Limited tax talk at Ways and Means field hearing on US economy

The discussion at a House Ways and Means Committee field hearing in Petersburg, W. Va., to examine the impact of President Biden's fiscal policies on businesses and individuals in Appalachia was conducted largely in broad strokes, but taxwriters and witnesses nonetheless touched on the relative merits of a few specific Republican and Democratic tax policy priorities.

Smith's State of the Union 'prebuttal'

The February 6 hearing came a day ahead of the president's State of the Union address, and Ways and Means Committee Chairman Jason Smith, R-Mo., positioned it as a pre-emptive counterpoint to the president's economic message. (See separate coverage in this issue for details on the tax proposals that Biden offered in his February 7 address to Congress.)

Smith contended in his opening statement that, contrary to any economic successes the president might claim in his address, the administration's fiscal policies have resulted in "historic inflation, high energy bills, declining real wages, labor shortages, spikes in interest rates, [and a] supply chain crisis." The "real state of the union," Smith said, would be reflected in the testimony of the hearing's invited witnesses—two small-business owners and two operators of larger businesses in the Petersburg area who he characterized as "trying to make ends meet and provide for their families." (All four witnesses were invited by Republicans.)

Rep. Don Beyer of Virginia, D-Va., who served as acting ranking member at the hearing and was the sole Democratic taxwriter to attend, argued that legislation enacted during the first two years of the Biden administration—notably, the Infrastructure Investment and Jobs Act (P.L. 117-58) and the Inflation Reduction Act (P.L. 117-169)—is delivering "massive investments for Appalachia and West Virginia in infrastructure, clean manufacturing, energy security, and R&D that will make the region well positioned to compete in the twenty-first century." Beyer specifically pointed to the recently enacted tax credits and rebate programs for energy-efficient home improvements and the purchase of new energy-efficient appliances in the Inflation Reduction Act as examples of how the administration is working to reduce household energy costs for individuals, although he did not pursue these issues or other White House tax priorities in his subsequent questioning of witnesses.
URL: https://www.congress.gov/117/plaws/publ58/PLAW-117publ58.pdf
URL: https://www.congress.gov/117/plaws/publ169/PLAW-117publ169.pdf

Bonus depreciation

In the question-and-answer period, GOP taxwriter Vern Buchanan of Florida, who serves as the committee's vice chairman, asked witnesses about the merits of renewing certain expiring provisions in the Tax Cuts and Jobs Act of 2017 (TCJA, P.L. 115-97), such as increased bonus depreciation percentages. Under the TCJA, the bonus depreciation rate for most qualified property was reduced from 100 percent to 80 percent beginning in

2023, with additional reductions of 20 percentage points scheduled in each successive year until the bonus rate reaches 20 percent in 2026 and falls to zero thereafter.
URL: https://www.congress.gov/115/plaws/publ97/PLAW-115publ97.pdf

Witness Tom Plaugher, the vice president of operations for Allegheny Wood Products, agreed that retaining the enhanced bonus depreciation benefits would be "very beneficial" for his business.

There was some bipartisan support in the 117th Congress for delaying the scheduled phase-down of the bonus depreciation percentage and lawmakers had hoped to include relief of some kind as part of a lame duck legislative package following the 2022 midterm congressional elections. Negotiations on a substantial tax agreement largely fell flat, however, and the tax title in the omnibus budget legislation that President Biden ultimately signed into law in late December was focused chiefly on retirement security measures.

Deductions for business start-up expenses

Buchanan also asked witnesses whether his proposed American Innovation Act (H.R. 368)—which would simplify the rules for deducting small-business start-up costs, increase the deduction amount to $20,000 (from $5,000 under current law), and bump up the phase-out threshold for deductible expenses to $120,000 (from $50,000)—would be effective in helping small businesses attract new capital.
URL: https://www.congress.gov/bill/118th-congress/house-bill/368/text

Ashley Bachman, owner of Cheetah B's Restaurant in Petersburg, replied that an expanded deduction would make "a huge difference" in enabling her business to buy supplies and hire more workers.

Wylie McDade, co-owner of Devil's Due Distillery, agreed that "coming from an industry that gets taxed pretty heavily, any relief on that front . . . would be outstanding."

Expanded child tax credit and other pandemic benefits

Witnesses generally agreed with Republican taxwriters that the short-term emergency pandemic-related relief provisions for individuals—such as stimulus payments and expanded unemployment payments—that were enacted under the American Rescue Plan Act of 2021 (P.L. 117-2) contributed to the current tight labor market by making it more profitable for unemployed individuals to stay out of the workforce rather than return to their former jobs or seek new ones after the initial wave of the pandemic subsided and once-shuttered businesses began to reopen.
URL: https://www.congress.gov/117/plaws/publ2/PLAW-117publ2.pdf

Tom Plaugher, for example, commented in an exchange with Ways and Means Committee Republican David Kustoff of Tennessee that the unemployment and stimulus benefits "put businesses that continued to operate [during the pandemic] in the position of competing against the government for employees."

Plaugher was less certain, however, when Kustoff asked whether the American Rescue Plan's enhanced child tax credit benefits likewise encouraged individuals to stay out of the job market. Among other things, the

American Rescue Plan temporarily increased the credit amount, made the credit fully refundable, and allowed individuals to receive benefits in periodic cash installments rather than wait until they filed their tax returns to claim the credit. These enhancements expired at the end of 2021.

“A lot of my colleagues that were doing well in life, their children got some of those payments and they felt like: ‘I really don’t need that. There are other people who need that more than me,’” Plaugher said. “But I don’t know if [the expanded credit] actually disincentivized people from working or not,” he added.

Congressional Democrats tried unsuccessfully to include a long-term extension of the American Rescue Plan’s child tax credit provisions in last year’s lame duck tax package and are likely to renew those efforts in the new Congress. Ways and Means Chairman Smith has indicated that he might be open to an expanded credit if it includes a work requirement—something that is not provided for in current law and not part of the now-expired enhancements from 2021. (For prior coverage, see *Tax News & Views*, Vol. 23, No. 41, Dec. 9, 2022. Also see separate coverage in this issue for President Biden’s comments on the credit in his State of the Union message.)
URL: https://dhub.blob.core.windows.net/dhub/Newsletters/Tax/2022/TNV/221209_1.html

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