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The Honorable Jason Smith
Chairman, U.S. House Committee on Ways & Means
U.S. House of Representatives
Washington, DC 20515

The Honorable Mike Kelly
Chairman, U.S. House Committee on Ways & Means Subcommittee on Tax
U.S. House of Representatives
Washington, DC 20515

Dear House Ways and Means Committee Republican 2025 Tax Teams:

The National Women's Law Center (NWLC) appreciates the opportunity to share information on the 2017 tax law and the consequences and opportunities of expirations of major provisions of this law in 2025.

The primary purpose of the tax code is to raise revenue to support public investments we all rely on. Chronic underinvestment in women and families, however, continues to exacerbate racial and gender inequities. One critical example: our national failure to make robust public investments in child care, paid family and medical leave, and aging and disability care lowers women's incomes, negatively impacts health and well-being, harms employers, and weakens the economy. Advancing gender and racial justice requires ensuring that the tax code raises more revenues to invest in our shared priorities in a progressive way.

In 2017, the passage of the law known as the Tax Cuts and Jobs Act (TCJA) continued the failed strategy of "trickle-down" economics by enacting large tax cuts for wealthy individuals and corporations. This strategy both continues to constrain the fiscal space to make the investments we need, and even on its own terms, has failed to deliver on its promises.

We write to urge the House Ways and Means Committee and Congress to use the coming expirations of the temporary provisions of the TCJA to change course and make the tax code more progressive as well as to raise needed revenue. Not only should we let the TCJA provisions that benefit the wealthiest expire, but we should go further to make sure the wealthy and big corporations are paying their fair share. Raising significant federal revenues is an important goal for the 2025 tax debate, and these revenues should support critical and long-overdue investments in women, families, and communities, such as the care infrastructure we all need to thrive.

I. The TCJA exacerbates inequality and left women and families behind.

Overall, the 2017 tax law exacerbates inequality—and leaves women and families behind, because they are underrepresented in the groups that received the lion's share of tax cuts, and overrepresented among those harmed by the underinvestment the tax law enables.
Women of color in particular, and women overall, are disproportionately left out of tax preferences that favor the top. Systemic discrimination, both historic and ongoing, creates income and wealth disparities between women—and especially women of color—and white men.[1] The gender and racial wealth gap is a measure of the disparities in financial security driven by this discrimination. In the most recent calculations looking at never-married adults, for every dollar of wealth owned by a single white man, single Black women own 8 cents and single Latinas own 14 cents.[2] Women are underrepresented among top earners,[3] and women supporting families on their own have the lowest median income among family households.[4] Women make up nearly two-thirds of the workforce in the 40 lowest paid jobs, and these workers are disproportionately women of color.[5] In addition, white tax filers represent 84% of tax filers at the top 10 percent of the income distribution in 2014, compared to 4.1% of Latinx tax filers and 2.8% of Black tax filers.[6]

The TCJA skewed tax benefits to the top, among whom women and households of color are underrepresented.

The benefits of TCJA went primarily to the wealthiest and big corporations.[7] The law overall was regressive: it gave larger tax reductions both in dollar amounts and as a percentage of income to the highest-income households compared to low- and moderate-income households, which exacerbated disparities by gender and race.[8] Analysis at the time of passage predicted this result. In the first year it was in effect, "[t]he wealthiest 5 percent of households received nearly half—42.6 percent—of the Trump tax cuts, with the top 0.1 percent receiving an average tax cut of $193,380 in 2018."[9]

In the six years since the law's enactment, evidence has continued to mount that benefits are skewed to the top.[10] In 2025, the top 1% will see an average tax cut of over $61,000, while the lowest income quintile will see an average tax cut of less than $100. The extreme disparity in benefits exists in percentage terms as well, as the lowest quintile receives an average tax cut of only 0.4% of their income, while the top 1% sees an average tax cut of 2.9%—more than seven times as large.[11] Extending the 2017 tax cuts would continue disproportionate benefits at the top—with an extension of all the tax cuts expected to result in an average tax cut of $175,000 in the first year for the top 0.1%, while households making $75,000 or less per year (who are more than half of all taxpayers) would see an average tax cut of just $330 in that year.[12]

While receiving massive tax breaks, the wealthiest and big corporations have been accumulating wealth. In the years since the 2017 tax law's passage, U.S. billionaire wealth has grown enormously, doubling since 2017 to a record high of $5.8 trillion.[13] Executive pay[14] and corporate profits[15] have also risen to extreme heights. Despite familiar promises the wealth from massive tax cuts would "trickle down," TCJA's changes to the tax code did not lead to increased worker pay or benefits.[16] There is consensus across political parties that it did not "pay for itself,"[17] as some suggested at its passage.[18] Like other tax cuts at the top, it spurred little economic growth while limiting revenues to support investments that benefit the vast majority.[19]

The TCJA deprived us of revenues to make investments in women and families.

The 2017 tax cuts were costly: the overall cost of the 2017 tax law changes over 10 years is estimated at $1.9 trillion dollars.[20] The cost of extending temporary provisions for an additional 10 years after 2025 is even higher: $4.6 trillion.[21]

The steep drop in federal revenues collected as a result of cutting taxes for the wealthiest threatened funding for programs women and families rely on, and continues to constrain the ability of the government to make robust public investments women and families need and deserve. The 2017 law drove federal revenues to historic lows outside of a recession.[22] The United States collects lower revenues than peer countries, at only 27% percent of GDP compared to an average of 34% for OECD countries.[23] Similarly, corporate tax revenues are only 1.6% of GDP in the United States, half of the OECD average of 3.3%.[24] The United States also invests much less in children and worker support, such as paid leave and unemployment benefits, compared to other wealthy nations.[25]

The TCJA is also estimated to have added nearly $2 trillion to the federal deficit,[26] worsening the trajectory of federal revenues and driving the high debt-to-GDP ratio.[27] A key component of this revenue shortfall is the falling revenue share from the corporate income tax over time: the share of revenue from the corporate income tax has fallen from about one-third of the country's revenue to only 7% in 2019.[28] After passing this large tax cut for the wealthy that increased the federal debt, some lawmakers then championed cuts to federal programs women rely on, like SNAP (food stamps), subsidized child care, and housing programs, citing the debt as the prime reason.[29]

Moreover, the revenue losses have constrained the fiscal space to make robust public investments that would benefit our communities, workforce, and economy as a whole—like investments in care infrastructure. This further exacerbates gender and racial inequality because underinvestment in care supports disproportionately leaves women of color to perform unpaid or underpaid care work.[30] This contributes to their economic instability, as well as the gender and racial wealth gap.

The 2017 cut to the corporate rate especially harmed low-wage workers, who are disproportionately women of color.

A key example of how the benefits of the 2017 tax package skewed to the top, and harmed women, families, and the rest of us, is the steep reduction in the corporate tax rate, from 35% to 21%, estimated to cost $1.3 trillion over 10 years.[31] Unlike many other provisions of TCJA, this rate change does not have an expiration date.

Research shows that overall, the tax savings from the rate reduction went to owners of corporations and the top 10% of wage earners with each firm, with the bottom 90% of wage earners not receiving any benefit.[32] Overall, more than 80% of the gains from the corporate rate cut were captured by the top 10% of the income distribution.[33] Although this study did not include gender and racial impacts, overall women are underrepresented among these top earners,[34] and the lowest wage workers are disproportionately women of color.[35]

After receiving this inordinately large tax cut, rather than investing in workers, corporations increased executive pay and stock buybacks.[36] This practice predominantly enriched wealthy white men, who are overrepresented among corporate executives and large shareholders, while providing little to no benefit to rank-and-file employees, much less lower-paid workers, many of whom are women and people of color.[37] The benefits they received from corporate tax cuts further entrenched their economic power and influence, while the intended broader economic benefits, such as job creation and wage growth, did not materialize for the majority of workers.[38] Women and people of color, who are less likely to own significant stock or hold executive positions, did not see the same financial gains and continue to face systemic barriers to economic advancement.[39]

Since the 2017 tax cut, corporations have recorded record profits[40] while continuing to use loopholes and special tax breaks to lower their tax bills. Among the largest profitable corporations, nearly a quarter paid effective tax rates of 10% or less.[41]

The TCJA's changes to the Child Tax Credit did not help families that need it most.

In addition to the corporate and individual changes described above, changes to the Child Tax Credit (CTC) were also enacted through the TCJA.[42] (The TCJA did not make amendments to other tax credits that support families with low and moderate incomes, such as the Earned Income Tax Credit (EITC) or the Child and Dependent Care Tax Credit (CDCTC)). The TCJA doubled the size of the CTC from $1000 to $2000 per child, and made families with incomes over $200,000 ($400,000 for married couples) eligible to claim the credit for the first time. While the 2017 law lowered the earned income threshold required to receive a portion of the credit as a refund to $2,500, it did not eliminate this requirement. The TCJA also limited the refundable portion of the CTC: For tax year 2024, the refundable credit is capped at $1700[43] and limited to 15 percent of a family's earned income over $2,500. Additionally, the 2017 changes to the CTC exclude children with Individual Tax Identification Numbers (ITINs), from being claimed for the CTC. These changes expire at the end of 2025.

The expansions of the CTC in TCJA tended to benefit families with higher incomes rather than families with very low incomes, however. Families with earned income below $2,500 do not receive any credit at all (since they are unlikely to have any tax liability against which the nonrefundable portion of the credit can be applied). And the cap on refundability also means that families with low incomes cannot receive the full $2,000 CTC amount, even if they have earned income. These limitations mean an estimated 19 million children are unable to fully benefit from the CTC under the 2017 tax changes, including roughly 45 percent of Black children.[44] Seventy percent of children in families headed by single women do not receive the full credit under current law.[45] Additionally, the 2017 changes to the CTC prevent 1 million children in immigrant families from benefitting from the credit.[46] This is why the CTC, as modified by the 2017 tax law, did not result in the kind of historic reductions in poverty as the expansions enacted under the American Rescue Plan Act (ARPA) for tax year 2021 did.[47]

II. <u>The upcoming 2025 expirations provide an opportunity to change course.</u>

Prior to 2017, the tax code already privileged those at the top, and wealth over work, disadvantaging historically marginalized communities. TCJA continued this trend by funneling

tax relief primarily to the wealthy and corporations, who now see their tax rates at historic lows.[48] The TCJA only made our inequitable tax code even more so, to the detriment of our economy and our nation. Rather than doubling down on the failed strategy of tax cuts at the top, the coming sunsets of many of the TCJA provisions provide an opportunity for lawmakers to change course.[49] Lawmakers should allow the temporary 2017 tax cuts for those making over $400,000 a year to expire. Moreover, beyond allowing expiring provisions of the TCJA that disproportionately benefit the wealthy and big corporations to sunset, policymakers should enact additional tax changes. If lawmakers limit the tax debate in 2025 to expiring provisions of the TCJA, they will miss the opportunity to create a more progressive tax system and prevent the wealthiest individuals and profitable corporations from gaming the tax system in their favor.

In 2025, many provisions of the 2017 tax law benefitting the wealthiest and big corporations will expire. Congress should allow them to sunset, including:

- Top individual income rate: The TCJA reduced the top income rate from 39.6% to 37%, which in 2024 applies to marginal income over $609,350 for individuals.[50] While those in the lowest tax bracket saw their taxes go down by about $40 per year, those in the top 5% saw an average tax cut of $11,200 per year.[51] Raising this rate to 39.6% and adjusting the top tax bracket, as President Biden has proposed, would raise $246 billion over 10 years, primarily for the years 2024 and 2025.[52]

- Estate tax changes*:* The TCJA raised the exemption amount for the estate tax from $5.5 million to $13.6 million in 2024[53] (for individuals). These changes caused the number of estates subject to the estate tax to drop dramatically to less than 4,000 estates per year, which is 0.14% of decedents.[54] (In addition to allowing the TCJA changes to expire, Congress should take additional steps to make this tax more effective. One such proposal is estimated to raise $430 billion over 10 years.) [55]

- Pass-through deduction*:* The 2017 tax law created a new tax break for "pass through" income. This kind of income is overwhelmingly concentrated among high-income individuals,[56] with more than half of the tax benefits going to taxpayers with income over $1 million.[57] Contrary to proponents' claims, this deduction did not spur broad economic gains[58] but instead increased tax avoidance through owners gaming the rules.[59] Further, research shows that women entrepreneurs are less likely to have income that qualifies for this deduction due to the size of the business they run.[60] Analysis by race shows only 2% of pass-through tax preferences benefit black taxpayers and only 5% reach Hispanic taxpayers.[61] It is estimated this provision costs more than $50 billion per year as of 2021.[62]

- Other corporate tax deductions*:* In addition to the reduction in the headline corporate tax rate, other deductions that further reduced taxes for corporations were incorporated in the TCJA, including increased deductions for interest on debt and corporate expenses such as research and equipment, which have led to low effective corporate tax rates described above.[63]

In addition, Congress should make other long-overdue changes to the tax code that would make the tax code more progressive and advance equity. Here again, Congress has many options, including:

- Corporate tax rate*:* The TCJA lowered the corporate tax rate from 35% to 21%. Even though this change does not expire in 2025, Congress should take the opportunity to undo this highly regressive provision. As discussed above, these tax savings benefited top executives and managers, not average workers, with more than 80% of the gains going to the top 10% of the income distribution.[64] Raising the corporate rate to 28%, as President Biden has proposed, would generate $1.35 trillion in additional federal revenue.[65] Research indicates that increasing the corporate tax can be beneficial for the economy by addressing income disparities and promoting a more equitable distribution of wealth.[66] Beyond merely raising revenue, corporate taxes play a crucial role in regulating industries and rebalancing economic power, shifting it from predominantly white shareholders and business executives to workers and consumers.[67]

- Taxing income from wealth like income from work*:* The tax code taxes income from accumulated wealth at favorable effective rates compared to income from work.[68] These features of the tax system allow billionaires to pay an estimated effective tax rate of only 8% annually,[69] compared to higher rates for working people. As described above, women and households of color hold far less wealth than white men, meaning this preference also exacerbates gender and racial disparities. Raising the capital gains rate and closing an expensive loophole,[70] as proposed by the Biden administration, would raise an estimated $289 billion over 10 years.[71] Taxing unrealized capital gains annually for the wealthiest, moreover, such as in President Biden's proposed Billionaire Minimum Income Tax, would raise an estimated $503 billion over 10 years.[72]

- Increasing taxes on stock buybacks*:* Stock buybacks are a way for corporations to enrich their shareholders, contributing to top executives and managers benefitting from tax savings over working people. Tax advantages for capital gains such as stock buybacks overwhelmingly benefit the wealthy[73] and white households,[74] as they are the most likely to hold shares of stock. Increasing the tax on stock buybacks to 4%, as President Biden has proposed would raise an estimated $167 billion over 10 years.[75]

- Closing the Carried Interest Loophole*:* This provision privileges compensation for private equity managers by allowing them to characterize their income as capital gains, which are subject to a lower tax rate than ordinary income.[76] The current treatment of carried interest benefits wealthy workers,[77] and raises particular equity concerns, given that private equity is a sector that is notoriously lacking in gender and racial diversity.[78] Proposals to close this loophole, such as from the Biden administration[79] and Congress,[80] would raise an estimated $6.6 billion over 10 years.[81]

- Increasing income tax rates for the wealthiest*:* A proposed "millionaires surtax,"[82] such as one passed by the House of Representatives in 2021, would increase tax fairness by ensuring those at the top who can afford to pay more do so.[83] This proposal would raise an estimated $228 billion over 10 years.[84]

Additionally, refundable tax credits should be expanded to benefit the families with low and moderate incomes that need them most, among whom women-headed households and families of color are overrepresented. Such expansions include:

- Expand the Child Tax Credit to Help Low Income Families: Improving the Child Tax Credit, first and foremost by making it fully refundable, would meaningfully benefit millions of women and families and advance gender and racial equity.[85] The expansions of the CTC enacted in ARPA, including full refundability, led to a steep reduction in child poverty and helped millions of families make ends meet[86]—in contrast to the 2017 changes expanding income eligibility, which primarily benefited higher-income families. Congress should not prioritize those aspects of the 2017 changes to the CTC that benefit wealthy families and should allow the prohibition against claiming the CTC for children with Individual Tax Identification Numbers (ITINs) to expire in 2025.

- Restoring the ARPA expansion of the Earned Income Tax Credit (EITC): This credit benefits workers with very low earnings who do not claim children. Millions of poorly paid workers are pushed below the poverty line by federal income taxes every year.[87] Women, and especially women of color, are overrepresented among the lowest-paid workers. The 2021 expansion benefited millions of people, including one in three younger workers, and should be restored.[88]

- Making the Child and Dependent Care Tax Credit (CDCTC) refundable*:* This credit helps families cover the cost of out-of-pocket, work-related child and dependent care expenses. It should be made refundable so that families with low and moderate incomes can access it.[89] The temporary expansions to the CDCTC enacted under the ARPA, which included making the credit refundable, allowed over 770,000 more families with incomes under $30,000 to receive this tax assistance.[90] Other child-care-related tax provisions, the Employer-Provided Child Care Credit and the Dependent Care Assistance Program, do not meaningfully help families with low incomes and should not be prioritized.[91]

- Extending expanded Premium Tax Credits*:* The Premium Tax Credit (PTC) helps families afford the cost of health insurance through state health care exchanges. Over 19 million people qualified for these credits in 2024.[92] The Inflation Reduction Act of 2021 expanded the PTC through 2025. An estimated 62 percent of uninsured women ages 15 to 44 are eligible for the expanded PTC.[93] If those expansions expire, health coverage costs will increase for millions of people—and an estimated 3.8 million people will become uninsured.[94]

Policymakers can also make sure that more federal revenue is collected by ensuring the IRS has sufficient resources to enforce the tax laws already on the books.

A decade of deep budget cuts left the IRS unable to go after high-income taxpayers with sophisticated tax counsel and the resources to wage lengthy, expensive legal battles over their tax liability.[95] A study by the Treasury Inspector General found that in Tax Years 2014 through 2016, the IRS failed to pursue over 300,000 high-income individuals who did not even file tax returns.[96] The Inflation Reduction Act provided the IRS with almost $80 billion in additional funding over 10 years,[97] although this funding has since been reduced. The original IRA funding

was conservatively estimated to collect around $400 billion net over a 10-year period.[98] A properly funded IRS works against lawbreaking by the ultrawealthy and corporations, which robs the public of hundreds of billions of dollars per year.[99] The IRS has already stepped up its enforcement at the top, including auditing millionaires who did not even file returns.[100] These and other efforts have resulted in the collection of more than $1 billion in unpaid taxes to date.[101] Restoring the full IRA funding and adding additional mandatory funding would continue these efforts, raising an estimated $341 billion over 10 years.[102]

III. <u>2025 is our opportunity to move past tax cuts for the wealthiest to a tax system that works for all of us.</u>

As tax debates get under way again, lawmakers have an opportunity to align the tax code with our values. We should make sure those that benefit the most are not the wealthy few, but the vast majority.

Making the tax code more progressive advances racial and gender equity.[103] Making the wealthiest and big corporations pay a fairer share of taxes would address the racial and gender wealth gap by curbing wealth accumulation at the top. Using the revenues raised to make investments in women and families—for example, in the care economy—would further advance gender and racial equity, as the economic security of women, and women of color in particular, is also disproportionately impacted by underinvestment in priorities like child care, paid leave, and aging and disability care.[104] Expanding refundable tax credits, and making them inclusive, would invest in the lowest-income families and dramatically reduce poverty and financial hardship.

Not only are these changes good policy, but they are also popular. Changes to the tax code to make the wealthiest and big corporations pay their fair share have significant public support, across political affiliation.[105] Specifically, two-thirds of voters support allowing the temporary provisions of the TCJA benefitting the wealthy to expire. In addition, investments in child care, paid family and medical leave, and aging and disability care that could be supported by increasing taxes on the wealthiest are also strongly supported by the public. That is because these long-overdue investments—unlike tax cuts for the wealthiest—would support sustainable and inclusive economic growth, and broadly shared prosperity.

For far too long, our tax policies have favored the wealthiest among us and exacerbated gender, racial, and economic disparities. But it doesn't have to be that way. We can make different policy choices that advance equity and support an economy that works for all of us, not just the wealthy few.

Thank you for the opportunity to submit a comment to the Ways and Means tax teams. Should you have any questions, please contact Amy Royce at aroyce@nwlc.org.

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