Partisan divisions on tax policy persist at Ways and Means field hearing on US economy

The discussion of tax issues at a House Ways and Means Committee field hearing this week on economic conditions in the US "heartland" was conducted in broad strokes and served largely as a partisan proxy debate on the relative merits of tax policies of the Trump administration and those being put forward by the Biden White House.

The March 7 hearing, which was held at a horse ranch in Yukon, Okla., was the second such event Chairman Jason Smith, R-Mo., has convened in the new Congress to give taxwriters an opportunity to hear directly from middle-class taxpayers and small business owners about what he has described as "the challenges facing their families and communities and potential ideas to help." Smith held a similar hearing last month to discuss economic issues facing taxpayers in Appalachia. (For prior coverage, see *Tax News & Views*, Vol. 24, No. 5, Feb. 10, 2023.) Additional field hearings are planned in other areas of the country, although dates and locations have not yet been announced.
URL: https://dhub.blob.core.windows.net/dhub/Newsletters/Tax/2023/TNV/230210_3.html

The GOP-invited witnesses at this week's hearing were owners and operators of local family-owned businesses in the fossil fuel and agricultural sectors. The sole Democratic witness represented a nonpartisan Oklahoma-based think tank.

Republicans deride Biden budget policies, defend TCJA

Chairman Smith contended in his opening statement at the hearing that President Biden's tax-and-spending policies, as exemplified by the American Rescue Plan Act of 2021 (P.L. 117-2) and the Inflation Reduction Act of 2022 (P.L. 117-169) "have made life unaffordable for middle-class families" and he argued that that their economic prospects would only deteriorate further if Congress were to adopt the policies in the administration's tax-and-spending plan for fiscal year 2024. (The hearing was held two days before the president released his budget blueprint. See separate coverage in this issue for details on the tax proposals in the president's plan.)
URL: https://www.congress.gov/117/plaws/publ2/PLAW-117publ2.pdf
URL: https://www.congress.gov/117/plaws/publ169/PLAW-117publ169.pdf

Individual, estate taxes: Smith stated that "[o]ver the last decade, 92 farms in Oklahoma went bankrupt," and that President Biden's budget "will want to make it even harder to pass the family farm down to the next generation," a reference to the president's stated preference for tightening current-law estate and gift tax rules for certain high-value estates. "He wants to repeal stepped-up basis and increase the death tax, treating family farms like piggy banks to pay for more welfare for the wealthy," Smith said.

In the question-and-answer portion of the hearing, Smith contended that Biden wants to allow all of the tax relief provisions for individuals in the Tax Cuts and Jobs Act (TCJA, P.L. 115-97) to expire as scheduled at the end of 2025—including one that doubled the size of the standard deduction—and he asked witnesses for their

thoughts about the economic impact of returning the deduction to its lower pre-2017 level. (The administration has said that it intends to preserve tax cuts for taxpayers with income below $400,000.)
URL: https://www.congress.gov/115/plaws/publ97/PLAW-115publ97.pdf

The four witnesses invited by the panel's Republicans all generally agreed that reducing the standard deduction would be detrimental for their employees and customers. Chuck Mills, the owner and president of Mills Machine Company Inc., for example, commented that such a move would be "a mistake," and Kelli Payne, former president of Oklahoma National Stockyards, argued that Congress should take every possible opportunity to let workers "keep more money in their pocket[s]."

The Democrats' invited witness, Shiloh Kantz of the Oklahoma Policy Institute, replied that lawmakers can provide greater economic benefits to lower- and middle-class taxpayers through "targeted relief" such as enhancements to the child tax credit, the child and dependent care tax credit, and the earned income tax credit that were adopted on a temporary basis in the American Rescue Plan and expired at the end of 2021. (Among other things, the American Rescue Plan temporarily increased the amount of the child tax credit, 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.) The standard deduction, she said, has "less of an impact on the people who need [help] the most." In a subsequent exchange with taxwriter Blake Moore, R-Utah, however, Kantz affirmed that she supports the TCJA's higher standard deduction.

Energy tax issues: Republican taxwriter Carol Miller of West Virginia accused the White House and congressional Democrats of using the tax code "to discriminate against" US fossil fuel companies by "attacking deductions for intangible drilling costs [and] propping up unreliable green energy through billions of dollars of subsidies." (The Biden administration has in the past proposed eliminating a number of current-law tax provisions benefiting the fossil fuel industry and included a host of business and consumer-focused tax incentives for clean energy technologies in last year's Inflation Reduction Act. (See separate coverage in this issue for details of the administration's energy tax proposals in the fiscal year 2024 budget plan that was released on March 9.)

Miller asked witness Joe Brevetti of the Charter Oak Production Company, a privately owned oil and gas producer, to explain how higher taxes on coal, oil, and gas would affect energy prices for consumers.

Brevetti—who specifically cited the need to protect the deduction for intangible drilling costs in his opening statement—replied that "every dollar that you pay in taxes is one dollar less you're investing into your business." The fossil fuel business is inherently risky, he explained, and "punitive tax codes" do nothing to encourage producers to take risks and invest in production. A tax code that encourages risk-taking will spur increased production and "the more hydrocarbons we produce in this country, the lower the costs are going to be to the consumer," he said.

In a later exchange with taxwriter Claudia Tenney, R-N.Y., Brevetti agreed that Democratic-backed tax credits to purchase electric vehicles do little to reduce energy costs for most consumers and generally benefit only those wealthier taxpayers who don't need the assistance.

Democrats tout child poverty reduction, clean energy expansion under Biden

For their part, ranking member Richard Neal, D-Mass., and his Democratic colleagues on the panel argued that the administration's legislative efforts to grow the economy "from the bottom up, and the middle out" have already produced tangible results for Oklahoma.

Child tax credit: Neal noted in his opening statement that the now-expired enhancements to the child tax credit in the American Rescue Plan have played a significant role in reducing child poverty and that investments in child care programs under that legislation provided "a critical first step in . . . enabling workers to re-enter the workforce" following the economic disruptions created by the COVID-19 pandemic. (Democrats were unable to revive the expanded credit in the lame duck omnibus legislation enacted at the end of 2022 but hope to include it in tax legislation that moves through Congress this year. The administration included an expanded credit and enhancements to other family-focused tax benefits in its just-released fiscal year 2024 budget blueprint.)

Several Democrats on the panel quizzed the Oklahoma Policy Institute's Shiloh Kantz on the economic impact of the enhanced credit.

Responding to a question from Rep. Mike Thompson, D-Calif., Kantz explained that individuals who claimed the expanded credit typically used the additional funds to cover necessities such as rent, utilities, clothing, child care, and education costs (such as books and supplies), and to pay down credit card debt. Overall, she said, the expanded benefit "eased the burden of monthly bills" for most families.

In an exchange with Democratic taxwriter Linda Sanchez of California, Kantz noted that having the ability to receive child tax credit benefits in monthly installments gave families greater flexibility in managing their finances.

Clean energy: Although this was not an issue that Democrats pursued with witnesses at the hearing, ranking member Neal pointed to the combined effects of the Inflation Reduction Act and the Infrastructure Investment and Jobs Act (P.L. 117-58) in expanding Oklahoma's clean energy economy.
URL: https://www.congress.gov/117/plaws/publ58/PLAW-117publ58.pdf

"An estimated 2,000 clean energy jobs have been created in Oklahoma since last August, and that's just the beginning. Companies across the heartland are capitalizing on incentives to drive R&D and turbocharge manufacturing right here at home—from electric vehicles to wind power, economic growth will be felt by rural and industrial communities alike," he said in his opening statement.

TCJA issues: Rep. Gwen Moore, D-Wis., noted Chairman Smith's concern earlier in the hearing about the expiration of the TCJA's increased standard deduction after 2025, but pointed to the temporary nature of the provision as an example of how congressional Republicans favored the interests of corporations over those of individuals when drafting the legislation. (The majority of the TCJA's corporate tax provisions—including a reduction in the top income tax rate to 21 percent—are permanent, while those benefiting individuals and passthrough entities generally will expire after 2025.)

Moore asked whether any of the witnesses on the panel had benefited from the TCJA's permanent reduction in the corporate tax rate.

Chuck Mills of Mills Machine Company Inc., replied that the provision was beneficial, although his business is currently unable to benefit from it because the company was operating at "a slight loss."

California's Mike Thompson also raised the issue of the TCJA's corporate rate cut in his earlier exchange with witness Shiloh Kantz, asking whether Oklahomans found the corporate rate cut or the expanded child tax credit to be a more compelling benefit from an economic perspective.

Kantz offered a measured response, stating that "anything we can do to help our workforce is where we need to be investing" regardless of whether that investment filters through the individual or the corporate side of the tax code.

— Michael DeHoff
Tax Policy Group
Deloitte Tax LLP