United States House Committee on
Ways & Means
CHAIRMAN JASON SMITH

Tax Relief for American Families and Workers Act: Pro-growth and pro-family policies to boost U.S. competitiveness and help hardworking Americans.

Locks in Pro-Growth GOP Tax Policies and Boosts Competitiveness with China

- **Research & Development (R&D) expensing** so businesses of all sizes can immediately deduct the cost of their U.S. R&D investments instead of over 5 years – supporting innovation and growth here at home.
- **Interest deductibility** to help small- and medium-sized businesses meet payroll and grow – particularly at a time of high interest rates.
- **100% expensing** for business investment in U.S. facilities, equipment, and machines.
- **End double taxation** on businesses and workers operating in both the U.S. and Taiwan – strengthening America's competitive position versus China.

Supports Main Street Businesses and Rebuilding American Communities

- **Increase small business expensing** to $1.29 million – a $290,000 increase above the level enacted in GOP tax reform in 2017.
- **Cut red tape for small businesses** by adjusting the reporting threshold for subcontract labor from $600 to $1,000 – the first update since the 1950s.
- **Disaster tax relief** for communities affected by recent events, including hurricanes, wildfires, and the Ohio rail disaster.
- **Increase access to housing** with bipartisan provisions to increase state tax credit allocations and provide more flexibility on bond financing requirements.

Eliminates Fraud and Waste by Cutting Off Funding for COVID-Era Spending Program

- **Save taxpayer dollars** by accelerating the deadline for filing backdated claims under the employee retention credit – a program hit by major cost overruns and rampant fraud.

Maintains a Child Tax Credit Structure that Rewards Work

- **Support middle-class families struggling with high prices** by adding an inflation adjustment to the $2,000 child tax credit topline amount starting in 2024.
- **Eliminate penalty for large families** to ensure child tax credit work incentives apply equally to families with multiple children.
- **Flexibility for parents** to use a current- or prior-year income calculation in 2024 and 2025.
- **Retain GOP tax reform's structure for refundability** with incremental increases to the refundable portion through 2025 – at the same time, the topline credit amount will be increasing with the new inflation adjustment.
- **Reject extreme policies advocated by far-left groups** that would eliminate existing work requirements or allow the IRS to send out recurring checks – reducing by 92 percent the cost of the child tax credit changes compared to the $120 billion-per-year policy that Democrats enacted for 2021.

Builds on the Economic Successes of the 2017 GOP Tax Reform

- **Avoid the 1 million jobs economist say will be lost** if R&D expensing, interest deductibility, 100% expensing, and other pro-growth GOP tax policies are not extended.
- **Lock in over $600 billion** in proven pro-growth, pro-America GOP tax policies with these three key provisions.

<u>Economic benefits of R&D expensing</u>

- **R&D investment exploded by 18 percent after GOP tax reform**, creating unprecedented new jobs and innovation in the United States.
- **$2 trillion was invested in new facilities and R&D** in the two years after GOP tax reform was passed.
- **Over $70 billion in new R&D investment** will be generated in the United States with extension of R&D expensing.
- **2 million direct R&D jobs and over 21 million total jobs** are supported by R&D expensing.

<u>Economic benefits of interest deductibility</u>

- **867,000 jobs and $58 billion in additional take-home pay** will be generated for American workers with extension of interest deductibility.
- **U.S. businesses' debt levels fell by 35 percent** after GOP tax reform, allowing them to lower expenses, raise wages, and create more financial security.

<u>Economic benefits of 100% expensing</u>

- At the end of the Obama-Biden Administration, U.S. companies were <u>cutting</u> their investments in American plants and jobs.
- **But U.S. investment grew by over 20 percent** after GOP tax reform, with 100% expensing being the crucial factor driving the turnaround.
- **Inflation remained at decades-low levels** while this historic surge in investment and growth was being achieved.

Puts the Economy on Track to Return to Prior Economic Strength Starting in 2025

- In the two years immediately following passage of the 2017 GOP tax reform…
  - **GDP growth was a full percentage point higher** than the previous 10-year average and economists' estimates – resulting in more jobs and opportunity.
  - **Unemployment was at the lowest rate in 50 years**, including all-time lows for African American and Hispanic workers, and those without a high-school degree – alongside the **lowest poverty rate in a half century**.
  - **Wages grew at a rate 4.9 percent higher than inflation** – the fastest two-year growth in real wages in 20 years.
  - **Household income rose by $5,000** – a bigger increase in just two years than in the prior eight years combined under the Obama-Biden Administration.
- After three years of the Biden Administration's crippling price increases, shrinking pocketbooks, and lower economic opportunity, GOP tax policies will help American workers and families get back on their feet.

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Correcting the Record: Work Incentives and the Child Tax Credit

Tax experts agree that child tax credit changes in the *Tax Relief for American Families and Workers Act* reward work, consistent with prior GOP tax reform.

- Republicans rejected demands to eliminate work requirements as part of the tax bill.
    - The bill retains the pro-work structure created during GOP tax reform.
    - The $2,500 minimum income requirement for the child tax credit remains in place.
    - The refundable portion of the child tax credit is phased in as income is earned above the $2,500 threshold, consistent with the structure of the 2017 GOP tax reform.
- Economists confirm that the child tax credit changes in the bill encourage growth in jobs and hours worked:
    - Experts at the nonpartisan **Joint Committee on Taxation** determined, "the proposed expansion of the child tax credit on net increases labor supply."
    - **American Enterprise Institute** notes, "the larger overall credit would increase the returns to work and encourage individuals to enter the labor force."
    - **Bipartisan Policy Center** writes, "increasing the phase-in for the child tax credit and enhancing its refundability are two ways to increase work incentives… especially [for] those lower on the income ladder."
    - **Niskanen Center** concludes, "parents cannot drop out of the labor force altogether and continue to receive the credit each year. The idea of some parents gaming the system by jumping into and out of work every other year defies common sense and what we know about the hiring process."
    - **Tax Foundation** observes**,** "the proposed design generally preserves the credit's work incentives. In some cases, the design strengthens them by phasing the credit in faster."

Large and growing families receive the biggest benefit from the child tax credit changes.

- The *Tax Relief for American Families and Workers Act* includes pro-family and pro-life changes that eliminate the existing penalty on large families.
    - **Joint Committee on Taxation** analysis shows that over half of the cost of the child tax credit changes relates to elimination of the penalty on large families.
    - In contrast, the one-year lookback, which Congress has done 6 times in the last 15 years in bipartisan legislation, is the smallest change, accounting for less than five percent of the cost of the changes – just $750 million per year.
- At a time when many Americans are struggling to make ends meet in President Biden's economy, this bill will deliver critical relief to working families and expand economic opportunity for workers across the country.

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Correcting the Record: Child Tax Credit and Immigration

In the 25-year history of the child tax credit, there was no meaningful safeguard with respect to illegal immigration until GOP tax reform in 2017. GOP tax reform added a Social Security Number (SSN) requirement for a child to be eligible for the credit.

The *Tax Relief for American Families and Workers Act* PRESERVES existing SSN protections, DOES NOT change any current safeguards in the child tax credit, and DOES NOT open the door to new child tax credit claims by illegal immigrants.

- When Republicans expanded the child tax credit in the 2017 GOP tax reform, they also added an SSN requirement for a child to be eligible for the credit.
- Prior to GOP tax reform, the improper payment rate for the child tax credit was 25 percent – the new SSN safeguard helped cut the improper payment rate in half.
- And with the GOP tax reform safeguard in place, recent border crossings will not be eligible for the child tax credit.
- The SSN requirement for a child to be eligible for the credit is set to expire at the end of 2025 and will require congressional action to extend or make it permanent.

No other tax credit or deduction can match the child tax credit's protections from improper claims combined with safeguards against payments to non-citizens.

- Adding SSN safeguards to other provisions across the individual side of the tax code continues to be a long-term effort, achieving a few hard-fought gains over time.
- Other than GOP tax reform in 2017, the most recent change to add SSN safeguards was in the *PATH Act of 2015*.
- Many provisions in the tax code currently have no SSN requirements:
    - Child and Dependent Care Tax Credit.
    - Saver's Credit.
    - Education credits like the American Opportunity and Lifetime Learning Credits.
    - Green handouts like the Electric Vehicle Tax Credit, Energy Efficient Home Improvement Credit, and the Residential Clean Energy Credit.
    - Deductions like the standard deduction and the teacher expense deduction.
- Since the inception of the child tax credit, taxpayers with an Individual Tax Identification Number (ITIN) can claim the credit with respect to eligible children – a situation currently covering less than 0.75 percent of all tax filers.