Statement for the Record
House Committee on Ways and Means Hearing:
“Expanding on the Success of the 2017 Tax Relief to Help Hardworking Americans”
April 25, 2024

The Honorable Jason Smith
Chair
House Committee on Ways and Means
House of Representatives
Washington, DC 20515

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

Dear Chairman Smith, Ranking Member Neal, and Members of the Committee:

Arnold Ventures appreciates the opportunity to submit this statement for the record in relation to the committee’s April 11, 2024 hearing, “Expanding on the Success of the 2017 Tax Relief to Help Hardworking Americans.”

Arnold Ventures is a philanthropy dedicated to investing in evidence-based policy solutions that maximize opportunity and minimize injustice. Our work within the public finance sector aims to advance tax and budget policies that promote both fiscal sustainability for the government — especially at the federal level — and economic opportunity, mobility, and security for Americans.

In pursuit of these goals, we focus on tax policies such as enhancing the Child Tax Credit for low-income families while preserving work incentives, protecting the U.S. tax base from erosion to overseas jurisdictions while preserving U.S. competitiveness in a global economy, evaluating and designing place-based policies that enhance opportunity in depressed regions while minimizing windfalls and waste, and closing loopholes utilized by the wealthy that violate horizontal equity while ensuring the tax system encourages investment and growth. We conduct our work in these areas with an eye on fiscal sustainability.

First, we applaud the Ways and Means Committee and the House of Representatives on the passage of the Tax Relief for American Families and Workers Act earlier this year. This legislation successfully threads the needle between strengthening the Child Tax Credit for low-income families and encouraging work and is paid for by ending the
Employee Retention Credit — a pandemic-era program that is now riddled with waste, fraud, and abuse. We hope that the Senate will follow your lead in delivering tax relief to working families and halting a program that is fleecing American taxpayers to the tune of billions of dollars every week. Once it does, the tax policy community can turn to the project of addressing the upcoming expirations of various provisions from the Tax Cuts and Jobs Act (TCJA) and the opportunity this presents to reform the tax code further.

We at Arnold Ventures view legislative efforts to deal with the 2025 expiration of the individual (i.e., non-corporate) provisions of the TCJA on two metrics: tax reform and fiscal sustainability.

Smart, principled tax reform prioritizes (1) broadening the tax base to lower statutory rates, (2) simplifying the tax code, (3) increasing horizontal equity among taxpayers with similar levels of income, and (4) providing stability and certainty to taxpayers through permanent reforms.

Broadening the tax base and lowering rates on a revenue-neutral basis exchanges dead weight loss and economic distortion for economic growth and efficiency. Simplifying the tax system reduces the compliance burden on individuals and businesses and reduces the need for cumbersome audits on well-meaning taxpayers who intend to comply with their tax obligations but struggle to navigate complex rules and regulations.

Improving horizontal equity among taxpayers with similar income levels makes the tax code more just, as tax burden should be based on ability to pay rather than ability to engage in sophisticated tax planning. It involves reducing opportunities for inappropriate but legal tax avoidance by closing special-interest loopholes and regularly identifying and addressing new methods for tax avoidance.

For families and businesses, the predictability provided by making tax reform permanent has the dual benefit of reducing the burden of tax compliance and allowing pro-growth policies to achieve their full potential.

In addition to prioritizing and preserving the benefits of tax reform, Congress should not exacerbate the existing structural deficits the nation is facing. This is not 2013 when the 2001 and 2003 tax relief was extended; nor is it 2017 when the TCJA was enacted. Last year, 30-year fixed mortgage rates reached their highest level since 2000. In 2022, inflation topped nine percent for the first time since 1981. Interest on the national debt now accounts for over 13 percent of the entire federal budget — even more than national defense. And it only gets worse: CBO projects annual budget deficits to grow from $1.6 trillion this year to $2.6 trillion by the year 2034 — even if the TCJA individual
tax relief expires next year or is fully offset. We encourage the Committee to prioritize fiscal responsibility by identifying opportunities to raise the revenue necessary to pay for tax relief in this upcoming tax package.

These goals of tax reform and fiscal sustainability can often be in tension. To illustrate this, consider some potential paths forward for this legislation. Full extension of the Tax Cuts and Jobs Act might receive a 'B+' on tax reform as this would preserve the legislation’s improvements in simplicity and base broadening, but a 'D-' on fiscal sustainability by blowing a $3.4 trillion hole in the deficit. Allowing the law to expire would achieve an ‘A’ on fiscal sustainability, but an ‘F’ on tax reform by reverting to a tax system with higher marginal rates on work and entrepreneurship, more complexity, and distortions and inequities caused by provisions such as the itemized deduction for state and local taxes and other tax expenditures.

A worst-case scenario for both tax reform and fiscal responsibility would be to extend permanently all the tax cuts in the TCJA while allowing all the TCJA’s offsets to expire — this would receive poor grades both on tax reform and on fiscal sustainability.

A preferred approach might be to: (1) make all the expiring offsets permanent, (2) identify as many new additional offsets as Congress can agree upon, and (3) make as much of the tax cuts permanent as are covered by the combination of offset extensions and new offsets. This would achieve high grades for both tax reform and fiscal sustainability, and would represent a good first step down the road of getting our fiscal house in order through both a sustainable revenue base and controlling runaway spending growth.

We at Arnold Ventures applaud the Committee’s efforts to get a head start on preparing for the looming expiration of trillions of dollars in tax provisions next year. Starting the conversation early leads to more thoughtful deliberation over policy and fiscal priorities. We look forward to partnering with the Committee to advance legislation that preserves the policy benefits of comprehensive tax reform and recognizes our fiscal challenges.

Sincerely,

George A. Callas
Executive Vice President of Public Finance
Arnold Ventures
For a discussion of the evidence that the changes to the Child Tax Credit in the Tax Relief for American Families and Workers Act will not disincentivize work, see https://thehill.com/opinion/finance/4442838-the-new-expansion-of-the-child-tax-credit-wont-disincentivize-work/

For a discussion of the waste, fraud, and abuse in the Employee Retention Credit, see https://www.wsj.com/articles/a-550-billion-pandemic-relief-scam-employee-retention-credit-taxes-51d3cdd8

Internal Revenue Service Commissioner Danny Werfel testified on April 16, 2024, that the agency continues to receive roughly 20,000 claims for the Employee Retention Credit every week. For his full testimony, see https://www.c-span.org/video/?534893-1/irs-2024-filing-season-fiscal-year-2025-budget

https://fred.stlouisfed.org/series/MORTGAGE30US


