduces corporate income tax rate to 25 percent.
- Repeals corporate AMT.
- Modifies and makes permanent the research credit.
 - a. Repeals the traditional 20 percent research credit and energy research credit.
 - b. Makes permanent the alternative simplified method (increases rate to 15 percent) and basic research credit (reduces rate to 15 percent and changes the base period from a fixed period to a three-year rolling average).
 - c. Eliminates the research credit for computer software, removes supplies from definition of qualified research expenses, and eliminates ability to claim a reduced research credit in lieu of reducing research and development costs otherwise allowed.

Base broadening

- Changes depreciation rules.
 - a. Expands expensing permitted under section 179.

- b. Allows bonus depreciation to expire.
- c. Requires straight-line method of cost recovery over applicable recovery period.
- d. Makes available election to index basis to chained consumer price index for all urban consumers (“CPI-U”).
- Requires amortization of 50 percent of advertising expenditures over 10 years.
- Requires amortization of research and experimentation expenditures over five years.
- Repeals last-in, first-out (“LIFO”) and lower of cost or market (“LCM”) methods of accounting.
- Phases out section 199 domestic production activities deduction.
- Repeals 23 energy-related tax incentives.
- Repeals other business credits (*e.g.*, FICA tip credit, rehabilitation credit, Work Opportunity Tax Credit (“WOTC”), railroad track maintenance credit).
- Limits net operating loss (“NOL”) deduction to 90 percent of taxable income.
- Repeals private activity bonds.

Simplification

- Repeals corporate AMT.

While the base-broadening measures of H.R. 1 increase the cost of capital, they can lead to a more efficient pattern of investment by eliminating non-neutralities created by tax incentives that benefit specific types of investment.

Taxation of Cross-Border Income

H.R. 1 establishes a 95 percent participation exemption system that reduces residual U.S. income tax liability on foreign-source income earned through controlled foreign corporations, effectively lowering the rate of tax applicable for repatriated foreign-source income to 1.25 percent. However, the bill also establishes a new category of subpart F income—foreign base company intangible income—that, while taxed at a reduced rate of 15 percent, broadens the income base that is subject to current taxation by the United States.

Joint Committee on Taxation Staff Analysis of H.R. 1 (FY 2014-2023)

Revenue estimate

- H.R. 1 is roughly revenue neutral, raising \$3 billion over the budget period.

- For reference, the Congressional Budget Office projects individual income tax receipts of \$21.7 trillion and corporate income tax receipts of \$4.0 trillion over FY 2017-2026 under present law.⁴

Distributional analysis

- Average tax rates under present law and H.R. 1 are estimated to be similar across the income distribution over the budget period.
 - a. JCT staff analysis distributes the corporate tax burden.

Macroeconomic analysis

- H.R. 1 is estimated to result in the following changes in aggregate economic activity (depending on the macroeconomic model used):
 - a. Increase in real gross domestic product (“GDP”) by between 0.1 percent and 1.6 percent by the end of the budget period.
 - b. Change in private business investment between -0.6 percent and 0.1 percent.
 - c. Increase in labor force participation between 0.3 percent and 1.5 percent.
 - d. Increase in private sector employment between 0.4 percent and 1.5 percent.
 - e. Increase in household consumption between 0.4 percent and 2.1 percent.

⁴ Congressional Budget Office, *Updated Budget Projections: 2016-2026*, March 2016, p. 2.

Chairman BOUSTANY. Well, we thank you for that very succinct analysis of H.R. 1, Chairman Camp's draft.

And one of the things we hear over and over from our constituents, especially small business owners, is about the complexity of the Tax Code, how mind-numbingly complicated it is. And of course, that adds cost with compliance and so forth.

One of the challenges I think we are struggling with a little bit is if you look at how to measure—how do you measure simplification, which is—you know, it is not as—it is not like revenue, where you have a clear estimate, both in a static or dynamic sense of where your revenue is going to fall in a tax bill. How do you—from your perspective, how do you look at simplification and the economic and financial benefits that ensue from simplification? How do you model that in tax reform?

Mr. BARTHOLD. Well, with difficulty, for one, Mr. Chairman. There is a number of different ways that economists and other analysts have looked at the complexity of the Internal Revenue Code and simplification.

One way in which we have is we have required the Internal Revenue Service to make estimates of the amount of time and effort it takes to complete certain forms. So if we wanted to target certain simplifications, we could look at how much effort goes into compliance with certain aspects of the Code. And we have estimates provided by the Internal Revenue Service and others in terms of dollars, of time.

Another area in which we try to assess simplification to assist the Members is from the 1998 IRS Reform and Restructuring Act. My colleagues and I are required to report, as part of a committee report to this Committee and the Finance Committee, a complexity analysis if there is a provision that is in a bill that would have widespread applicability. To do that we talk about the number of taxpayers affected, the amount of additional record-keeping that might be required, the number of new forms. We seek an assessment from the Internal Revenue Service on what they think it would take. And so this is information that we try to gather to enable the Members to make judgments to get back to the tradeoff point that I made.

Sometimes, to reach your—to reach a goal of fairness, you might say we want to preclude a benefit to certain upper-income taxpayers. Well, to do that, we have to define who, and then we have to have a test. And that leads to a more complex form than if we just said, "Here is a benefit, everyone can have it." And that is a tradeoff between simplicity and other policy goals that the Committee Members may have.

Chairman BOUSTANY. And in looking at pro-growth tax reform, you know, what will spur economic growth and job creation, which is something we are all concerned about right now, what areas of the Code do you think we ought to focus on?

Mr. BARTHOLD. Well, it is not my place to pick and choose different areas. I can talk about work that we have done in the past. And I think H.R. 1, again, demonstrates some of the possibilities and some of the tradeoffs.

To go back to base-broadening, in the corporate and business area a goal of H.R. 1 was to reduce tax rates. Reducing tax rates

increases the after-tax return to your business investment. That is obviously pro-growth. On the other hand, in H.R. 1, part of how we achieved increasing—I mean reducing tax rates was to slow cost recovery, slow cost recovery somewhat on research, on intangibles in terms of advertising, and in terms of tangible property. We lengthened the depreciation recovery periods.

In classic economic analysis, the after-tax return, the profitability of an investment, depends not just on the top-line tax rate, but also on the cost recovery schedule. It is always better if we can recover costs faster. That is one reason the Committee in the past has enacted bonus depreciation, to try to encourage additional investment. So the tradeoff made in H.R. 1 was to slow the cost recovery but reduce the rate. Those two things work in opposite directions. Of course, if we did both in the same direction, then there is a bigger revenue loss during the budget period, which may lead to another policy concern that the Members would have.

Chairman BOUSTANY. I thank you. Mr. Neal.

Mr. NEAL. Thank you, Mr. Chairman.

Mr. Barthold, I think the dilemma was highlighted by the last panel. And essentially, Mr. Williams' proposal didn't do any base-broadening. And the second part of it was that he highlighted his disagreement with Chairman Camp's proposal. And that is one of the reasons it is so difficult to do reform, because people will take one part today, rather than taking a look for the longer term, in talking about what has to be done with fundamental tax reform.

And I must tell you I think Camp gets plaudits for putting out a model. I think, on a bipartisan basis, he did a terrific job of including Democrats. And there was really a free-wheeling conversation about the need to make some major changes in the tax system.

And I—the day before I think it is fair to say now the two of us carefully rehearsed what he was going to say about my Alternative Minimum Tax efforts, and he couldn't have been any better about it. He said, "I am going to finish off Alternative Minimum Tax tomorrow and I am going to give you the credit for it in public." And, I mean, I think that is kind of the basis of what you need to do with tax reform.

And I think, as we have discussed this—and I think the four criteria that you laid out were right on target. I would add one more, by the way. What improves the quality of life for all Americans? That's kind of the fifth one. But I thought the four that you laid out were terrific challenges and goals for all of us.

But I must tell you, based on long service on this Committee, I think that what we ended up doing at the end of last year is more likely where we are headed, unless we put something out that is bold, and ask Members to refrain from commenting on it immediately, and digesting it for a couple of days. Before Dave Camp's proposal had been in the hands of Democrats, his own party pounced. And it is—an example is you lay out all of these issues about broadening the base, and I listen very carefully, because I think that you are right on target as you described it. But you also described just how hard it is to do, without specifically mentioning it.

So, I was very happy with many parts of the Camp proposal, and others I think we could have worked to improve. But in the end,

if you really want tax reform, you are going to have to swallow some things you don't like. Thank you, Mr. Chairman.

Chairman BOUSTANY. I thank the gentleman. Mr. Reichert.

Mr. REICHERT. Thank you, Mr. Chairman.

Mr. Barthold, you mentioned in your testimony some of the challenges we have had, as a Committee, and that we—some of the challenges we faced, some difficult questions that we were presented with in pursuit of comprehensive tax reform.

But since the release of former Chairman Camp's draft, there have been some significant changes. First, we have increased the information available to Members about the economic impact of major tax changes by requiring dynamic scoring. Second, we passed and the President signed into law the Protecting Americans from Tax Hikes legislation that made key provisions in a Tax Code permanent.

I was hoping that you might be able to give us your impression of the potential impact of these changes as we move forward and examine comprehensive reform.

Mr. BARTHOLD. Well, at—thank you, Mr. Reichert. Let me note, as I did at the very end, we had provided a macro-economic analysis of H.R. 1. And under House rules, we have, for bills reported by the Ways and Means Committee, been providing macro-economic analysis since 2003.

So, trying to provide that extra information to help the Members make assessments of what direction they want to take policy is not new for us. The change you just noted is that, rather than provide a range of outcomes, what economists refer to in economic jargon as "sensitivity analysis," you have asked us to provide essentially a point estimate, which is what we do on conventional estimates. But I wanted to note that the capability is there, and we have been trying to dutifully provide that information to the Members.

Also, you are correct. There are a number of things that Congress did last year, which were different, or reflected pieces of what may have been in H.R. 1. As noted in my testimony that I submitted, H.R. 1 would have modified expensing under Section 179. The PATH Act at the end of last year actually went beyond the levels that were proposed in H.R. 1.

I had noted that H.R. 1 would have let bonus depreciation expire. The PATH Act extended it and put it on a longer term footing. As I just discussed with the Chairman, as a general matter costs—more rapid cost recovery is seen as a pro-growth initiative.

Another pro-growth aspect of the PATH Act which is roughly in line with part of what was in H.R. 1 was a permanent research credit, based on the alternative simplified research credit model. Again, that is another pro-growth initiative.

Mr. REICHERT. Okay. You have described the changes and some of the benefits. How do you see that helping us in getting to a—

Mr. BARTHOLD. In getting to tax reform?

Mr. REICHERT. Yes. Can you answer that one?

Mr. BARTHOLD. It is really not for me to—

Mr. REICHERT. If we help ourselves?

[Laughter.]

Mr. BARTHOLD. The difficult job is handled on your side of the dais.

Mr. REICHERT. All right. I will talk to you away from the dais here for a little bit. Thank you. I yield back.

Chairman BOUSTANY. Mr. Renacci.

Mr. RENACCI. Thank you, Mr. Chairman. Thank you, Mr. Barthold, for being here with us so long today.

You mentioned what I said earlier. Do you agree that corporations really do not ultimately pay the burden of the corporate tax, but they pass it on to the customers or, actually, it ends up being lower wages or benefits to the workforce, lower stock valuations? Do you agree with that?

Mr. BARTHOLD. I have been an economist for a long time, and it is longstanding economic dogma that individuals bear taxes. In our analysis—and if you want to read it in its—all its guts and glory, we have a description of how we distribute business tax burdens. But we assess the incidents of these taxes as affecting both the owners of the capital investment and, over the longer term, labor. And that is because, if you diminish capital investment, that diminishes the future possibility of productivity growth from having more and better capital. And productivity growth is a key driver of wage growth.

So, we see the incidents and we think the empirical economic literature supports that the incidents are borne by owners of capital and by labor.

Mr. RENACCI. So actually dropping the corporate tax rate—

Mr. BARTHOLD. So the short answer to your question is yes.

Mr. RENACCI. Yes. So dropping the corporate rate would actually be one way of having some pro-growth out of corporations, because they would reinvest it back in employees, growth in their business.

Mr. BARTHOLD. As I noted in answer to the Chairman's question, lower tax rates always increase the return to investment, and that means we should see more investment, more growth.

Mr. RENACCI. Do you have an idea what the total percentage of corporate tax receipts are, compared to the overall receipts of the U.S. Treasury?

Mr. BARTHOLD. Well, off the top of my head, since I didn't look up the payroll tax projections, no. But I did note in the testimony that I submitted that over the next 10 years the Congressional Budget Office is estimating that corporate income tax receipts will be \$4 trillion. Individual income tax receipts will be over \$21 trillion.

So, if you think of the income tax as a whole, corporate tax receipts themselves are really barely 15 percent of the total income tax pie. Our biggest source, as you are aware, of funding the Federal Government is the individual income tax, followed by payroll taxes.

Mr. RENACCI. So, has anybody ever asked the question if you eliminated the corporate income tax and eliminated the cost to the IRS to—if you eliminated the revenues from the corporate income tax and eliminated the costs to do all the receipts and collections and followup, what the net cost would be to the Federal Government?

Mr. BARTHOLD. Not recently, to my knowledge. And if a Member had made a request, you know that we treat any Member request as confidential, so I couldn't comment on that, but—

Mr. RENACCI. I just wondered, because it is—when it is such a small amount, I wonder if there has been some thought to—

Mr. BARTHOLD. Well—although, Mr. Renacci, I should point out—and this was a point that was made by the prior panel and is reflected in the estimates that I cited—there is a substantial amount of business income, as you are aware, that is taxed through the individual income tax.

Mr. RENACCI. Right.

Mr. BARTHOLD. And so, when you say just repeal the corporate income tax, it is—how do you want to treat the income that is earned at the corporate level then becomes a question. So it is kind of like what to do—

Mr. RENACCI. Right.

Mr. BARTHOLD. What to do next?

Mr. RENACCI. That is why I asked the question. I was just wondering if anybody had ever gone in that direction.

Mr. BARTHOLD. People are thinking—people talk about that, and we talk with Members about that.

Mr. RENACCI. Yes. When you—you were here for Mr. Goodlatte's proposal. Do you think setting a drop-dead date would bring uncertainty and unpredictability to long-term business planning, and really could disrupt business activity, going forward?

Mr. BARTHOLD. Really, not—it's probably really not appropriate for me to make a judgement on that, at least without a lot further study. So I wouldn't want to shoot from the hip.

[Laughter.]

Mr. RENACCI. In your testimony you said that H.R. 1 was roughly revenue neutral compared to the 10-year baseline revenue projections. We have done some things since H.R. 1. We did the PATH Act and other things. Do you know what the—how much the baseline has changed since some of the things have passed?

Mr. BARTHOLD. I do not have with me how the baseline has changed. The baseline, as reported by the Congressional Budget Office, which, you know, we can look up, reflects two factors: One, the PATH Act, in terms of receipts; but also the underlying macroeconomics, some of which are independent of the PATH Act. The projection of interest rates, you know, Fed policy, other policies, all of that goes into the projections of receipts.

I don't think I'm answering your question.

Mr. RENACCI. No, but I just know we are probably a little bit off of the revenue neutral—

Mr. BARTHOLD. Well, if your question was if we were to re-estimate H.R. 1 today—

Mr. RENACCI. Right, that is—

Mr. BARTHOLD [continuing]. What would it be, again—well, one, I have not done that. There would be some questions that I would want to ask someone who would make that request, and it would go back to the points that—one of the points that I just made. We—the Congress, in the PATH Act, was more expansive in terms of its extension of Section 179. Would we want to go back to H.R. 1's level, which would mean pare back on that? So would

you want to do just a pure let's look at H.R. 1 compared to where we are, or is it kind of an H.R. 1 modified?

If that were of interest to the Committee, certainly that is part of the reason my colleagues and I are here. We could work on that.

Mr. RENACCI. All right. Thank you, Mr. Barthold. I yield back.

Chairman BOUSTANY. I thank the gentleman. Mr. Holding.

Mr. HOLDING. Thank you, Mr. Chairman. Mr. Barthold, thank you again for being here. You testified twice in one day.

Chairman Camp introduced his proposal formally in December of 2014. And even in that short period since the bill's introduction, we have seen a huge change in the international tax base. So, as other countries have enacted lower tax rates and favorable business incentives, we have seen a large rise in base erosion here at home.

So, as we look to overhaul the Tax Code, to lower the rate and broaden the base, and remain competitive internationally, how does this increase in base erosion impact our tax reform proposals? And does JCT take this increase into account when scoring comprehensive packages?

Mr. BARTHOLD. Let me start, Mr. Holding, with your last question. Do we take into account what is going on in terms of trends in base erosion and receipts? The simple answer is yes. I mean we have consulted with our colleagues at the Congressional Budget Office in what to think about activities that have been happening abroad or in this country, what trends have been over the past several years, which we hope have helped them in making their projections of corporate receipts.

If you look in detail at their corporate receipts, they do show a modest decline in corporate receipts, or at least no growth, although they project the overall economy to be growing. So they are reflecting something missing from the corporate tax base if the economy is growing and corporate receipts aren't growing. That baseline is the fundamental against which we measure any change that the Members might propose in terms of changing corporate taxation.

So the short answer is yes, we take into account those trends as best we can. We try to stay abreast of possibilities and what might be happening, both in terms of assessing what the baseline is, but also how U.S. taxpayers respond to a proposed change that the Members might have. My colleagues meet regularly when we can with taxpayers to discuss partly how they see things, how they play things, how they respond, what their planned responses are to some of the actions that are being taken by foreign governments.

Mr. HOLDING. Thank you. So, in Chairman Camp's plan, what steps did he take to address base erosion? And, given the increase in base erosion, would these steps that he took still be as effective today?

Mr. BARTHOLD. That is an interesting and difficult question, Mr. Holding. The primary base erosion aspect of H.R. 1 related to the—one of the last points that I highlighted, and that was establishing this new category of subpart F income that was referred to as foreign base company intangible income.

What a number of you and your colleagues have identified and other analysts have identified is that intangible property, be it, you know, brand naming or be it ownership of patents, is sometimes

transferred abroad to lower income tax jurisdictions. And then the income, much of the income, may be properly attributable to, you know, this brilliant idea, this patent. And so that is a form of base erosion, even if a lot of the work in developing that patent occurred in the United States.

Well, that is what the notion of foreign based company intangible income in H.R. 1 was about. It tried to say a business enterprise will have income from its investment activities of two sorts. There is investment activities of building a factory, putting machinery in place, you know, training the workers, and then some of the investment is in coming up with a brilliant idea and a new product. And that is the intangible piece. And H.R. 1 tried to put a measure on the intangible piece and tax it at a lower rate, both to encourage the intangible piece to stay in the United States, but also to say you can't just have the intangible piece go off to another country and have effectively a very low rate of tax.

Now, as to whether the effectiveness of that prospectively—I have to think some more. But that is what the base company intangible income proposal in H.R. 1 was all about.

Mr. HOLDING. Thank you very much.

Thank you, Mr. Chairman.

Chairman BOUSTANY. Mr. Kelly.

Mr. KELLY. Thank you, Chairman.

Mr. Barthold, thank you. You have had a pretty full day. I am looking at your background. So you came here in 1987. That was right after the last major tax reform. So you are coming up on 30 years. You must be a phenomenal patriot to come in here every day and look at this. And I would just imagine, in these 30 years, you have probably looked at just about every possible angle of what it is that we are trying to do.

And at the end of the day, the only way this is ever going to change—because change only takes place during a time of crisis or tragedy. And I would certainly say that where we are today as a country, we can continue to debate this—and this goes back to the Middle Ages where we are trying to figure out how many angels we can fit on the head of a pin and not actually coming up with any answers.

So I am just—I tell you, I am stunned by your devotion to this Nation, and running the models on all of these things to tell people why it would work or why it wouldn't work, and watching a decline of the greatest Nation the world has ever known because, politically, we can't move on to save this country. I am absolutely stunned.

And I have heard so many—I am glad Mr. Goodlatte came in. And I would just say when you set a deadline there is a reason why they call it a deadline. There is just something about this that I have watched now—thank God I have only been here for 5 years. I had to survive in the private sector, where you could never do this stuff and survive. You could talk about when you used to be in business and how you didn't respond to a tragedy or a crisis. And see, I can remember the day I went out of business. I knew it was coming. But you know what? I just figured, hey, you know what? It will work itself out.

Really, I don't have so much a question, other than maybe it is just the form of government that we have, or we have this constant rotation, and people come and go. You have not. You came and stayed. I want to ask you. In your 30-year career have you seen anything you would have said, "If they could have done this right now, this would have made a difference?"

I know we are trying to do—the revenue neutral part gets to me because it—what the hell, revenue neutral? I don't want it to be revenue neutral. I want to see revenues go up. But the only way you get revenues to go up is to look at the field you are playing on, and the competition you are playing against. And, my God, I would love to be someplace else in the world here, because just watch what the United States is doing, and we are so easy to game. It is just incredible. We are having our pocket picked every day, and we are sitting back and saying, "It is okay, we just haven't agreed on how we are going to fix it."

Is there anything in your 30 years that you would look back on and say, "This was a moment in time that something could have changed and never changed, and it was because policy always gets trumped"—no pun intended—"by politics?"

[Laughter.]

Everything here is about a political stance and not about a policy stance. So just help me to understand how the heck you have sat here for 30 years and listened to all these brilliant minds come up with nothing.

Mr. BARTHOLD. Mr. Kelly, first of all, let me—

Mr. KELLY. This is not a gotcha question, by the way.

[Laughter.]

Mr. BARTHOLD. Oh, well, let me thank you for your kind words. I have been here for a while, but I—in my current position I have tremendous support from a lot of really good colleagues, a couple of whom are seated behind me.

Now, if over that period there had been some things where I thought they should have done that, it is really not appropriate for me in this forum to offer that.

Mr. KELLY. You should run for office.

[Laughter.]

But I am sincere about this, I mean, because everybody I serve with—I go back home and people tell me, "John, how do you stand it down there?" And I say, "You know what? I have not run into one person who said to me, 'You know, the reason I got elected was to ruin this country.'" I haven't seen—everybody says, "I want to come here, I want to help, I want to make it better. Geez, I wish it wasn't an election year."

So, I really admire you for what you have been able to do, and your staff is a tremendous staff. I am telling you, you are truly patriots, and you are truly dedicated to this country. And so is every Member sitting here right now today.

I mean one of the most common talking points when you are running for election is tax reform. But the part we—pro-growth tax reform, why should we ever look for something that is neutral when it comes to revenue? We need a hell of a lot—excuse me, you are not allowed to say that, right? We need a lot more money than what we are generating right now. When you continue to borrow

at the rates we are borrowing and saying, "Geez, even though we have a record"—we—what was it, \$3.4 trillion last year in revenues, and we can't live within that? I mean there are a lot more things that we have to tweak.

But I just want—first of all, I want to thank you for your appearance today at both these things. And in your steadfast commitment to this country, to run the traps for people, to let them know the pluses and minuses and where we need to go. I just really do. I admire you for sitting and watching this for 30 years, knowing how great the Nation could be.

Mr. BARTHOLD. Well—

Mr. KELLY. And it is not because we don't want it to be great, it is just because there are other factors in it. And I really do believe we are at a crisis right now. It is going to be—the change is going to have to take place, because we are truly at a point of crisis or tragedy. I just would hate to be the one that said, "I knew it, but I didn't love my kids, my grandkids enough to do anything about it. I really wanted to stay in office a little bit longer."

So thank you so much, Chairman. Thanks for holding the hearing. I really appreciate this, but I think we have kicked this horse so long it ain't going to move.

Chairman BOUSTANY. Well, Mr. Kelly, I am thankful to you for bringing some energy to the hearing this afternoon.

Secondly, I want to thank you for thanking Mr. Barthold for his service. I think we all join you in that.

And thirdly, you forgot to thank Mr. Neal for 28 years of service to this Committee.

Mr. KELLY. Would the Chairman yield?

Chairman BOUSTANY. I will yield.

Mr. KELLY. Mr. Neal, thank you so much.

[Laughter.]

From one Irishman to another. So we will go out and have a pint or two or three to celebrate it. Thank you.

Chairman BOUSTANY. Mr. Tiberi.

Mr. TIBERI. I am not worthy. Wow. Why do I have to go after you? Now I know how Renacci feels on a regular basis.

[Laughter.]

Mr. Barthold, thanks for your service, as well. You obviously know my interest in expensing. You have already spoken very clearly about the PATH Act and differences of how Section 179 was dealt with in the Camp draft and how we pursued it in the PATH Act and bonus depreciation at 50 percent. I wanted to make it permanent.

You probably also know the Tax Foundation found that permanent 50 percent bonus depreciation, according to their analysis, would increase our country's GDP by over 1 percent, increase wages, and create over 200,000 jobs. They also found that full expensing would increase GDP by over 5 percent. As Mr. Kelly said, we have kicked this horse around quite a bit in terms of what—in terms of making the Tax Code more competitive to businesses and individuals, obviously.

So, back last year, a U.S. manufacturer, auto manufacturer, said to us that—said to me that we—that they decided on the basis of bonus depreciation to build plants here in America, rather than

elsewhere. And now we have this 5-year window that I think is going to be quite helpful.

Your analysis, JCT's analysis of bonus depreciation, is different than the Tax Foundation's higher growth model. But you did find in your analysis of my bonus depreciation bill—you may not remember—that it would raise worker productivity, it would raise wages, it would raise employment levels and economic output.

So, from that basis, as you look forward when we at some point do comprehensive tax reform, how do you view expensing as a piece of the puzzle to deal with those issues that we talk about we are trying to do, whether it is increase wages, increase productivity, increase GDP growth?

Mr. BARTHOLD. Well, thank you, Mr. Tiberi. Expensing? Again, I will use the economic jargon of cost of capital. Rapid cost recovery, expensing, reduces the cost of capital that encourages investment that can be pro-growth. There are issues with expensing, in terms of an overall analysis because, just as there are tradeoffs, as talking in terms of different tax policy goals, in the macro-economy there can be tradeoffs in terms of the government's cash-flow and the need to borrow.

In very simple terms, if there is expensing, we expense all tangible investments next year, it would dramatically lower business tax receipts. Absent other changes that the Congress might choose, it would probably run a larger deficit. We would have to finance the larger deficit. And depending upon what the monetary policy—you know, monetary stance is, that can drive up interest rates, real interest costs.

Real interest costs are a negative in the cost-to-capital calculation. So there can be some tugback against the positive from expensing from what goes on in the broader economy. We try to reflect that in our macro-economic models.

The cost to capital has a lot of different components in it, so it will involve a number of the tradeoffs that you make when you—

Mr. TIBERI. How do you model that from this perspective? Let me go at it another way. So you have a farmer in Ohio, and expensing is a big deal because of cash-flow purposes. So that farmer is not going to move his or her farm to Ireland or Australia. But we have seen other types of employers move their employment base outside of the United States to, let's say, Ireland.

Back to my thought process of competitiveness. And we have talked about this a lot. Isn't there, though, a way to model with respect to what you just said, if there is a company here that makes things in America? And we are uncompetitive, our Tax Code is uncompetitive. So expensing will allow them to be more competitive.

So, rather than go—there is, obviously, other factors to Ireland—no disrespect to Mr. Neal or Mr. Kelly—to Ireland to—this company or the headquarters having expensing. Wouldn't that be a pro-growth, but—pro-revenue into the U.S. Treasury, because you are losing the revenue because they are putting their facility now overseas? And expensing might be a way to make them more competitive here, the cost recovery.

Mr. BARTHOLD. Oh, I don't think anything that I had said disagreed with your analysis. I was trying for—

Mr. TIBERI. No, no, I am sorry—

Mr. BARTHOLD [continuing]. A broader context.

Mr. TIBERI. Sorry to interrupt, but let me—I am trying to—I understand it creates deficits if the business is static, meaning it can't move. Do you look at it that way, versus one that can move?

Mr. BARTHOLD. No, sir. We try to look at where tangible and, as I was referring to in H.R. 1, where the tangible and the intangible investments occur and are located.

So we try to look at the macro-economic assessment, both in terms of movement of tangible investments abroad, intangible investments abroad. Or tangible investments occurring more frequently in the United States, intangible investments occurring more frequently in the United States. It is difficult modeling. The empirical work and the economic literature is not hard and fast on this, but we tried to account for these differences.

We also tried—you mentioned a farmer in Ohio. You also have a Procter and Gamble in Ohio. We try to distinguish between the flow-through, the smaller enterprises would be your farmer, and the multinational enterprises, such as your Procter and Gamble. And we assign—we essentially are estimating that they have different behavioral responses to what we do—or what you do.

Chairman BOUSTANY. I thank the gentleman.

Mrs. Noem.

Mrs. NOEM. Thank you, Mr. Chairman. And since Mr. Kelly asked my question word for word, I will go in a different direction. That is exactly what I was going to say.

But I am sitting here today in Congress, specifically just because of the Tax Code. When I was a college student my dad was killed in an accident, and I quit school, took over the operation, but got a bill in the mail from the IRS that said I owed the Federal Government money because we had a tragedy in our family. And it made me mad. I didn't understand how we could have a law in this country that would take a family's business away, or try to, because all of a sudden we owed it money when we didn't have money in the bank to pay those taxes. We had equity, we had land and cattle, but no money to pay the taxes.

So that is why I am here. And since I have been here, and I have been in so many different conversations with people that talk about the reason you make changes to the Tax Code or put in exemptions or incentives or whatever the provision may be, is to encourage people to do the right thing, the favorable behavior, to provide an incentive for them to invest or save. But yet, over the years, as we have done that over and over again, the Tax Code has become more and more complicated, and it has grown.

And you, have you been at Joint Tax for 30 years? How—what was the year you actually came to JCT?

Mr. BARTHOLD. I started in the summer of 1987, Mrs. Noem.

Mrs. NOEM. So you have a very interesting perspective on the growth that we have seen over the years. And I am curious to see if you truly do believe that all these new provisions that we come with, pieces of legislation that incentivize good behavior, truly are a benefit to the people here in this country. Because cost and compliance and the burden of this complicated Code is—and I am asking you to be a little philosophical, I know. But I also think you probably have some facts you can think of where you have seen

people bring provisions to change our Tax Code that have actually ended up in creating a more burdensome system for them. I was wondering if you would speak to that for me.

Mr. BARTHOLD. Well, in very general terms, Mrs. Noem, the role of the Joint Committee staff is we try to provide analysis and information to you, the Members, so that you can make the decisions. I mean the job on your side of the dais is more difficult than ours, because I can present—if you have a proposal, I can comment on, well, how is this in terms of economic efficiency, or is this pro-growth, or what it might mean in terms—

Mrs. NOEM. What is your definition of pro-growth?

Mr. BARTHOLD. Pro-growth would be whether it increases the rate of growth of gross domestic product of the U.S. economy.

Mrs. NOEM. But you don't have any threshold, it is just if it does or if it doesn't.

Mr. BARTHOLD. It would—is it moving you in the right direction, qualitatively. I mean we would try—if you have a specific proposal, we would try to analyze it quantitatively—

Mrs. NOEM. And is cost of compliance—

Mr. BARTHOLD. We try to—as I was explaining to Mr. Boustany, we try to talk about compliance effects, we try to point those out to Members if something would be difficult to—for the IRS to administer, or for taxpayers to comply with. These are all points that we try to bring to Members when you craft your proposals.

Then, talking about what has happened over 30 years, Members have made the tradeoff of the sort that I have—you know, that I have described.

Mrs. NOEM. Do you have a formula where you get to a point where 10, 15 different provisions add a complication to the Code where it then makes the taxpayer hire a professional, have increased costs, just to be able to make sure they are doing something correctly? Do you take that into account, the compounding effect of numerous provisions that may impact an individual trying to pay their taxes?

Mr. BARTHOLD. In terms of—we try to account for that in terms of the baseline, to begin with, because if we have developed a revenue system that is very complicated, difficult to comply with, we may see compliance rates diminish, and that will show up, just in terms of baseline receipts.

As we develop new—or as we—I keep saying “we,” but it is from working with Committee Members—as you develop proposals, we try to provide you information on how different proposals you have might interact with each other. What might it mean in terms of the complexity? Are they working in the same direction? Do they require overlapping and different reporting requirements? So that is all information that we try to bring to you.

So the general answer is yes, we try to offer those assessments. But there is not a magic modeling of saying, “If I add up a whole bunch of different proposals this way, it leads to, you know, a”——

Mrs. NOEM. But that is the tipping point.

Mr. BARTHOLD [continuing]. “Result that I can quantify,” and that if I add them up a different way or drop one or two, that I can—it is difficult to quantify complexity.

Mrs. NOEM. We like to talk about the growth of the Tax Code each year. You know, this many more provisions, regulations, pages added to the Tax Code. Do you know the growth in the time that you have been at JCT?

Mr. BARTHOLD. No one has ever asked me that. And no, I don't.

Mrs. NOEM. It would be interesting. Thank you for your time. I yield back, Mr. Chairman.

Chairman BOUSTANY. I thank the gentlelady. Mr. Neal, you had a couple of followups?

Mr. NEAL. Just to wrap up on my isolated side, the—I think one of the things to recall here—and it is very difficult sometimes to transmit to new Members that the political system right now in America is holding back economic growth. It is stunting economic growth. It is the uncertainty, it is the ambiguity. And certainly it, I think, constitutes a lack of confidence that the American people have in many aspects of our political system.

And I highlight, based on Mrs. Noem's comments, that in the late 1990s we were witnessing growth in some instances north of 7 percent. Twenty-three million jobs means that Federal revenue went through the roof. And as Federal revenue goes through the roof, social spending goes through the floor. And what is left out of the discussion frequently is to do tax reform you need money. And we were staring at enormous surpluses at that time: 1998 was the year we could have done tax reform; we spent a year in that Congress on impeachment.

And it stifles confidence that the public has, regardless of what party you are from, and many of the theories that are purported, when there was a broad opportunity to have enough money to ameliorate some of what would have been deemed losers in tax reform, and helping them transition, to build that bridge. And I think that this Committee has a special responsibility to try to get it right.

And I will say once more I think David Camp really tried to get it right. And that doesn't mean we agreed with everything he said and did. But I have to tell you he was the first person to put something out since 1986. Plaudits.

Thank you, Mr. Chairman.

Chairman BOUSTANY. Well, I agree, and I think the importance now is for the Committee to build on what Chairman Camp did, and continue to take additional ideas forward. But we have to act. We can't continue just to talk about it. So, in that spirit, hopefully we can all work together to get tax reform done.

Mr. Barthold, thank you for being with us this afternoon on top of the long session this morning. We appreciate your insights and what you bring to the Committee. Thank you for your service as we look forward to building consensus, to move toward comprehensive tax reform, and we certainly will be relying very heavily on you and your team.

Also, please be advised that Members will have 2 weeks to submit additional questions. And your answers will be made part of that record. And with that, the Subcommittee stands adjourned.

[Whereupon, at 4:54 p.m., the Subcommittee was adjourned.]

[Submissions for the Record follow:]



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April 13, 2016

The Honorable Charles Boustany, Jr.
Chairman
Subcommittee on Tax Policy
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Richard E. Neal
Ranking Member
Subcommittee on Tax Policy
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

Re: Today's Hearing on "Fundamental Tax Reform Proposals," the Need to Preserve Cash Accounting for Law Firms and Other Personal Service Businesses, and Concerns Over Burdensome Mandatory Accrual Accounting Proposals

Gentlemen:

On behalf of the American Bar Association ("ABA"), which has over 400,000 members, I am writing to express our views regarding an important aspect of the tax reform legislation that your Subcommittee, the full House Ways and Means Committee, and the House Tax Reform Task Force are in the process of developing. In particular, we strongly oppose those proposals—such as Section 3301 of H.R. 1 introduced during the 113th Congress and other similar proposals now under consideration—that would require personal service businesses with annual gross receipts over \$10 million to switch from the traditional cash receipts and disbursements method of accounting to the more complex and costly accrual method. These mandatory accrual accounting proposals are also strongly opposed by over 30 state, local, and specialty bars throughout the country. We ask that this letter be included in the record of today's Subcommittee hearing.

Although we commend you and your colleagues for your efforts to craft legislation aimed at simplifying the tax laws—an objective that the ABA and its Section of Taxation have long supported—we are concerned that mandatory accrual accounting proposals like Section 3301 would have the opposite effect and cause other negative unintended consequences. These far-reaching proposals would create unnecessary new complexity in the tax law by disallowing the use of the cash method; increase compliance costs and corresponding risk of manipulation; and cause substantial hardship to many lawyers, law firms, and other personal service businesses by requiring them to pay tax on income long before it is actually received. Therefore, we urge you and your colleagues not to include these or any other similar mandatory accrual accounting proposals in the new tax reform legislation that is currently being developed.

Under current law, businesses are permitted to use the simple, straightforward cash method of accounting—in which income is not recognized until cash or other payment is actually received—if they are individuals or pass-through entities (*e.g.*, partnerships or Subchapter S corporations) or their average annual gross receipts for a three year period are \$5 million or less. In addition, all personal service businesses—including those engaged in the fields of law, accounting, engineering, architecture, health, actuarial science, performing arts, or consulting—are exempt from the revenue

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cap and can use the cash method of accounting regardless of their annual revenues, unless they have inventory. Most other businesses are required to use the accrual method, in which income is recognized when the right to receive the income arises, not when the income is actually received.

Mandatory accrual accounting proposals like Section 3301 would dramatically change current law by raising the gross receipts cap to \$10 million while eliminating the existing exemption for law firms, other personal service businesses, and other pass-through entities. Although these proposals would allow certain small business taxpayers with annual gross receipts in the \$5 million to \$10 million range to switch to—and thereby enjoy the benefits of—the cash method of accounting (a concept that the ABA does not oppose), the proposals would significantly complicate tax compliance for a far greater number of small business taxpayers, including many law firms and other personal service businesses, by forcing them to use the accrual method.

Partnerships, S corporations, personal service corporations, and other pass-through entities favor the cash method because it is simple and generally correlates with the manner in which these business owners operate their businesses—*i.e.*, on a cash basis. Simplicity is important from a compliance perspective because it enables taxpayers to better understand the tax consequences of transactions in which they engage or plan to engage. In this regard, simplicity helps to mitigate compliance costs, which already are significant, and to improve compliance with the tax code.

If law firms and other personal service businesses are required to use the more complex accrual method of accounting, they would be forced to calculate and then pay taxes on multiple types of accrued income, including work in progress, other unbilled work, and accounts receivable (where the work has been performed and billed but payment has not yet been received). To meet these requirements, law firms and other affected businesses would need to keep much more detailed work and billing records and hire additional accounting and support staff. This would substantially raise compliance costs for many law firms and other personal service businesses while greatly increasing the risk of noncompliance with the tax code.

In addition to creating unnecessary complexity and compliance costs, these mandatory accrual accounting proposals would lead to economic distortions that would adversely affect all law firms and other personal service businesses that currently use the cash method of accounting and their clients in several ways.

First, the proposals would impose substantial new financial burdens on many thousands of personal service businesses throughout the country—including law firms—by forcing them to pay taxes on income they have not yet received and may never receive. Requiring these businesses to pay taxes on this “phantom” income—and to borrow money or use their scarce capital to do so—would impose a serious financial burden and hardship on many of these firms. The legal profession would suffer even greater financial hardship than other professions because many lawyers are not paid by the clients until long after the work is performed.

Second, mandatory accrual accounting would adversely affect clients, interfere with the lawyer-client relationship, and reduce the availability of legal services. If law firms are required to pay taxes on accrued income they have not yet received, the resulting financial pressures could force many firms charging on a traditional hourly fee basis to collect their fees immediately after the legal

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services are provided to the client or at least much sooner than they currently do. As a result, many clients could find it more difficult to afford legal counsel. In addition, many law firms would no longer be able to represent as many accident victims, start-up companies, or other clients on an alternative or flexible fee basis as they now do, and many firms would also have to reduce the amount of pro bono legal services they currently provide to their poorest clients.

Third, the proposals would constitute a major, unjustified tax increase on small businesses and discourage economic growth. The Joint Committee on Taxation estimated that the accrual accounting mandate in Section 3301 would generate \$23.6 billion in new taxes over ten years by forcing many thousands of small businesses to pay taxes on income up to a year or more before it is actually received—if it is ever received. Because this acceleration of a firm's tax liability would be permanent and continue year after year, it would constitute a major permanent tax increase for the firm, when compared to the taxes the firm currently pays under the cash method, until the firm eventually dissolves, merges with another firm, or otherwise ceases to exist.

The proposals would also discourage professional service providers from joining with other providers to create or expand a firm, even if it made economic sense and would benefit their clients, because it could trigger the costly accrual accounting requirement. For example, solo practitioner lawyers would be discouraged from entering into law firm partnerships—and existing law firms would be discouraged from growing or expanding—because once a firm exceeds \$10 million in annual gross receipts, it would be required to switch from cash to accrual accounting, thereby accelerating its tax payments. Sound tax policy should encourage, not discourage, the growth of small businesses, including those providing legal services, especially in today's difficult economic environment.

For all of these reasons, as discussions on tax reform continue, we urge your Subcommittee, the full Committee, and the Task Force to preserve the ability of law firms and other personal service businesses to use the simple cash method of accounting and not to support any proposals that would require these businesses to switch to the more burdensome accrual method.

Thank you for considering the ABA's views on this important issue. If you have any questions regarding our position, please contact ABA Governmental Affairs Director Thomas Susman at (202) 662-1765 or Associate Governmental Affairs Director Larson Frisby at (202) 662-1098.

Sincerely,



Paulette Brown
President, American Bar Association

cc: Members of the House Ways and Means Subcommittee on Tax Policy
Members of the House Tax Reform Task Force
The Honorable Mark J. Mazur, Assistant Secretary of the Treasury for Tax Policy



**American Forest & Paper Association
Statement for the Record**

**Committee on Ways and Means
Subcommittee on Tax Policy**

U.S. House of Representatives

**Hearing on Fundamental Tax Reform Proposals
April 13, 2016**

The American Forest & Paper Association (AF&PA) is the national trade association of the forest products industry, representing pulp, paper, packaging, tissue and wood products manufacturers, and forest landowners. Our companies make products essential for everyday life from renewable and recyclable resources that sustain the environment.

U.S. manufacturers of paper and wood products appreciate the opportunity to provide input to the Ways and Means Subcommittee for Tax Policy for the development of bipartisan comprehensive tax reform legislation. The industry supports comprehensive business tax reform that improves economic growth, job opportunities, capital investment, and the competitiveness of U.S. based businesses. Special attention should be paid to ensure that the overall impact of federal tax reform does not result in counter-productive tax increases that will be harmful to economic growth, job creation, capital investment, and global competitiveness.

The U.S. forest products industry – made up of both C-corporations and pass-through entities – is a significant contributor to the U.S. economy, employing nearly 900,000 men and women in above-average wage jobs, investing heavily in equipment and improvements, and exporting products throughout the world. The U.S. forest products industry also supports jobs in other sectors of the U.S. economy. A recent study conducted by the Economic Policy Institute found that each paper industry job supports 3.25 jobs in supplier industries and in local communities as the result of re-spending and tax receipts.

The forest products industry produces more than \$200 billion in paper and wood products annually and accounts for approximately 4.0 percent of the total U.S. manufacturing GDP. The industry employs more than 900,000 people and ranks among the top 10 manufacturing sector employers in 47 states. In a typical year, the forest products industry transforms approximately 13 billion cubic feet of wood – the majority of which is purchased from privately-owned forest land – into value-added paper, packaging, lumber and other wood products.

We are highly capital intensive and have made significant investments and facility upgrades in recent years. In 2014, the most recent year for which data is available, the paper and wood products industry invested \$8.2 billion in plant and equipment. Items such as recovery boilers, turbine generators, paper machines, and environmental controls are critical to maintaining technologically advanced manufacturing facilities that compete in an extremely competitive global marketplace.

Exports of U.S. pulp and paper result in a net export surplus and exports of paper and wood products account for more than 15 percent of the industry's annual total sales. In 2015, U.S. exports of forest products amounted to \$30.3 billion, of which \$21.4 billion were exports of pulp and paper products, and \$8.9 billion exports of wood and wood products.

Our members are longstanding leaders in making substantial investments in renewable energy equipment and facilities to generate electricity and other usable forms of energy for its operations. On average, about two-thirds of our members' energy needed for forest products production comes from the use of carbon-neutral biomass. Paper and wood products manufacturing facilities account for 62 percent of the renewable biomass energy consumed by all manufacturing sectors.

The U.S. forest products industry provides excellent employee payroll, retirement, and health benefits to its workers. Meeting a payroll of approximately \$50 billion, the forest products industry employs about the same number of people as the automotive industry and more people than the chemical and plastics industries. The industry has a generous compensation and benefits structure -- earnings of pulp and paper mill workers exceed the average for all U.S. private sector workers by about 23 percent.

We realize that comprehensive tax reform will not be easy. However, the key goals of lowering the corporate tax rate and a reformed competitive international tax system will help attract and retain business operations and good paying jobs in the United States. Ensuring that the resulting tax code provides a level playing field for all business activity while deflecting attempts to pick "winners and losers" among economic players should be a top priority.

To this end, our industry priorities for fundamental federal tax reform include:

- Tax rates. The United States has the highest statutory corporate tax rate among OECD countries. This is because most other OECD member countries have lowered corporate rates during the past two decades, while U.S. corporate rates have remained nearly stagnant. A significant reduction in statutory corporate income tax rates to at least 25% or lower, which would be more in line with the average among other OECD countries. In fact, a federal rate below 25% may be necessary, since the addition of state and local taxes would result in total tax liabilities exceeding the OECD average. Such a reduced rate is needed for U.S.-based companies to be able to compete in the United States and abroad. A tax system with the lowest possible tax rates for all businesses is desirable to foster capital investment, jobs creation, exports, and economic growth.

- Business investment. Business investment is another crucial driver of economic growth and jobs. Appropriate treatment of depreciation, interest expenses, and research expenditures is important to ensure that capital intensive manufacturers – such as paper and wood products companies – continue to upgrade existing facilities and invest in new and more efficient equipment. In addition, rules reflecting the need for long-term investment in timber by the 22 million family forest owners across America are essential to a sustainable supply of forest resources for manufactured products and are good for the environment, the economy and society. The recent enactment of a permanent research credit and an extended “bonus” depreciation timeline were welcome developments. We encourage Congress to consider ways to build on these provisions to continue bolstering the long-term investment environment in the U.S.
- International tax rules. The global market place is more competitive than ever and home country tax systems can provide a competitive edge as companies seek to enter new markets and compete in existing markets. Unfortunately, the United States has fallen behind as most OECD countries have moved to competitive tax regimes. The U.S. international tax rules should be reformed to include a competitive territorial tax system like those of many other countries, which would allow U.S.-based companies to compete on a level playing field in vital global markets.
- Employee benefit provisions. The U.S. forest products industry is a leader in providing excellent employee payroll, retirement, and health benefits to its workers. Existing law treatment of employee health insurance benefits and employee retirement contributions are integral to the industry's continued ability to provide these benefits to its workforce.
- Transition relief. A major change in federal tax policy could have a negative impact on existing business investment and create considerable uncertainty. Appropriate transition relief and protections against retroactive tax law changes should be an integral part of any federal tax reform effort. For example, the full benefit of net operating losses and unused tax credits should be protected and allowed to be carried forward to future years.

We would be pleased to discuss these priorities with the committee and answer any questions you may have about our industry.

For more information, please contact:

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April 26, 2016

American Citizens Abroad, Inc. (ACA) submission for the House Ways and Means Committee call for comments on the recent hearing held on tax reform.

ACA is pleased to see that the House Ways & Means Committee is holding hearings on tax reform and encouraging the presentation of a wide range of new revenue source proposals.

The hearing held on March 22, 2016 to examine Cash-Flow and Consumption-Based Tax Reforms presented compelling proposals for a major shift in tax policy; moving away from an income-based approach to taxation and shifting to alternate methods of tax revenue generation through cash-flow and consumption taxes.

The hearings held on April 13th examined the Jump Start America Act, the Tax Code Termination Act, and reviewed the 2014 Camp tax reform proposal; investigating the economic efficiency, potential for economic growth, fairness and ease of administration of these proposals.

In the discussion of all these proposed tax reforms, the issue of how new tax proposals would affect the community of international taxpayers was not addressed. ACA believes that it is critical that all tax reform proposals address how these proposals will be applied to and/or will affect the community of 8 million plus international, overseas American taxpayers.

See: <http://travel.state.gov/content/dam/travel/CA%20by%20the%20Numbers-%20May%202015.pdf>

Some of the proposals presented to date, by definition (i.e. consumption based taxation), would appear to alleviate the tax filing burden and double imposition on Americans living and working overseas and, would greatly advance the ability of Americans to compete on an equal footing in a global environment. However, none of the proposals directly address how such modeling would apply to Americans living and working overseas.

ACA so far has not studied the idea of tax reform based on alternate revenue sources such as consumption-based taxation and value added taxes. ACA's proposal for residence-based taxation (RBT) rests on the assumption of reforming taxation based on the income tax model.

ACA supports tax reform modeling that simplifies the tax code, empowers individuals to compete on an equal footing in a global economy, reduces the burden of compliance, paperwork and duplicate reporting. However, these proposals must also insure that the tax code eliminates instances of double taxation and removes the burdens that the current citizenship-based taxation code imposes on Americans who are working overseas.

ACA continues to advocate for a territorial or residence-based taxation system. ACA's RBT proposal ensures that Americans overseas will be put on competitive equal footing with both their compatriots stateside and with foreign nationals overseas, in order to advance the economic competitiveness of the United States.

ACA's RBT proposal guarantees that the tax code is fair, allows for mobility in an ever more global work and social environment, and helps to advance US economic interests through facilitating access to new markets for American products and, allowing Americans and American companies to partner in new businesses and new technologies.

Americans overseas are living and working in a new global world economy but are operating with an old world taxation structure, both from a business and personal perspective. If the United States wants to set free the powerhouse of economic development that Americans working globally can provide, which will create jobs and opportunity for workers in the United States, then the tax committees must consider territorial or residence-based taxation as the model for income tax reform.

For a link to ACA's full proposals for RBT please see:
https://www.americansabroad.org/media/files/files/9960ba5d/ACA_RBT_proposal_for_submission_to_Senate_Finance_April_2015.pdf

Summary of ACA's Residence-based taxation proposal

Individual and corporate tax reform is at the top of the agenda of Congress, on both domestic and international levels. ACA looks forward to contributing to this debate to advance three key objectives:

- Fairness – to eliminate double taxation and costly double reporting

burdens.

- Mobility – the exercise of the fundamental right to choose one's place of residence, whether for professional, family, educational or other reasons should be as frictionless as possible.
- Advancing U.S. Economic Competitiveness – to empower overseas citizens to paly their natural and historic role as vectors of export promotion and job creation in the United States.

To this end, ACA produced and circulated a detailed discussion document in political and academic circles as a constructive step in the process. This proposal, which was referenced in a 2013 Senate Finance Committee Report comprised the following elements:

Replacement of the present system of taxation of overseas Americans usually referred to as Citizenship-Based Taxation (CBT), by a system of Residence-Based Taxation (RBT): Americans overseas would be taxed by the U.S. on U.S.-source income.

- Treatment of bona fide Non-Resident Americans in a manner analogous to that of Non-Resident Aliens (NRAs). The system is in place and has proven its workability, and include provision for:
 1. withholding taxes at source on unearned income – dividends, interest, royalties, etc.;
 2. 1040NR taxation of earned income “effectively connected” with the United States;
 3. taxation of rental income and capital gains on U.S. situs real estate.
- Anti-abuse provisions would prevent RBT from being used as a loophole to avoid U.S. taxes.
- Residents of designated tax haven countries, overseas military personnel, U.S. diplomatic corps and Puerto Rico residents with U.S. income would continue to be taxed as U.S. residents. A departure tax based on mark-to-market valuation of unrealized capital gains at the time of departure may be a condition imposed by Congress. ACA has argued against it, on the grounds that it would work against the objectives of fairness, mobility and national economic interest. But if a departure tax is included in legislation, ACA's position is that:
 1. a “grandfather” clause shielding overseas Americans meeting certain residency minima from the departure tax would be an essential element of the legislation;
 2. high asset exclusion thresholds for Americans leaving the U.S. and measures to help holders of illiquid assets meet the tax obligations are needed to maintain international mobility of Americans.

In light of our analysis of IRS statistics, ACA is of the considered opinion that, the switch from CBT to RBT would be revenue neutral. Under CBT, the U.S. currently recognized the first right of taxation of the country of residence, and hence, due to crediting of foreign taxes, collects no tax from the vast majority of Americans abroad.

Tax revenue from Americans abroad accounts for less than 0.2% of the total U.S. budget. Under RBT, the U.S. would be able to claw back, mostly through withholding taxes on financial assets and taxes on U.S. effectively connected income, revenues which today remain with foreign governments under CBT.



April 27, 2016

Submitted electronically to waysandmeans.submissions@mail.house.gov.

STATEMENT FOR INCLUSION IN THE HEARING RECORD OF
HEARING ON INCOME TAX REFORM PROPOSALS

CONGRESS SHOULD STRONGLY CONSIDER POTENTIAL RAMIFICATIONS THAT
TAX REFORM MAY HAVE ON LARGE EMPLOYERS AND THEIR ABILITY TO
CONTINUE TO OFFER RETIREMENT PLANS FOR MILLIONS OF AMERICA'S
WORKERS

Chairman Boustany, Ranking Member Neal, and Members of the Subcommittee, thank you for the opportunity to voice the point of view of major employers that directly sponsor voluntary retirement benefit plans for millions of Americans. My name is Annette Guarisco Fildes and I am President and Chief Executive Officer of The ERISA Industry Committee (ERIC).

ERIC is the only national trade association advocating solely for the employee benefit and compensation interests of the country's largest employers. ERIC supports the ability of its large employer members to tailor retirement, health, and compensation benefits for millions of workers, retirees, and their families. ERIC's members provide comprehensive retirement benefits to millions of active and retired workers and their families. Preserving and enhancing the voluntary employer-provided retirement system and the tax incentives that support it are key policy goals of ERIC and its members.

The employer-sponsored retirement plan system is helping over 130 million American workers get ready for retirement. Congress should protect, support and expand the retirement system to allow future generations to prepare for retirement. We urge Congress to proceed with caution when considering any cutbacks to the tax incentives relating to the current retirement system in order to avoid the risk and strong possibility of major unintended adverse consequences to the country and the financial and personal security of working Americans. The effects of significant changes for individuals, employers and the system as a whole are simply too harmful and must be avoided. In addition, we encourage Congress and policymakers to take this opportunity to further strengthen and support the U.S. employer-sponsored retirement system.

ERIC believes that as tax reform proposals are developed, this Subcommittee and Congress should strongly consider potential ramifications that changes in current law may have on large employers and their ability to continue to offer voluntary employer-sponsored retirement plans for millions of American workers. I would like to highlight key aspects of the current employer-sponsored retirement system that support the ability of large employers to continue providing retirement benefits to millions of workers and make recommendations regarding them.

ERIC recommends that Congress consider the following with respect to retirement plans as tax reform plans are developed:

1) Preservation of the voluntary nature of employer-sponsored retirement plans.

The voluntary nature of the retirement plan system is critical to the continued success of the employer-sponsored retirement system. The voluntary nature of the current retirement plan system provides the flexibility needed for employers to tailor plans to their workers.

Employers establish retirement plans to compete for and retain quality workers and to ensure workers are able to retire with adequate retirement savings. The voluntary nature of the private-sector retirement system is vital to its success. No two employers are identical; some employ thousands of workers, while others employ only a few. Employers are engaged in different industries, located in different geographical regions; some operate in the global market, while others operate only in their local community. A “one-size-fits-all” approach to rules and regulations often will not address the challenges of every company that wants to offer retirement benefits to their workers.

Flexibility is critical in retirement plans. It allows employers to design plans that work effectively and efficiently based on the needs of their diverse workforces. Rules that are too onerous or overly restrictive can chill an employer’s commitment to offer and a participant’s interest to participate in an employer-sponsored plan.

The voluntary nature of the current employer-sponsored private retirement system and the flexibility employers have in establishing and maintaining retirement plans for their workers are vital to America’s private retirement system. Congress should ensure the current private retirement system remains voluntary and flexible to encourage continued and new employer participation.

2) Preservation of current tax incentives for retirement benefits.

The current tax incentives for private retirement plans drive savings for workers across the country. Removing the current tax incentives for retirement plans will discourage plan establishment and maintenance and reduce the participation of employees contributing to their retirement savings.

Unlike tax expenditures where tax is completely avoided (i.e., deductions), taxes on retirement plan contributions are generally merely *deferred* until the participant receives a distribution of the funds, which is typically during retirement. In the unusual event a participant takes a pre-retirement distribution, there is an additional tax penalty, absent a qualifying case of hardship, which results in additional revenue for the government. Tax revenue is not completely lost when workers contribute to their retirement plans—it is merely delayed.

When measuring the cost of tax deferrals in retirement plans, such as 401(k) plans, the calculations performed by the Joint Committee on Taxation (JCT) and the Treasury Department cannot adequately reflect that there is only a deferral of taxation because revenue from most

distributions at retirement occur outside of the 10-year budget window. As a result, the majority of the costs for deferrals is “scored” as lost revenue in the budget window. The approach used by the JCT and the Treasury Department significantly exaggerates the actual cost to the government with respect to the tax incentives for retirement plans and ignores the real long-term value of the plans to the country and working Americans. Intricacies in the federal budget rules unfortunately result in retirement plan tax deferrals being counted as a revenue loss without taking into account the corresponding deferred gain.

Continuing to provide tax incentives encourages both employer and worker participation in America’s retirement system. Because taxes are merely deferred, not excluded, Congress should ensure that employer-sponsored retirement plans continue to receive the long-standing protections on which employers and workers rely.

3) Ensuring appropriate deferral and contribution limits that reflect current inflation rates and economic circumstances.

Workers need flexibility to be able to save more when they are able and less when they are under financial constraints. For example, an individual may be able to save more when they are younger or once their children become adults, but have less money to contribute when paying for their children’s college education or caring for their elderly parents.

Under the current system, employees are able to make elective deferrals up to \$18,000 annually. Congress recognized the need for older workers to save more as they are nearing retirement. As a result, workers age 50 and older can currently save up to \$24,000 annually. Policymakers have acknowledged that the “savings cycle” can be different depending on an individual’s unique circumstances.

Current deferral limits have not kept up with inflation. The limit on contributions made on an individual’s behalf to a defined contribution plan was set at \$25,000 (and indexed to inflation) when ERISA was enacted in 1974.¹ By 1982, the limit had increased to \$45,475.² However, the Tax Equity and Fiscal Responsibility Act of 1982 reduced the limit to \$30,000 and postponed indexation until after 1985. Indexation was again deferred until after 1987 by the Deficit Reduction Act of 1984. Then, in 1986, the contribution limit was frozen at \$30,000 through 2000 as a result of the Tax Reform Act. Since 2001 the limit has gradually increased to

¹ 26 U.S.C. 415(c) 1974.

² Investment Company Institute, *401(k) Plans: A 25-Year Retrospective*, 12 RESEARCH PERSPECTIVE (Nov. 2006), available at <https://www.ici.org/pdf/per12-02.pdf>

\$53,000,³ not much above the 1982 limit of \$45,475, and far below the amount that the 1974 limit of \$25,000 would represent in 2016 dollars—\$133,673.⁴

Proposals that would limit the amount of retirement plan contributions, reduce the current contribution deferrals, or limit the value of the retirement benefits would undermine the success of the current employer-sponsored retirement system by discouraging employers from establishing and maintaining plans and causing some participants to decrease their contributions. The result would be reduced savings balances at retirement by 6 to 22 percent for workers currently age 26-35 with the greatest reductions for those in the lowest-income quartile⁵—the demographic that Congress seeks to encourage to save more.

In the 1980s, we saw the significant negative consequences when a well-intentioned Congress set out to limit retirement contributions. When Congress restricted the eligibility requirements for individual retirement accounts (IRAs), deductible contributions declined from \$37.8 billion in 1986 to only \$14.1 billion in 1987 and continued to steadily decline thereafter.⁶ Workers have shown that they will respond to increased restrictions in retirement plans by saving less.

It is critical that Congress recognize the value of the current system that reflects typical lifetime savings habits and consider increasing the elective deferral limit. We urge the Subcommittee to continue to support and expand the ability of individuals to save through their workplace retirement plans by continuing COLA increases to deferral limits and reviewing the adequacy of the 402(g) limits in the Internal Revenue Code. Any changes to retirement savings incentives must focus on policy that will result in better long-term retirement outcomes for Americans, rather than on raising federal revenue.

We look forward to working together to enhance employer-provided retirement savings and to ensure that tax reform is enacted in a way that does not jeopardize the retirement readiness of American workers.

³ 26 U.S.C. 415(b) (1974). See EMP. BENEFIT RESEARCH INST., *EBRI's Fundamentals of Employee Benefit Programs* 50 (2009), available at https://www.ebri.org/pdf/publications/books/fundamentals/2009/05_Ret-Plans_RETIREMENT_Funds_2009_EBRI.pdf.

⁴ *Inflation Calculator with U.S. CPI Data*, <http://www.calculator.net/inflation-calculator.html?startingamount1=25000&ciyear1=1974&coutyear1=2016&calcType=1&x=57&y=8> (last visited Feb. 2, 2016).

⁵ Jack VanDerhei, *Modifying the Federal Tax Treatment of 401(k) Plan Contributions: Projected Impact on Participant Account Balances*, 33 EMP. BENEFIT RESEARCH INST. NOTES (Mar. 2012), available at https://www.ebri.org/pdf/notespdf/EBRI_Notes_03_Mar-12.Ktaxes-PThtCvg1.pdf.

⁶ Sarah Holden, et al., Investment Company Institute, *The Individual Retirement Account at Age 30: A Retrospective*, 11 RESEARCH PERSPECTIVE (Feb. 2005), available at <https://www.ici.org/pdf/per11-01.pdf>.



NATIONAL CONFERENCE of STATE LEGISLATURES

The Forum for America's Ideas

April 14, 2016

The Honorable Charles Boustany
Chairman
Tax Policy Subcommittee
Ways and Means Committee
United States House of Representatives
Washington, DC 20515

The Honorable Richard Neal
Ranking Member
Tax Policy Subcommittee
Ways and Means Committee
United States House of Representatives
Washington, DC 20515

Curtis Bramble
Senate President Pro Tempore
Utah
President, NCSL

Karl Azo
Director of Administration
Department of Legislative Services
Maryland
Staff Chair, NCSL

William T. Pound
Executive Director

RE: Hearing on Fundamental Tax Reform Proposals

Dear Chairman Boustany, Ranking Member Neal and Members of the Tax Policy Subcommittee:

The National Conference of State Legislatures (NCSL) urges the House Subcommittee on Tax Policy to support provisions in the federal tax code that preserve the fiscal viability and sovereignty of state governments. Federal and state tax systems are inextricably linked, and any federal reform will likely have serious fiscal and administrative ramifications on states. NCSL believes that federal tax reform should preserve the ability of state and local governments to adopt fair and effective tax systems, and the framework should encourage work, savings, equity and simplicity.

As the subcommittee considers tax reform proposals, NCSL urges the subcommittee to adhere to the following principles:

- **NCSL asks that any reform provides state legislatures adequate transition time.** State legislatures must have sufficient time (no less than three years) to make an assessment of and any necessary changes to state law. It is critical that state legislative calendars be taken into consideration as this process moves forward.
- **Ensure that all federal tax law changes be prospective:** This is important so that states do not suffer unexpected revenue losses that would emanate from a retroactive application.
- **Protect the state and local income tax, sales tax and property tax deductions for federal income tax purposes:** The need to protect and preserve state and local tax deductibility is even more imperative when considering the adverse impact its elimination would have on state and local government fiscal conditions. Eliminating state and local income and sales tax deductibility could cause states harm by limiting abilities to fund vital programs to educate our children, maintain state infrastructure and ensure the health and safety of our citizens.
- **Maintain the tax-exempt status of state and local government bonds for infrastructure and capital projects:** State and local bonds are the most beneficial and productive instrument for governmental infrastructure and capital needs purposes. If the current status of municipal bonds is either modified or eliminated, economic development would be suppressed through increased costs and less investment activity.

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April 14, 2016

- **Maintain and improve the Earned Income Tax Credit (EITC) and the Additional Child Tax Credit:** NCSL strongly supports the Earned Income Tax Credit (EITC), which provides needed financial support to low-income families while encouraging and rewarding work.
- **Preserve unique designs and protections inherent in state pension plans and avoid increased federal regulation:** NCSL believes the exemption of state pension and benefits plans from federal taxation is a sound component of federal policy that should continue. Congress should not enact any legislation that imposes annual federal reporting and funding requirements on state governments regarding aspects of their public employee pension plans.

NCSL welcomes the opportunity to work collaboratively with you to ensure that tax reform benefits not only the national economy but our states' economies as well.

Respectfully,

A handwritten signature in black ink, reading "William T. Pound". The signature is fluid and cursive, with the first name "William" and last name "Pound" clearly legible.

William T. Pound
Executive Director
National Conference of State Legislatures