U.S. House Committee on Ways and Means
Subcommittee on Tax

"Tax Policies to Expand Economic Growth and Increase Prosperity for American Families"

Testimony of Grover Norquist, President, Americans for Tax Reform
December 6, 2023

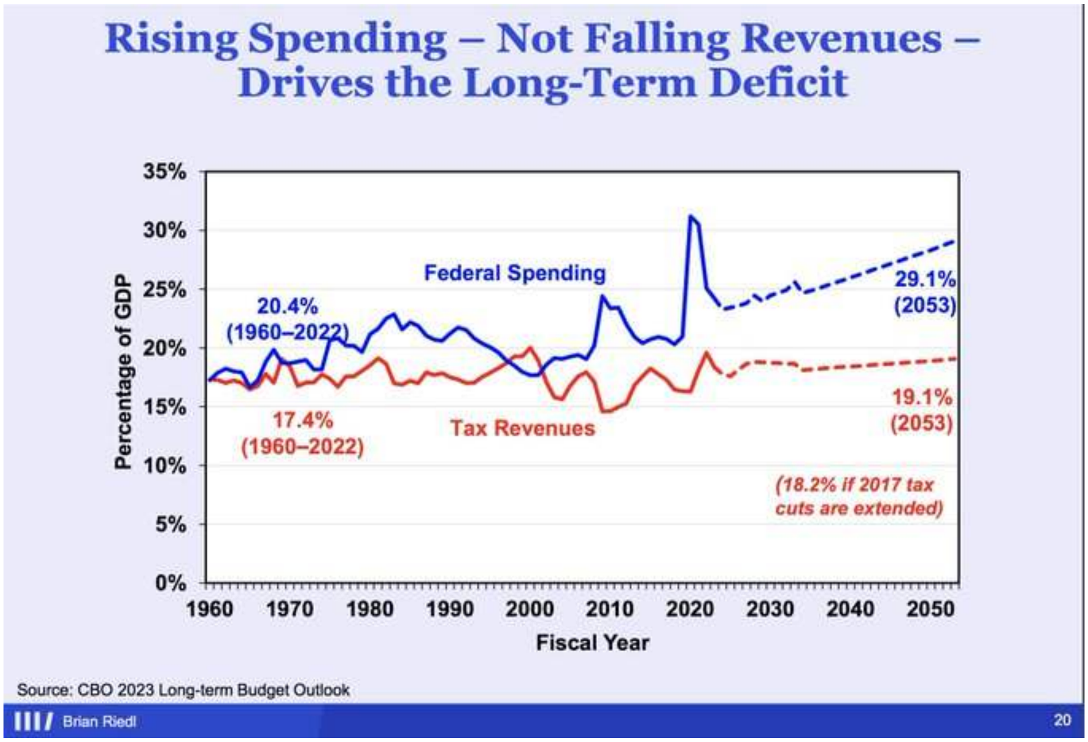
Chairman Kelly (R-Pa.), Ranking Member Thompson (D-Ca.), and members of the subcommittee, thank you for the invitation to testify today. My name is Grover Norquist, and I am the President of Americans for Tax Reform (ATR). ATR is a nonprofit, 501(c)(4) taxpayer advocacy organization that opposes all tax increases and supports low taxation, limited government and free market policies. ATR was founded in 1985 at the request of President Ronald Reagan.

I am here today to talk about the benefits of pro-growth tax policies, the pitfalls of alternative models of taxation such as new consumption-based taxes and proposed wealth taxes, and to provide recommendations for future tax reform for Congress to pursue.

Sound tax reform is focused on economic growth, simplification of the tax code, providing transparency of taxes for taxpayers, and ensuring neutrality in the application of taxes.

The 2017 Republican tax cuts, known as the Tax Cuts and Jobs Act (TCJA) achieved all of these goals by providing broad-based tax relief that delivered the strongest economy America had seen, raised the income of all households, increased jobs, and greatly simplified the tax code.

Opponents of the TCJA will often wrongly blame the tax cuts for driving our current debt and long-term deficit. Such criticisms are ill-founded and often intentionally meant to distract the public from noticing that the government's own spending is driving the rising national deficit. As the chart below shows, tax revenue has held a remarkably steady share of the economy for over 60 years, including under TCJA, while in contrast government spending continues inclining. America does not have a revenue collecting problem, we have a government spending problem.



Source: Manhattan Institute, Brian Reidl[1]

As Congress considers further tax reform, there are two major types of taxes that can be structured: income taxes and consumption taxes.

Criticism of income-based taxation rightly focuses on the problem of double taxation that often taxes the same dollar of income twice and discourages savings and investment intended for later consumption.

In contrast, consumption taxes only tax income once, regardless of timing. This removes the penalties on investment and savings caused by an income tax. This is why there is no shortage of papers from economists urging switches to consumption-based taxes.

However, once outside of the academic realm and consumption taxes enter the real world, their implementation often runs into political and policy brick walls. Without fail, newly proposed consumption taxes are implemented on top of existing taxes rather than as replacements for them, leading to higher overall taxation and growth of government. This problem is compounded by the fact that consumption taxes are typically less transparent to the public, often hiding the true cost taxation from voters.

[1] Riedl, B. (2023, November 7). *2023 chart book examines spending, taxes, and deficits*. Manhattan Institute. https://manhattan.institute/article/2023-chart-book-examines-spending-taxes-and-deficits?utm_source=press_release&utm_medium=email

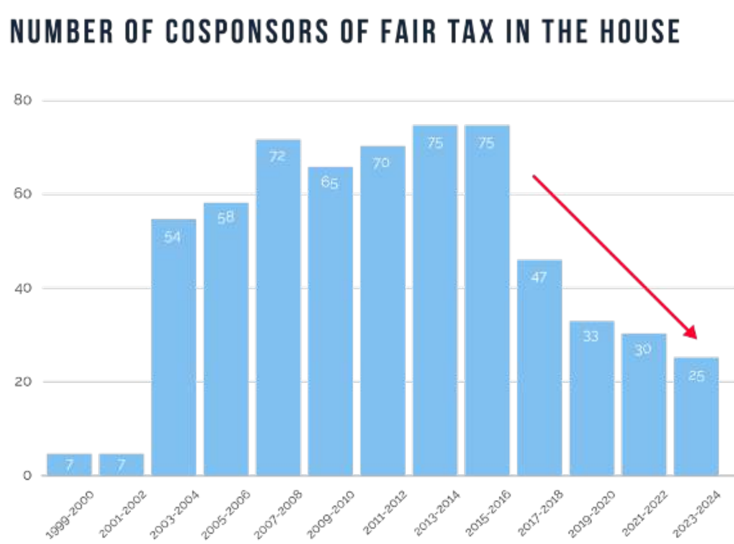
Rather than focus on enacting new consumption taxes (even if the goal is to replace income taxes), I instead encourage Congress to remove tax penalties on savings and investment from our existing tax code. A more consumption focused tax code can be achieved without new taxes or growth of government by reducing and eliminating taxes on savings and investment.

Congress can take critical steps towards this end by solidifying the progress that's already been achieved by making the provisions of the Tax Cuts and Jobs Act permanent law. Further, I would encourage Congress to focus on expanding tax advantaged savings accounts including HSAs and 529 education plans that allow parents and students to save more of their own money to use on education. Congress should further end the double taxation of capital gains to encourage investment and provide full repeal of the death tax.

FAIR Tax

One consumption-based alternative to our current income tax regime that received renewed attention this Congress is the FAIR Tax – a proposal to eliminate the federal income tax and replace it with a 30 percent federal sales tax.

The Fair Tax proposal itself is decades-old and declining in political support. The Fair Tax Act has been introduced by a small handful of Republicans in every Congress since 1999. In fact, House co-sponsorship of the Fair Tax Act is at a 20-year low. Support has been dwindling for the past decade, dropping by two-thirds since 2013. See the chart below.



Source: Americans for Tax Reform

Fair Tax advocates have many good intentions including ending an abusive IRS and taxing consumed income instead of savings and investment. The bill proposes to abolish the Internal Revenue Service and eliminate the federal income tax. Unfortunately, the bill would replace the income tax with a 30 percent national sales tax on all goods and services, establish multiple new tax offices run by the Social Security Administration in place of the IRS, and incidentally create a new entitlement program.

The Fair Tax would also inadvertently strip all work requirements from the tax code and establish a pre-bate system that sends monthly checks to Americans regardless of earned income. The FAIR TAX would thus create a system that sounds suspiciously like a universal basic income scheme.[2]

Replacing our current tax code with a national sales tax would create a system of double taxation on retirees. Take, for example, a 65-year-old who has spent a lifetime saving after-tax income and has retired, expecting to draw down that income without paying further taxes. Instead, they would now face a 30 percent sales tax on everything they buy. The FAIR Tax is a terrible blow to all Americans at or near 65 years of age or older.

Fair Tax advocates claim the bill would "abolish the IRS" but in fact it creates at least three new tax bureaucracies: The Federal Excise Tax Bureau, The Federal Sales Tax Bureau, and the Office of Revenue Allocation. The agencies would be organized under the Social Security Administration. Simply shuffling responsibilities and personnel from the IRS to the SSA does nothing to shrink a wasteful and intrusive bureaucracy.

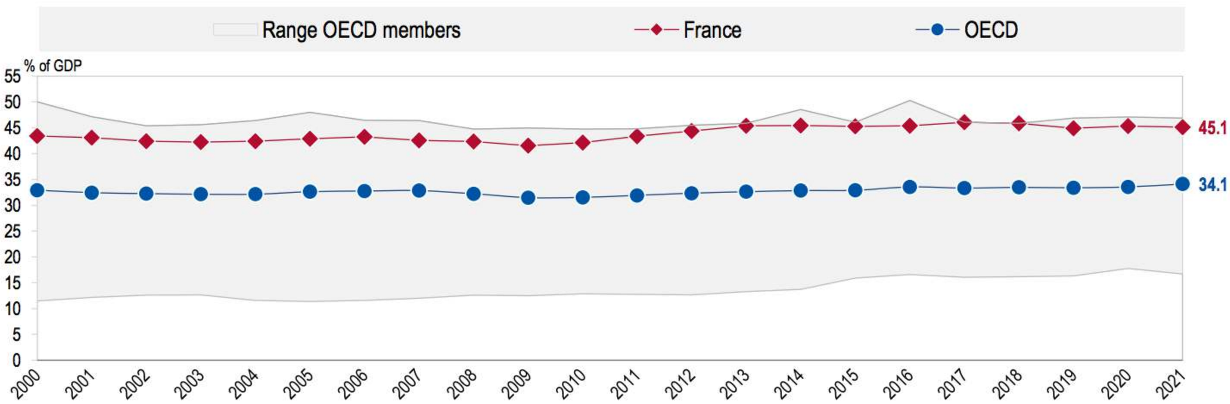
Lawmakers should be particularly worried about the likelihood that The Fair Tax will collapse into a value-added tax. No city, state or nation has a 30% or 23% sales tax. The incentive for the creation of wide scale black markets to avoid paying the tax would render the FairTax unenforceable in practice. A Value Added Tax of that size, however, is enforceable because it is collected at every step of production.

Value-Added Tax (VAT)

The Value-Added Tax (VAT) in Europe was offered as the solution for other taxes being too high taxpayers and too transparent for the liking of politicians. Every European nation that added a VAT still also has a personal income rate and a corporate income tax. In each case after the VAT was imposed, the existing taxes grew more rapidly than before.

France, for example, has seen its tax-to-GDP ratio increase from 43.4% in 2000 to 45.1% in 2021. Over the same period, the OECD average increased from 32.9% of GDP to 34.1%. The United States is the only OECD country without a VAT. A VAT is not a solution for taxes being too high, but rather a means for government to grab additional revenue and grow the state.

[2] Norquist, G. (2023, January 23). A national sales tax is a terrible idea. The Atlantic. https://www.theatlantic.com/ideas/archive/2023/01/national-sales-tax-house-republicans-grover-norquist/672810/



Source: OECD Revenue Statistics 2022[3]

Swapping one tax for another is almost always a mistake for taxpayers. Lawmakers are willing to reduce taxes that are highly visible and unpopular with voters. They make it too clear to taxpayers what they are paying to the government. Painful taxes cannot be raised. The paradox for taxpayers is that visible, painful taxes are the taxpayer's best protection against runaway government spending and taxes.

Wealth Tax

In recent years, Congress has seen a slurry of proposed wealth taxes, including legislation from Sen. Elizabeth Warren (D-Mass.) and most recently Sen. Ron Wyden (D-Oreg.).

A wealth tax is an annual tax on a taxpayer's assets. This tax leads to double taxation as it is imposed in addition to income taxes and is imposed on the same assets year after year. Such a tax would be unconstitutional, would harm the economy, hand the IRS immense power, would be difficult or impossible to calculate and enforce, and will almost certainly grow in size to hit millions of taxpayers.

According to an American Action Forum (AAF) study, a wealth tax would decrease innovation and investment, driving down wages and causing unemployment. The same study explained that it would shrink GDP by $1.1 trillion over the first ten years, and then continue to shrink it each year by $283 billion, or 1 percent of GDP.[4] Currently, the United States' GDP is $21.43 trillion. The CBO predicts that by 2030, the GDP will be $32 trillion. If a wealth tax was implemented, this single tax could cut into over 10 percent of those gains in GDP.

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[3] Revenue statistics 2022 - France - OECD. (n.d.). https://www.oecd.org/tax/revenue-statistics-france.pdf
[4] Holtz-Eakin, D. (2020, January 10). Wealth taxes and workers. AAF. https://www.americanactionforum.org/research/wealth-taxes-and-workers/#_ednref6

The U.S. should learn from OECD countries that have implemented a wealth tax only to repeal it in short order. As the Tax Foundation points out, the number of current OECD members that have collected revenue from net wealth taxes has grown from 8 in 1965 to a peak of 12 in 1996 to just five in 2020. France's net wealth tax was mostly repealed in 2018 and now only applies to real property. At its peak in 2014, revenue from the French net wealth tax made up 0.55 percent of total French revenue.[5]

Wealth tax advocates claim they will only try to seize the net unrealized gains of wealthy taxpayers. But history has shown that Congress will not stop there. The federal income tax itself began as a 1% to 7% assessment that applied to fewer than 400,000 Americans. Yet, in 2017, almost 150 million Americans filed tax returns, and tax revenues were nearly 200 times what they were in 1913, adjusted for inflation.

When it comes to taxation, Congress will test the waters with a small number of wealthy taxpayers. But, eventually, Congress's appetite for new revenue ensnares far more Americans. Indeed, over 60% of Americans own securities, making them susceptible to congressional attempts to tax unrealized capital gains.

I urge Congress to oppose the creation of a wealth tax in any form.

Tax Cuts and Jobs Act (TCJA)

The clear priority for Congress seeking to craft tax policy that promotes economic growth and increases prosperity is to make permanent the historic 2017 Republican tax cuts, known as the Tax Cuts and Jobs Act. The TCJA directly reduced taxes for American middle-class families and grew the economy, increasing wages and creating more job opportunities for Americans.

President Biden and Vice President Harris have not rescinded their repeated calls to "eliminate" the TCJA. Such elimination would impose an enormous tax increase on Americans.[6] Congress should resist all efforts to eliminate or rollback the TCJA and instead seek to make the 2017 tax cuts permanent law.

For years, President Joe Biden has falsely claimed that the 2017 Tax Cuts and Jobs Act (TCJA) passed by the Congressional Republicans and President Trump overwhelmingly benefited "the rich and large corporations" and did little or nothing to help middle class families.

Even left-leaning media outlets have (eventually) acknowledged the tax cuts benefited middle class families. The Washington Post fact-checker gave Biden's claim that the middle class did

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[5] Bunn, D. (2023, July 24). What the U.S. can learn from the adoption (and repeal) of wealth taxes in the OECD. Tax Foundation. https://taxfoundation.org/blog/wealth-taxes-in-the-oecd/

[6] Morales, I. (2022, December 22). *5-year anniversary of Republican Tax Cuts: Middle class Americans saw significant tax reduction*. Americans for Tax Reform. https://www.atr.org/5-year-anniversary-of-republican-tax-cuts-middle-class-americans-saw-significant-tax-reduction/

not see a tax cut its rating of four Pinocchios.[7] The New York Times characterized the false perception that the middle class saw no benefit from the tax cuts as a "sustained and misleading effort by liberal opponents."[8]

In reality, 2017 tax reform reduced taxes across the board, raising incomes for Americans at every income level. Below are key provisions of TCJA that contributed to economic growth, job creation and higher wages for workers.

Lower individual tax rates

The TCJA lowered tax rates for individuals and families, so hardworking Americans can keep more of their hard-earned money. The IRS's 2020 Statistics of Income (SOI) data shows that most American households saw a significant tax cut between 2017 and 2020[9].

The SOI data shows that middle income American households saw the biggest tax cuts:

> **23.1% tax cut for Americans making between \$25k – \$50k.** American households with adjusted gross income between \$25,000 and \$50,000 saw their average federal income tax liability drop from \$2,272.89 in 2017 to \$1,846.78 in 2020, a 23.1% reduction in federal income tax liability.
> **20.8% tax cut for Americans making between \$50k – \$75k.** American households with adjusted gross income between \$50,000 and \$75,000 saw their average federal income tax liability drop from \$5,503.53 in 2017 to \$4,554.17 in 2020, a 20.8% reduction in federal income tax liability.
> **16.7% tax cut for Americans making between \$75k – \$100k.** American households with adjusted gross income between \$75,000 and \$100,000 saw their average federal income tax liability drop from \$8,973.93 in 2017 to \$7,688.17 in 2020, a 16.7% reduction in federal income tax liability.

Doubled the Standard Deduction

TCJA doubled the standard deduction from \$12,000 to \$24,000 for taxpayers filing jointly and \$6,000 to \$12,000 for single filers. This is an across-the-board tax cut allowing middle-class families to increase the amount of tax-free income they can earn. Thanks to the Republican tax cuts, the first \$24,000 of a married couples' income is untaxed at the federal level.

138,079,620 American households took the standard deduction in 2019 including 137,893,480 households earning less than \$200,000. 142,979,390 taxpayers took the standard deduction in 2020 including 133,662,720 taxpayers earning less than \$200,000.

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[7] Kessler, G. (n.d.). *Biden's false claim that no one but the rich got Trump's Tax Cuts*. The Washington Post. https://www.washingtonpost.com/politics/2019/05/01/bidens-false-claim-that-no-one-rich-got-trumps-tax-cuts/
[8] Casselman, B., & Tankersley, J. (2019, April 14). *Face it: You (probably) got a tax cut*. The New York Times. https://www.nytimes.com/2019/04/14/business/economy/income-tax-cut.html
[9] SOI tax stats - historic table 2. Internal Revenue Service. (n.d.). https://www.irs.gov/statistics/soi-tax-stats-historic-table-2

This increase in the standard deduction also greatly simplified the tax filing process for taxpayers as it caused a dramatic reduction in the amount of filers claiming itemized deductions. In 2017 prior to TCJA implementation, 47.1 million taxpayers itemized deductions, relative to 15.3 million in 2018. This dramatic shift maps to a more than 19 percentage point drop in itemizers as a percentage of all taxpayers, from 30.90% to 11.47%.[10]

TCJA achieved significant simplification of the tax filing process, allowing 9 out of 10 Americans to get the full benefit of tax deductions without the headache of tracking receipts or itemizing.

<u>Doubled the Child Tax Credit:</u>

The Tax Cuts and Jobs Act doubled the maximum child tax credit (CTC) from $1,000 to $2,000 per child under age 17 and increased the phase out thresholds from $75,000 to $200,000 for single filers and $110,000 to $400,000 for joint filers.

This expansion has been shown to have a large impact on American families' tax bills. In 2017, 22 million households earning $200,000 or less took the child tax credit, receiving an average tax credit of $1,213. In 2018, this increased to 36 million households earning $200,000 or less took the child and other dependent tax credit. These households received an average credit of $2,002.

In 2017, 16.6 million households earning between $25,000 and $100,000 took the child tax credit. These households received an average tax credit of $1,271. In 2018, 23.3 million households earning between $25,000 and $100,000 took the child and other dependent tax credit. These households received an average tax credit of $1,912.

<u>Ended the Obamacare mandate tax that hit millions of American households</u>

The TCJA zeroed out the Obamacare individual mandate tax penalty effective 2019. In 2017, 4,654,990 American households paid the Obamacare individual mandate tax penalty. 4,153,930 (89.23%) households earned less than $75,000. 3,797,480 households paid the Obamacare individual mandate tax penalty in 2018. 3,294,660 households (86.76%) earned less than $75,000.[11]

<u>20% tax deduction for American small businesses</u>

The TCJA created a new, 20% deduction for small businesses organized as passthrough entities (LLCs, sole proprietors, S-corporations, partnerships). The 'pass-through deduction" or "Section 199A" allows these filers to up to 20% of their business income from federal income tax. This provision provided desperately needed tax relief to American small businesses and allows them to compete with large multinational corporations. The "pass-through deduction" provided tax relief to 22,735,830 American taxpayers that claimed the small business deduction in 2020

[10] *How did the trump tax bill affect itemized deductions? – 2021 study*. SmartAsset. (n.d.). https://smartasset.com/taxes/how-did-the-trump-tax-bill-affect-itemized-deductions-2021

[11] *SOI tax stats - historic table 2*. Internal Revenue Service. (n.d.). https://www.irs.gov/statistics/soi-tax-stats-historic-table-2

including 18,237,470 taxpayers earning less than $200,000. 22,136,740 taxpayers claimed the small business deduction in 2019 including 17,716,620 taxpayers earning less than $200,000.

Corporate tax relief that increased American competitiveness and boosted investment
The TCJA made the United States a more competitive place to do business and led to more investment in the economy from foreign-owned U.S. businesses. TCJA was the largest corporate tax reform in decades, lowering the corporate rate from 35% to 21%, temporarily allowing full business expensing to encourage new investment and facility expansion, and overhauled the international tax code.

A 2022 study conducted by the left-of-center Tax Policy Center focused on the effects of corporate tax reduction, including the reduction of the corporate tax rate from 35 to 21 percent, allowing full expensing of equipment investments, and the new deduction for foreign derived intangible income (FDII).[12] The study found that the TCJA strongly increased foreign direct investment into the United States:

> "Estimates indicate that FDI [foreign direct investment] financed with retained earnings rose in response to the cut in US EMTRs [effective marginal tax rates] and EATRs [effective average tax rates], even when controlling for GDP growth and dollar exchange rates. On average, retained earnings rose about 0.5 percent in response to each percentage-point fall in the EMTR and 3 percent in response to each one-point fall in the EATR. The investment response to the change in EATRs is similar to that found in other economic studies."

Corporate taxes are primarily borne by workers. According to the Tax Foundation, labor (or workers) bears an estimated 70 percent of the corporate income tax in the form of wages and employment.[13] By reducing the tax burden on companies, TCJA increases wages for workers and spurred job creation. Americans for Tax Reform maintains a list of over 1,200 examples of pay raises, new job creation, facility and product line expansions, special bonuses, utility rate reductions, 401(k) match increases and employee benefit increases attributed to the Tax Cuts and Jobs Act that can be viewed at: atr.org/list.

[12] *The impact of the Tax Cuts and Jobs Act on foreign investment in the United States*. Tax Policy Center. (2022, May 12). https://www.taxpolicycenter.org/publications/impact-tax-cuts-and-jobs-act-foreign-investment-united-states

[13] *Labor bears much of the cost of the corporate tax*. Tax Foundation. (2023, October 17). https://taxfoundation.org/research/all/federal/labor-bears-corporate-tax/

Conclusion

Congress should avoid the creation of new taxes, even if the stated goal is replacing existing taxes. The solution to fighting a tapeworm is never to swallow a second tapeworm in the hope that it will restrict the growth of the first tape worm. That's just how you end up with multiple tapeworms.

If the goal of Congress is to shift towards taxing consumption this can be achieved without new taxes or growth of government by reducing and eliminating taxes on savings and investment. For example, I encourage Congress to focus on expanding tax advantaged savings accounts including HSAs and 529 education plans allowing parents and students to save more of their own money to use on education. Congress should further provide full repeal of the death tax end the double taxation of capital gains and take the incremental step of indexing capital gains to inflation to encourage investment

All of these proposals would eliminate tax burdens on investment and savings and move the tax code in direction focused more on taxing consumption.

The priority of Congress regarding tax policy must be ensuring the Tax Cuts and Jobs Act is made permanent.