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Joint Economic Committee of Congress

Hearing: Examining the 2025 Tax Policy Debate and Tax Cuts & Jobs Act

Testimony: Former Congressman Kevin Brady
Chairman, Committee on Ways & Means 2015-2018
Former Chairman, Joint Economic Committee & Joint Committee on Taxation
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Chairman Heinrich, Vice Chair Schweikert, and distinguished Members of the House-Senate Joint Economic Committee:

It's an honor to participate in this hearing before a committee I am proud to have served on as a member, Vice Chair and Chairman. I know first-hand the important role by law the JEC plays as the congressional counterweight to the President's Council of Economic Advisors.

In my post-Congress life I serve as the strategic advisor to the Alliance for Competitive Taxation (ACT) formed to promote U.S. jobs and investment and sustain rising incomes for American families through the establishment of a globally competitive tax system that promotes America's economic growth.

ACT is comprised of tax directors from 49 leading American businesses representing a broad range of U.S. industries that employ more than 3 million workers who produce goods and services for customers around the world.

I serve as a senior consultant with the global law firm Akin where I work on economic issues such as tax, trade, energy and health care. I also serve in a volunteer role on the non-profit boards of the highly-respected American Action Forum that provides data-driven insight into economic, domestic, and fiscal policy issues "to promote innovative, free-market solutions to build a stronger, more prosperous future" and the Tax Foundation, the world's leading nonpartisan tax policy nonprofit whose mission is to "improve lives through tax policies that lead to greater economic growth and opportunity."

I am not a registered lobbyist. My views today are my own.

We undertook tax reform in 2017 because America's tax code was horribly outdated - burdened with one of the highest corporate tax rates in the developed world and an uncompetitive international tax code that was a relic of the Kennedy Administration.

As a result, for a decade before tax reform America's economic growth was slow, averaging a mere 1.5% a year, paychecks were essentially flat for the same period, and nearly every other month a U.S. company was moving its headquarters overseas, often accompanied by manufacturing, research, investment and intellectual property which left thousands of American workers and their communities behind – all driven away by an obsolete tax code.

Some economists tried to convince America that this was the "new normal" and we could do no better. We knew differently.

Through policy work over eight years, with more than 40 congressional hearings, bipartisan working groups, several comprehensive drafts and countless policy meetings, the House Ways & Means Committee pursued the reform of the America's outdated tax code in preparation for a president willing to lead on this once-in-a-generation challenge.

In 2017 we sought to create a tax code built for growth – the growth of jobs, paychecks and the U.S. economy. We developed a code to leapfrog America to the most competitive economy in the world, to position us as a premium destination for investment and innovation, and to ensure that America's businesses and workers could compete and win anywhere in the world - especially here at home. And when they succeeded in foreign markets, to enable them to bring their profits home to be invested in the U.S.

The Tax Cuts & Jobs Act, led and signed by President Trump, achieved its goals.

The Trump tax cuts were a boon for American workers. TCJA spurred business investment in innovation, technologies, software, equipment and facilities. It also restored U.S. corporations' international competitiveness by reducing the corporate tax, a stealth levy on workers' wages.

By dropping the rate to 21% from 35%, Congress set off an economic boom. Coupled with a modern international tax code, the TCJA's rate cuts drew more investment, research and intellectual property back to the U.S. Each dollar of corporate-tax reduction has been estimated to increase economic production by 44 cents.

The TCJA stimulated U.S. investment by 20 percent among companies experiencing the average tax change. Research and development increased, and thanks to modernization of the international tax provisions, many companies repatriated their intellectual property to America and developed new IP within the U.S. Payments to U.S. corporations for the use of IP more than doubled from $190 billion in 2017 to $386 billion in 2021.

Within America's multinational enterprises, employment, capital expenditures, total sales and R & D spending all grew faster within the United States than the respective levels abroad – leading to increases in the U.S. share of these activities relative to pre-tax reform. That increased share of U.S. activity represents 1 million more employees, $30 billion more in capital expenditures, $117 billion more in sales and $11.9 billion more R & D in the U.S. in 2022 compared to its share in 2017. There have been no major tax-driven corporate "inversions" from America to overseas since the enactment of TCJA, keeping jobs and revenue here in the U.S.

Research by Biden Treasury economists find the dollar value of American purchases of foreign companies increased by 19 percent after TCJA, and foreign acquisition of U.S. firms went down by a whopping 38 per cent.

Led by the corporate rate cut plus the first-of-its-kind foreign minimum tax that raised revenue while also removing the tax barrier to bringing overseas earnings back home, strong incentives for new U.S. investment and innovation, and by allowing businesses to immediately write off the cost of new equipment, machinery and software, the TCJA succeeded in increasing American firms' competitiveness and workers' well-being.

As a result, TCJA reforms have been the wind at American workers' backs for years. The 9 percent increase in inflation-adjusted earnings between Jan. 1, 2018, and Dec. 31, 2020, was the fastest growth since the government began publishing data in 1979. In just 2018 and 209, real median household income increased by $6,160 – more than in the previous 10 years combined.

Unemployment rates for African Americans, Hispanics and those with less than a high school education fell to the lowest rates seen since the data series was first reported. From 2017 to 2019 total poverty and child poverty fell at the fastest rates since the 1960's. More than 6 million people were lifted out of poverty, dropping the poverty rate to 10.5 percent, the lowest level in U.S. history.

Income and wealth inequality fell after TCJA, as real wages for the bottom 10 percent grew nearly twice as fast as the top 10 percent and real wealth of the bottom 50 percent of households rose three times faster than that of the top 1 percent.

Lawmakers of both parties are at risk of forgetting these economic lessons. President Biden and congressional Democrats are proposing to raise the U.S. corporate tax rate to 28%, which coupled with state taxes would make the U.S. the second-highest among the 38 members of the Organization for Economic Cooperation and Development. Under this scheme, the U.S. corporate tax rate would also significantly exceed China, an adversary bent on dominating U.S. manufacturing and advanced technologies.

The TCJA reforms' accomplishments aren't necessarily permanent. In 2017, because of budgetary constraints, Congress chose to lock-in the pro-growth provisions that generated better paychecks, more jobs and a stronger economy but scheduled the individual provisions likely to attract the most bi-partisan support – such as middle class tax cuts, the new 20% Small Business Deduction for pass-throughs, and the Child Tax Credit expansion - to require an extension by the end of 2025.

Looking to 2025, my advice to Congress is not to simply extend or make permanent the individual tax reforms but look to improve them wherever possible.

That means:

- preventing any increases in the corporate rate that would hurt workers, customers, shareholders and America's competitiveness;
- continuing the lower marginal income tax rates for families and pass-through businesses;
- extending the Section 199A 20 percent Small Business Deduction that supports 2.6 million jobs, raised employee compensation by $161 billion and added $325 billion to economic output;
- restoring the expiring tax provisions related to R & D expensing, the less stringent limitation on interest deductibility, and the immediate expensing of equipment and technology;
- continuing incentives for innovation and improvements within the international tax provisions;
- and rejecting the current flawed OECD framework that undermines America's competitiveness, grants foreign countries 'first in line' access to the U.S. tax base, turns important U.S. bipartisan tax provisions into revenue gains for other OECD countries, and usurps the sovereignty of Congress to write U.S. tax laws tailored to U.S. interests.

An extension of the estate tax's current design, which saves families and businesses – many of them minority owned - from having to sell their property or meet a 40% tax when a loved one dies, would also spur growth.

Over the next year, Congress can do more than merely ensure these pro-growth provisions don't expire. It should seize this opportunity to build on the gains in higher paychecks, lower poverty, global competitiveness and economic growth fostered by the 2017 reforms – to preserve the opportunities and competitiveness of America's workers.

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