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“Tax Policy in 2025: Implications for the American Economy”
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Thank you, Chair Warren, Ranking Member Kennedy, and members of the Subcommittee.

My name is Brendan Duke, and I am Senior Director for Economic Policy at the Center for American Progress. The Center for American Progress is an independent, nonpartisan policy institute and advocacy organization that is dedicated to improving the lives of all Americans through bold, progressive ideas, as well as strong leadership and concerted action.

I’m honored to submit this testimony about the 2017 tax law and the tax choices facing Congress next year around extending it. I will make the following points:

- The 2017 tax law’s cut in the corporate tax rate failed to increase economic growth or investment above pre-2017 levels. None of the paltry wage gains resulting from the tax cut went to ordinary workers and instead went to the highest paid workers.
- Extending the expiring provisions will increase income inequality–the average tax cut for the top 1 percent of Americans ($63,800) is more than 60 times larger than that of the middle 20 percent of Americans ($950). It is more than 600 times larger than that of the bottom 20 percent of Americans ($110).
- Even the above numbers are too rosy: Any honest analysis of deficit-financed tax cuts must include an assumption of how they are paid for. Paying for the tax cuts with enormous taxes on imported goods like President-elect Trump has proposed would leave low- and middle-income families with a net tax increase. Relying on current or future spending cuts to pay for them would similarly hammer low- and middle-income families.
- Trump has proposed a series of populist-sounding tax cuts like “No Tax on Tips,” but they would leave out most workers, provide meager tax cuts to the small share of eligible workers, and produce enormous incentives to game the tax code.

Members of Congress should reject any approach to the 2017 tax law that asks working- and middle-class families to pay for tax cuts for the wealthy through higher prices on imported goods, cuts to critical programs, or higher deficits that tax cut proponents will later cite to cut critical programs.

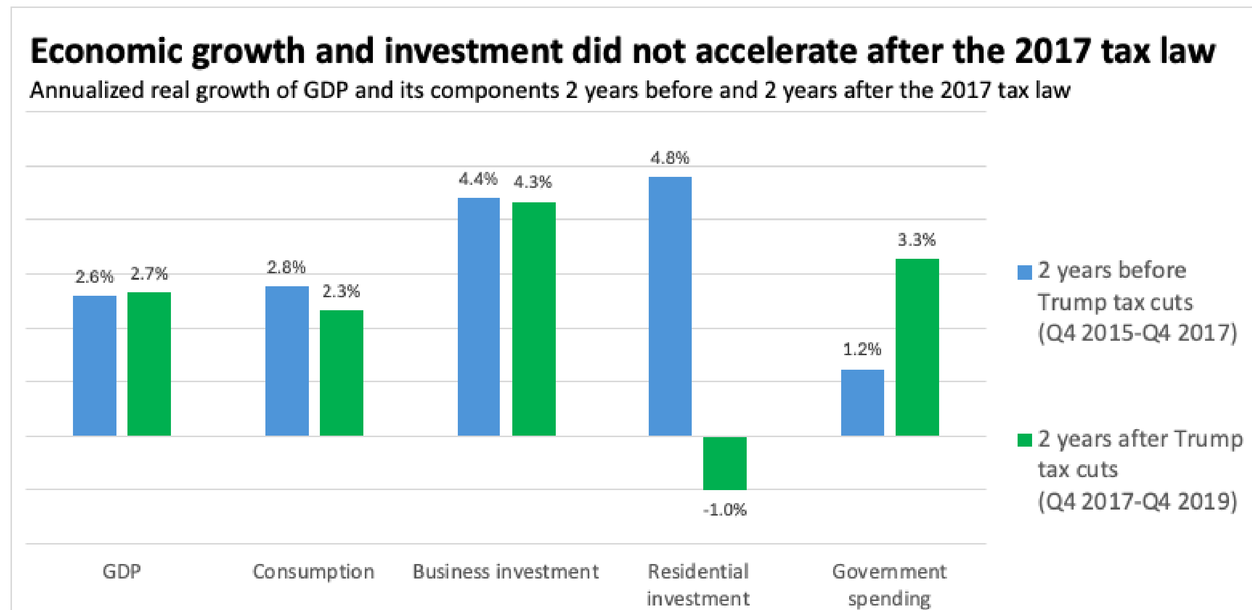
Letting the tax cuts expire is a far better alternative than saying "Yes" to a bill that will entrench income inequality and rip off working- and middle-class families down the road.

The main purpose of the 2017 tax law was cutting taxes for corporations, which failed to trickle down to ordinary workers

The centerpiece of the 2017 tax law was a massive cut in the corporate tax rate from 35 percent to 21 percent, which was the law's only permanent tax cut along with changes to how multinational corporations' profits are taxed.

The first Trump administration made a series of claims in favor of the corporate tax cut about what it would do for growth and ordinary workers. For example, Treasury Secretary Stephen Mnuchin claimed that the tax package would generate so much economic growth that it would pay for itself.[i] The Trump White House's Council of Economic Advisers put out a report arguing that a cut in the corporate tax rate from 35 percent to 20 percent would lead to such a surge in investment and productivity growth that it would boost the pre-tax wage income of the average family by $4,000 "very conservatively."[ii]

Yet, there was no noticeable overall increase in GDP or business investment growth in the years after the tax cut relative to the years before the tax cut.[iii] In fact, business investment fell slightly while residential investment cratered–the only reason economic growth held steady after the tax cut was an increase in government spending. A surge in investment was the *entire* theory by which the corporate tax cut was supposed to trickle down to workers, but the surge was completely absent from aggregate economic data.

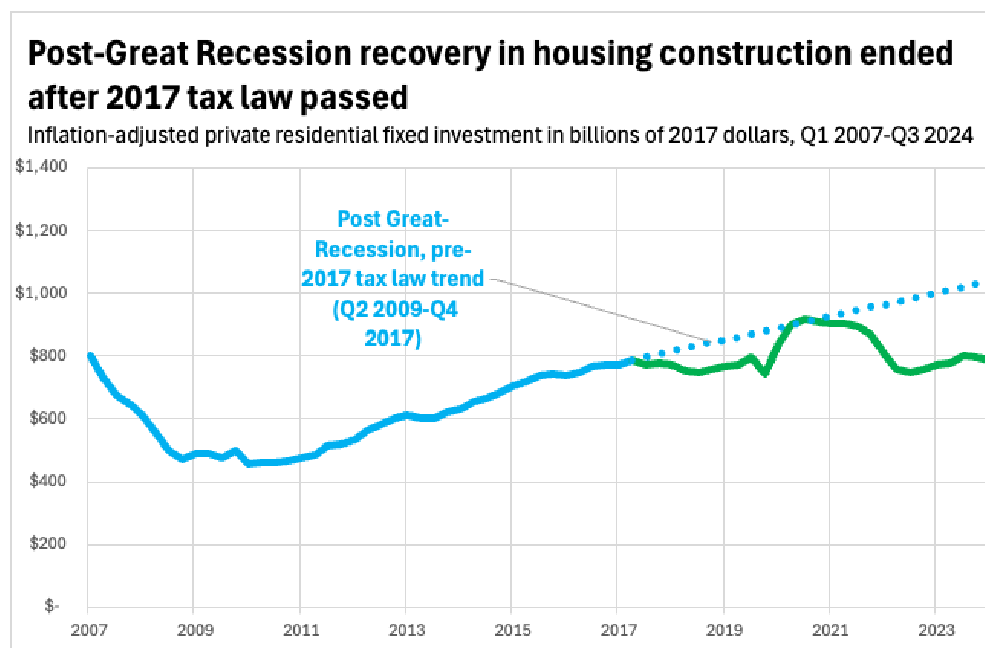


Source: Center for American Progress analysis of U.S. Bureau of Economic Analysis data. Numbers differ from previous versions because of subsequent revisions to GDP data.

Mainstream projections of the effect of the law on GDP growth from the Congressional Budget Office, the Joint Committee on Taxation, Goldman Sachs, and others estimated that the law would cumulatively raise real GDP by less than 0.7 percent over the decade. This amounts to a less than 0.07 percentage point increase in the annual growth rate.[iv] This is about a tenth of the increase in real GDP required for the law to pay for itself like Secretary Mnuchin claimed it would.

Careful analysis of its effects on investment have been consistent with these projections: investment at firms receiving larger tax cuts rose somewhat relative to those with smaller tax cuts, but the effects are on the low end of the academic literature and suggest the law came nowhere close to paying for itself as proponents claimed it would.[v] The analysis also does not account for the possibility that the law redirected investment from firms with smaller tax cuts to firms with larger tax cuts.

Additionally, analysis of the effect of the law on investment typically ignores its effect on housing investment. CBO projected the law would reduce housing investment since its provisions are not favorable toward housing and "residential investment is reduced throughout the entire period by crowding out."[vi] Inflation-adjusted housing investment today is actually lower than it was before the law passed and *far* lower than where it would be if it had stuck to its pre-2018 trend.[vii]



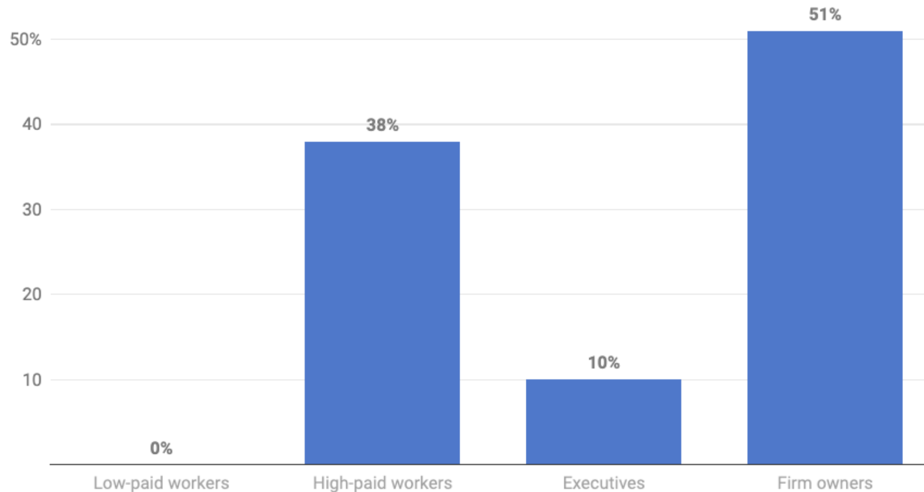
Source: Center for American Progress analysis of U.S. Bureau of Economic Analysis data.

The overall average wage gains spurred by the corporate rate cut are exceedingly modest and, most importantly, none of them went to the bottom 90 percent of workers at firms receiving a tax cut.[viii] Instead, highly paid workers and executives received all of the wage gains resulting from the corporate rate cut. The wage gains were the mechanism by which a direct corporate tax cut to investors was supposed to trickle down to ordinary workers, but again the evidence shows that this did not occur.

The cut in the corporate tax rate did successfully generate a burst of stock buybacks with a record $1 trillion of buybacks announced by the end of 2018.[ix] Detailed work by the International Monetary Fund found that "only about 20 percent of the incremental cash outflow post-TCJA went towards capital expenditure or R&D while the rest went towards share buybacks, dividends, and other activities."[x]

The benefits of the cut to the corporate rate went exclusively to corporate owners and high-paid workers

Percentage incidence of the corporate tax cuts in the Tax Cuts and Jobs Act (TCJA)



Note: Low-paid workers are defined as those in the bottom 90 percent of the within-firm wage distribution; high-paid workers are those in the top 10 percent. Executives are defined as the top five paid workers within a firm.

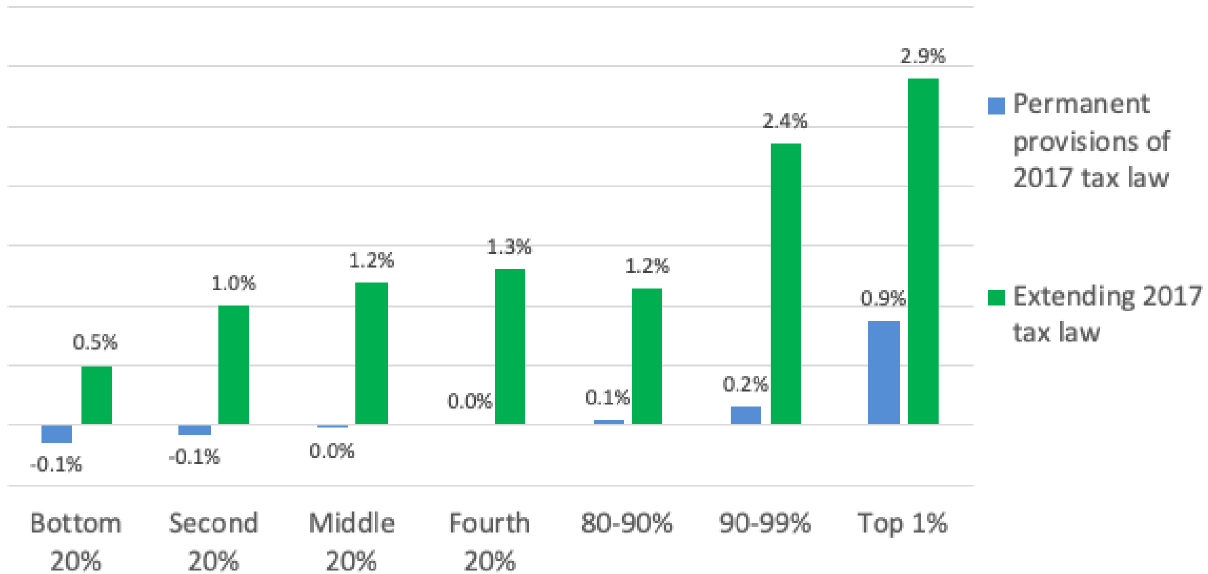
Source: Patrick Kennedy and others, "The Efficiency-Equity Tradeoff of the Corporate Income Tax: Evidence from the Tax Cuts and Jobs Act," patrick-kennedy.github.io, 2024, available at https://patrick-kennedy.github.io/files/TCJA_KDLM_2024.pdf.

Chart: Center for American Progress

Both the permanent and expiring Trump tax cuts provided small benefits to most families while providing enormous tax cuts to the wealthy

Given that the overall economic and wage benefits of the Trump tax cuts were paltry, the direct tax cuts and how they were distributed becomes the key question for evaluating how it affects families.

The tax cuts added to a decades-long trend of growing income inequality by giving larger tax cuts as a share of income to the top 10 percent of Americans than to other groups. The law's permanent tax provisions–a cut in the corporate tax rate coupled with raising taxes across the board by slowing the growth rate at which tax provisions are adjusted for inflation–provided essentially no benefits to households outside of the top 1 percent and even reduced the incomes of the bottom 40 percent of Americans.[xi] In particular, the change to how tax provisions are adjusted for inflation reduced the value of the Earned Income Tax Credit–the nation's second largest anti-poverty program–over time.[xii]



Source: Center for American Progress analysis of Tax Policy Center Tables T17-0316 and Table T24-0037

The provisions that expire at the end of 2025 have been framed as the "middle-class" portion of the 2017 tax law because of increases to the Child Tax Credit and the standard deduction. But even this portion of the law is tilted to high-income Americans.

Extending the expiring portions of the Trump tax cuts would:

- Give the bottom 20 percent an average tax cut of $110, amounting to just a 0.5 percent increase in their after-tax income.[xiii]
- Give the middle 20 percent an average tax cut of $950, amounting to a 1.2 percent increase in their after-tax income.
- Give the top 1 percent an average tax cut of $63,800, amounting to a 2.9 percent increase in their after-tax income.

These expiring provisions are tilted to high-income households for two reasons. First, high-income households fully benefit from tax cuts in the lower brackets (i.e., the "middle-class tax cuts") while lower income families receive partial benefits at best. For example, about one-quarter of the entire cost of extending the expiring tax cuts (roughly $1.1 trillion) is the cut in the second tax bracket's tax rate from 15 percent to 12 percent.[xiv] This is the tax rate on a married couple taking the standard deduction's adjusted gross income between roughly $55,000 and $125,000 in 2025. A family with an adjusted gross income of $1 million gets a full $2,200 tax cut from the change in this "middle-class" tax bracket while a

family making $80,000 only gets a $800 tax cut because they do not have enough income to "fully" benefit from that change to the tax rate.

Second, other expiring provisions heavily or exclusively benefit high-income people:

- The 2017 tax law introduced a new 20 percent deduction for the profits of closely held ("pass-through") business owners such as car dealership owners and real estate investors. The deduction is extremely regressive since the value of the deduction is largest for business owners in the highest brackets and because a much larger share of high-income Americans' income comes from pass-through profits.[xv] The tax break provides over half of its benefits to the top 1 percent and over 80 percent of its benefits to the top 10 percent of Americans.[xvi]

- The Alternative Minimum Tax (AMT) is a simplified back-up tax system designed to ensure high-income people pay at least some tax. Taxpayers calculate their normal tax liability and their AMT liability, paying the larger of the two. The cuts to ordinary income tax rates normally would have meant more affluent families paying the AMT, but the law gutted it by moving up the income where the generous AMT exemption level begins to phase out from about $200,000 to $1.3 million. This provision alone costs $1.5 trillion over 10 years.[xvii]

- The estate tax is a key policy for preventing wealth inequality from exploding and is a backstop for the income tax by ensuring capital gains that go untaxed at death face at least some tax.[xviii] The 2017 tax law continued the multi-decade weakening of the law by doubling the amount a married couple can pass on tax-free to their heirs from about $14 million to about $28 million, benefiting fewer than 1 in 1,000 estates. A couple's fortune worth over $28 million receive a full $5.6 million tax cut from this provision.

The tax cuts will dramatically increase income inequality once they are paid for

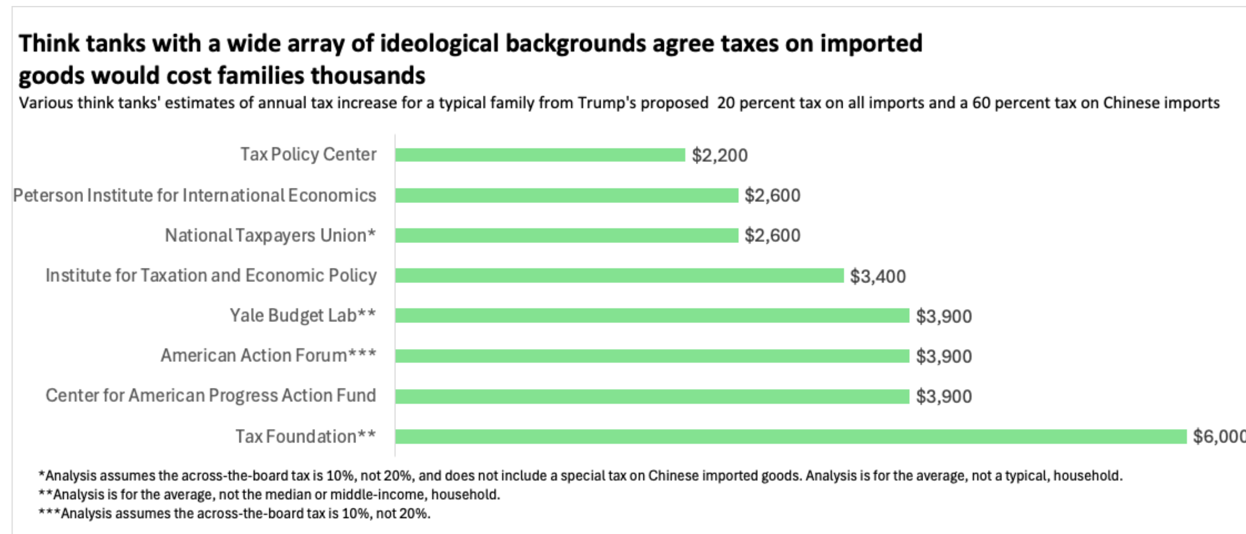
The 2017 tax law was a large, deficit-financed tax cut and arguments that it benefited the majority of Americans rely on the same flawed logic that would suggest eliminating all taxes would raise their incomes too. The purpose of the tax code is to raise revenue to fund the government and tax cuts today will mean tax increases or spending cuts either immediately or in later years.

Congress will face a roughly $4 trillion challenge in figuring out how to offset the cost of extending the expiring provisions of the 2017 tax law and even more if policymakers want to enact several other business tax cuts related to the law that the business lobby is currently demanding such as restoring bonus depreciation.

Taxes on imported goods

The incoming Trump administration has indicated a key way it plans to offset the cost of the tax cuts: an up to 20 percent tax on all imported goods along with a 60 percent tax on all imported goods from China.[xix] A range of think tanks, spanning left to right, have estimated that these would cost families up to $6,000 annually.[xx] Each of these think tank's estimates suggest they would entirely offset the tax cut low- and middle-income families receive from extending the expiring tax cuts.[xxi] Several analyses show

they would add to consumer prices and generate a one-time burst of inflation, adding 1 to 3 percentage points to the inflation rate.[xxii]

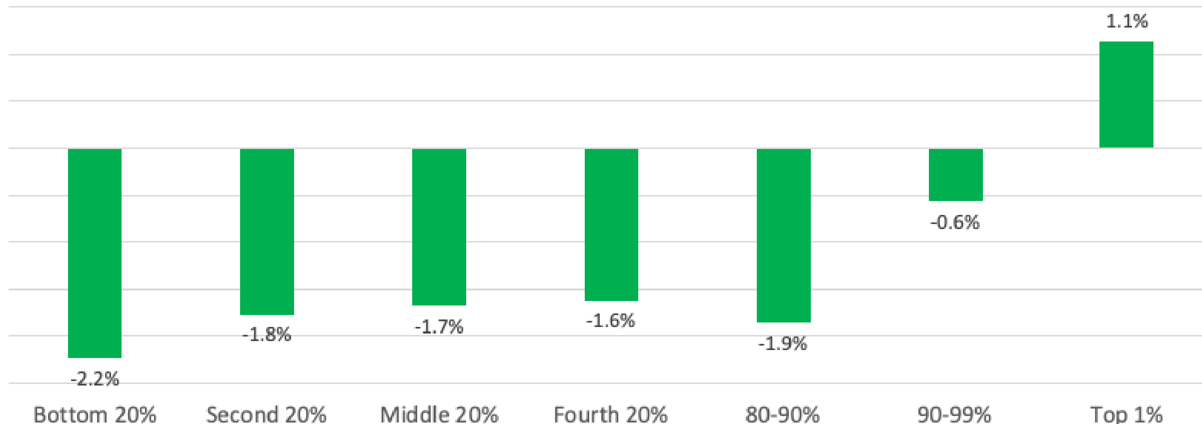


Source: Center for American Progress

It is important to note that the nature, magnitude, and purpose of these taxes differ greatly from the strategic tariffs presidents of both parties have employed. The size of the tariffs is roughly 10 to 20 times the size of the tariffs enacted during the first Trump administration and retained by the Biden administration.[xxiii] They would not just apply to imports from China, but to the 60 percent of imports we receive from Canada, Mexico, the EU, the UK, Japan, and South Korea–allies we need to help counter and rebalance our economy away from China.[xxiv] The taxes would apply to a wide array of imported goods that we have no hope of ever producing in the United States, such as coffee and bananas, as opposed to just strategic industries that are key to the future, like electric vehicles or semiconductors.

The reason taxes on imported goods should only be used strategically and not as a source of revenue is that they are one of the most regressive types of taxes.[xxv] For example, the Treasury Department assumes that the bottom 90 percent only pay about 20 percent of individual income taxes and about 30 percent of corporate taxes, but more than half of taxes on imported goods. The only thing more regressive than raising taxes on imported goods is using them as an offset for regressive tax cuts like both the permanent and temporary provisions of the 2017 tax law.

The combination of the permanent portions of the 2017 tax law, extending its expiring provisions, and the proposed import taxes would raise taxes on the bottom 99 percent of Americans. The top 1 percent would get a net tax cut of $25,000 while the middle 20 percent would get a net tax increase of $1,300.



Source: Center for American Progress analysis of Tax Policy Center tables T17-0316, T24-0079, and Table T24-0037

It is unclear whether these taxes would be included in tax legislation or whether the Trump administration would use executive authority to enact them. Regardless, they should be considered as part of the distribution of a tax package since congressional Republicans may claim them as ways to offset the cost of the tax cuts in support of a tax package.[xxvi]

Spending cuts

Another way some congressional Republicans may attempt to pay for their proposed tax cuts is cuts to programs low- and middle-income Americans rely on. One version of this occurred during the first Trump term, when House Republicans passed a bill repealing the Affordable Care Act while cutting taxes for the highest income Americans.

Now, Tesla CEO Elon Musk–the new co-head of Trump's proposed Department of Government Efficiency–is suggesting up to $2 trillion in cuts to annual government spending, which could offset the fiscal impact of a tax package.[xxvii] Taken literally, this would cut every program in the budget on average by roughly one-third, including Medicare, Social Security, food safety inspection, cancer and stroke research, and nutrition for newborns. It would throw millions of Americans into poverty. Protecting Medicare and Social Security would make the math more difficult for the rest of the budget, cutting all other government functions by more than half.

An especially troubling area that some congressional Republicans and a second Trump administration may target for cuts is the manufacturing investments in the Inflation Reduction Act and the CHIPS and Science Act. A key motivation for the combination of corporate tax cuts and tax hikes on imported goods Trump has proposed is to reshore manufacturing. Yet, that combination failed to trigger the type of factory construction boom we are now seeing after the Biden administration made the investments that congressional Republicans may seek to repeal.[xxviii]

Deficits

It is, of course, possible that the Trump administration and some congressional Republicans could find the easiest way to offset the tax cuts is not to offset them at all–this was the same strategy that supporters of the tax cuts employed in 2017. But there is no free lunch here: The tax cuts will likely be paid for eventually in the form of spending cuts or tax increases down the line. Even just last year, House Republicans cited rising debt as a reason to threaten defaulting on the nation's debt if their demands to cut discretionary spending were not met only a few years after enacting the Trump tax cuts.[xxix]

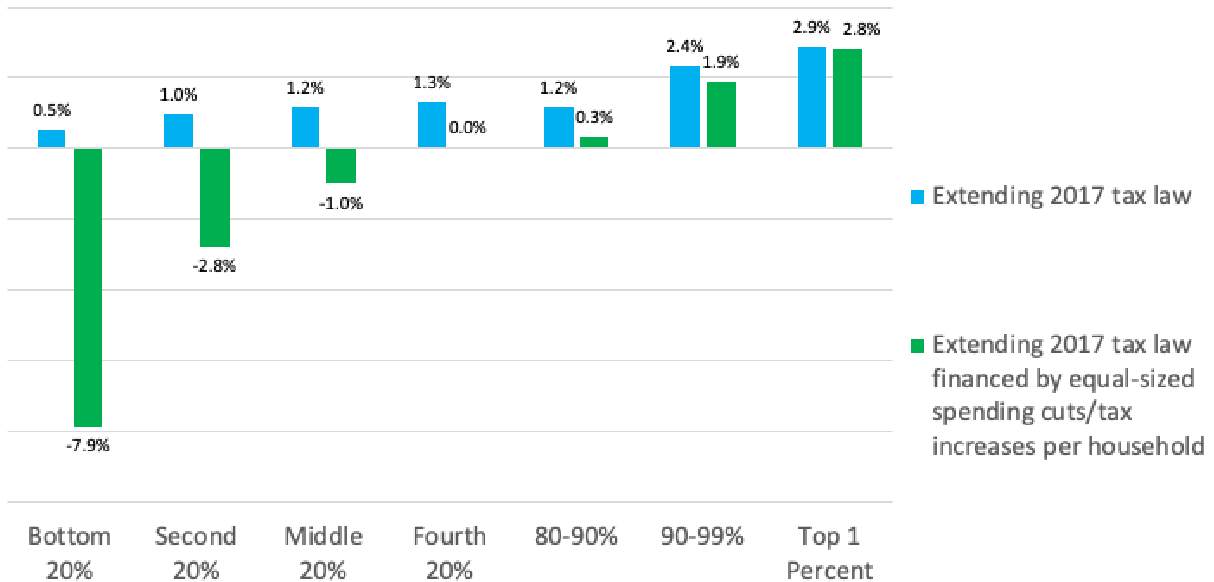
Extending the Trump tax cuts without offsets will exacerbate our long-run fiscal imbalance. The 30-year fiscal gap–the average amount of primary deficit reduction required to stabilize the debt-to-GDP ratio–is equal to 2.1 percent of GDP, which is the equivalent of $7.6 trillion over 10 years, under current law.[xxx] Extending the 2017 tax cuts without offsets would raise that to 3.3 percent, pushing debt above 200 percent of GDP within 30 years.[xxxi] In other words, extending the Trump tax cuts would increase our long-run fiscal imbalance by more than 50 percent.

It is, therefore, important to focus on the long-run distribution of the tax cuts including how they may plausibly be financed. In 2018, the Tax Policy Center provided an analysis of the 2017 tax law showing that the legislation would make most Americans worse off under an "equal dollar financing" assumption where the tax cuts were assumed to be paid for with equal-sized per household tax increases or spending cuts.[xxxii] This is a generous assumption because more than 70 percent of non-interest federal spending is aid for individuals, and that spending is very progressive.[xxxiii] Equal-dollar financing is especially appropriate for the coming tax debate: More progressive financing assumptions essentially assume Congress will undo the across-the-board cuts to income tax rates it may actively choose to extend next year.

Extending the Trump tax cuts with equal-dollar financing would be an enormous burden for the bottom 60 percent of Americans. The middle 20 percent of Americans would experience a one percent reduction in their incomes and the bottom 20 percent of Americans would experience an 8 percent drop. The top 10 percent–and especially the top 1 percent–would still come out ahead with the size of their net tax cuts barely reduced.

The very real danger of cuts to programs that low- and middle-income families rely on–including Social Security and Medicare eventually–highlights why Congress must offset any tax cuts they extend in a revenue-neutral manner.

This also means rejecting attempts to pretend that extending the expiring provisions has no cost, otherwise known as a "current policy baseline." This type of baseline undermines good budgetary practice and is logically inconsistent; under that type of analysis, the failure to renew the 2021 $1,400 American Rescue Plan rebate checks in 2022 amounted to a $5,600 tax increase in 2022 for a family of four. Simply changing the accounting convention does not remove the burden that extending these tax cuts will place on federal–and eventually on families'–finances.



Source: Center for American Progress analysis of Tax Policy Table T24-0037

Trump has proposed a series of populist-sounding tax cuts would leave working- and middle-class families just pennies

Simply extending a $4.6 trillion tax cut was seemingly insufficient, so Trump has proposed additional populist-sounding tax cuts like "No Tax on Tips" and "No Tax on Overtime." These proposals are, in effect, an admission that simply extending the expiring tax cuts provides little benefit to working families. And they provide cover for the enormous, inequality-increasing tax cuts designed above–they would provide small tax cuts to a small number of workers while opening up the door to large-scale tax avoidance. Additionally, Trump has at the same time proposed further tax cuts for corporations as pitching these populist sounding tax cuts.[xxxiv]

Making tips tax-free sounds like a working-class tax break because it would benefit some waiters and hairdressers, but at the same time it would provide no benefit for non-tipped workers like janitors and security guards. If constructed along similar lines to Sen. Ted Cruz's (R-TX) No Tax on Tips bill, it would benefit fewer than 5 percent of low- and moderate-wage workers. More than one third of tipped employees would receive no benefit because they do not earn enough to pay income taxes, even before accounting for tax credits.[xxxv] The average tax cut for the less than 5 percent of households in the bottom 20 percent that would receive a tax cut is $220.[xxxvi] It would also encourage gaming in the tax code because non-tipped employees would face a strong incentive to recharacterize non-tipped income as tipped income. One analysis found that this recharacterization could cause the cost of the provision to go up six-fold.[xxxvii] And a bill similar to Cruz's that lacks guardrails could even result in hedge fund managers and corporate lawyers shifting to tax-free tipped income compensation.[xxxviii]

The same problems are present in "No Tax on Overtime."[xxxix]

Making tips and overtime pay tax free are especially hollow proposals in light of action by the first Trump administration's Department of Labor that directly undermined tipped workers and overtime pay rights. The second Trump administration may do more of the same. In Trump's first term, his Department of Labor tried to let employers transfer an estimated $700 million annually from their employees' paychecks to their own profits by permitting them to force tipped workers to spend more time doing non-tipped work at the sub-minimum wage.[xl]

Similarly, the first Trump administration issued a far weaker update to federal overtime rules than proposed by former President Barack Obama, leaving 8 million workers behind.[xli] The Biden Administration subsequently enacted a stronger overtime rule, but Project 2025 has called for restoring the weaker Trump standard.[xlii] In fact, a federal judge in Texas blocking the Biden Administration overtime rule last week could ease the second Trump Administration's path for restoring its watered down standard.[xliii]

A tax agenda that puts working- and middle-class families first

The good news is that there are ways to smartly and efficiently raise revenue from high-income households and corporations. The Biden Administration's last budget proposed $5 trillion in tax increases on these groups including raising the corporate tax rate to 28 percent, requiring wealthy business owners to pay the same Medicare taxes their workers do, and no longer letting millionaires pay half the tax rate on their capital gains income as their wage income.

These are far better ways to raise revenue than making a trip to the grocery store more expensive through taxes on imported goods.

Even better, these revenue sources can also offset the cost of other investments such as making the Child Tax Credit fully available to low-income families, enacting paid family and medical leave, reducing the cost of health care, or any dozen other investments that will do more for working families than cutting taxes for the wealthy and corporations.

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