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## A BETTER WAY: A PRO-GROWTH TAX CODE FOR ALL AMERICANS

The United States stands at a pivotal moment. Today's policy decisions will have a lasting effect on future generations – for better or worse. If we stay within the bounds of the current tax discussion, we have only three choices for the path forward:

- We can do nothing, leaving our children with the responsibility to clean up the tax code and its ruinous effects.
- We can raise taxes under the existing system, which would levy harsher penalties on hard work, savings, and entrepreneurship.
- We can tinker around with little tax changes while the sun sinks ever lower on the age of American excellence.

The Tax Reform Task Force rejects these false choices and believes it is time to go in a completely new direction. Today we have a once-in-a-generation opportunity to move forward with bold, pro-growth tax reform.

As the Task Force worked to develop smart reforms, we asked ourselves two questions about each policy or provision: *"Will this policy reform grow our economy?"* and *"Is it worth raising taxes on everyone else to include this provision?"* We are committed to growing our economy without increasing the deficit – taking into account the increased Federal revenues that result from economic growth.

This Blueprint is a detailed, credible, fiscally responsible plan to create a modern tax code built for growth – the growth of families' paychecks, the growth of job creators, and the growth of the American economy. **And it is the beginning of our conversation about how to fix our broken tax code.**

This Blueprint will achieve three important goals:

- It will fuel job creation and deliver opportunity for all Americans.
- It will simplify the broken tax code and make it fairer and less burdensome.
- It will transform the broken IRS into an agency focused on customer service.

Simply put, the Tax Reform Task Force Blueprint delivers ***a better way*** on tax reform that will help all Americans have more and better opportunities in their lives.

## 1. THE TAX REFORM TASK FORCE: DEVELOPING THE CONSENSUS

In January 2016, House Republicans set out to deliver a bold, pro-growth policy agenda focused on addressing the top concerns of the American people. On February 4, 2016, House Speaker Paul D. Ryan announced the creation of six committee-led task forces committed to delivering serious solutions. Each Task Force was charged with developing detailed policy recommendations to serve as the pillars of our pro-growth plan for the future – our plan for a confident America.

As leader of the Tax Reform Task Force, Ways and Means Committee Chairman Kevin Brady of Texas has spearheaded the conference-wide effort to create a 21st century tax code built for growth. The goal of the Task Force was to deliver a strategy to create jobs, grow the economy, and raise wages by reducing rates, removing special interest carve-outs, and making our broken tax code simpler and fairer.

On March 2, 2016, the Tax Reform Task Force kicked off with its first idea forum. These meetings provided opportunities for all Republican Members of Congress to share their ideas for how to fix our broken tax system. Over the course of four months, the Task Force held six Member-driven idea forums that were widely attended by Members from across the House Republican Conference.

The Task Force also held discussions with economic thought leaders to gain a thorough understanding of how various changes to the tax code would affect the American people and our economy as a whole. The collaboration brought to the table new, forward-thinking perspectives on pro-growth tax reform. This was critical in developing solutions that will create jobs, ease the tax burden on American families, make the United States a magnet for investment, and enhance the ability of our businesses to compete and succeed around the globe.

Complementing the efforts of the Tax Reform Task Force, the Committee on Ways and Means held a series of public hearings focused on how to make our tax system work better for the American people. These hearings examined the challenges facing American businesses and workers in the global tax environment, tax-related challenges facing families and small businesses here at home, and Member-driven solutions that would transform our tax code.

## 2. WHY NOW? ANOTHER HISTORIC MOMENT

### Tax Reform – striking similarities between 1986 and 2016

This October will mark 30 years since President Ronald Reagan signed into law the Tax Reform Act of 1986 – landmark legislation that is recognized as the single largest reform of the U.S. tax code in our nation's history.

The world has changed dramatically since 1986 – and so has our tax system. But unlike advances in medicine and technology that have expanded horizons of possibility, the U.S. tax code has expanded to impose excessive burdens that restrict opportunity and economic freedom.

In many ways, our current tax and political environment is remarkably similar to the one that allowed President Reagan to successfully overhaul the tax code three decades ago. As we look to replicate and build upon this achievement, it is important to recognize three key factors that were present in 1986:

> First, the American people were fed up with the tax code. It was a complicated mess of multiple brackets, high rates, and special-interest provisions. As President Reagan described it, the code had become a *"haven for special interests and tax manipulators, but an impossible frustration for everybody else."*

Second, Members of Congress had bold proposals for pro-growth tax reform. Thanks to the hard work and vision of Congressman Jack Kemp, Senator Bill Bradley, and many others, Americans saw the total number of income brackets reduced from 15 to two. In addition, the top income tax rate for individuals was cut from 50 percent to 28 percent, and the top corporate tax rate was reduced by 12 percentage points.

And third, President Reagan was willing to lead on tax reform. As a result of that leadership and three years of difficult work in Congress, the United States emerged with one of the most modern, fair, and competitive tax systems in the developed world – one that laid the foundation for decades of American job growth.

### A striking number of these same factors are present today:

First, the American people now are fed up with the tax code. It again has become a complicated mess of multiple brackets, high rates, and special-interest provisions. Once again, Americans are forced to devote their hard-earned dollars and their hard-pressed time to complying with an overly complicated and complex code. And at the end of the process, most people believe that everyone else but them got a better deal.

Second, Members of Congress now are proposing a variety of serious ideas for pro-growth tax reform. Representative Rob Woodall of Georgia is a champion of the Fair Tax, which would repeal the income tax and other taxes, abolish the IRS, and enact a national retail sales tax. Representative Mike Burgess of Texas is a powerful advocate for the Flat Tax, which would give taxpayers the option of having a flat rate of tax applied to their annual income. Representative Devin Nunes of California has designed the American Business Competitiveness (ABC) tax, which would transform the way businesses are taxed in America. And Representative Bob Goodlatte of Virginia is making the case for the Tax Code Termination Act, which would end the current tax code after 2019 and require Congress to adopt a fair and simple Federal tax system to replace it. More broadly, Members of Congress on both sides of the aisle believe that Americans deserve a better tax system and that Congress must deliver it.

And third, every major Republican primary and general election candidate in the 2016 Presidential election introduced a plan to reform our broken tax code.

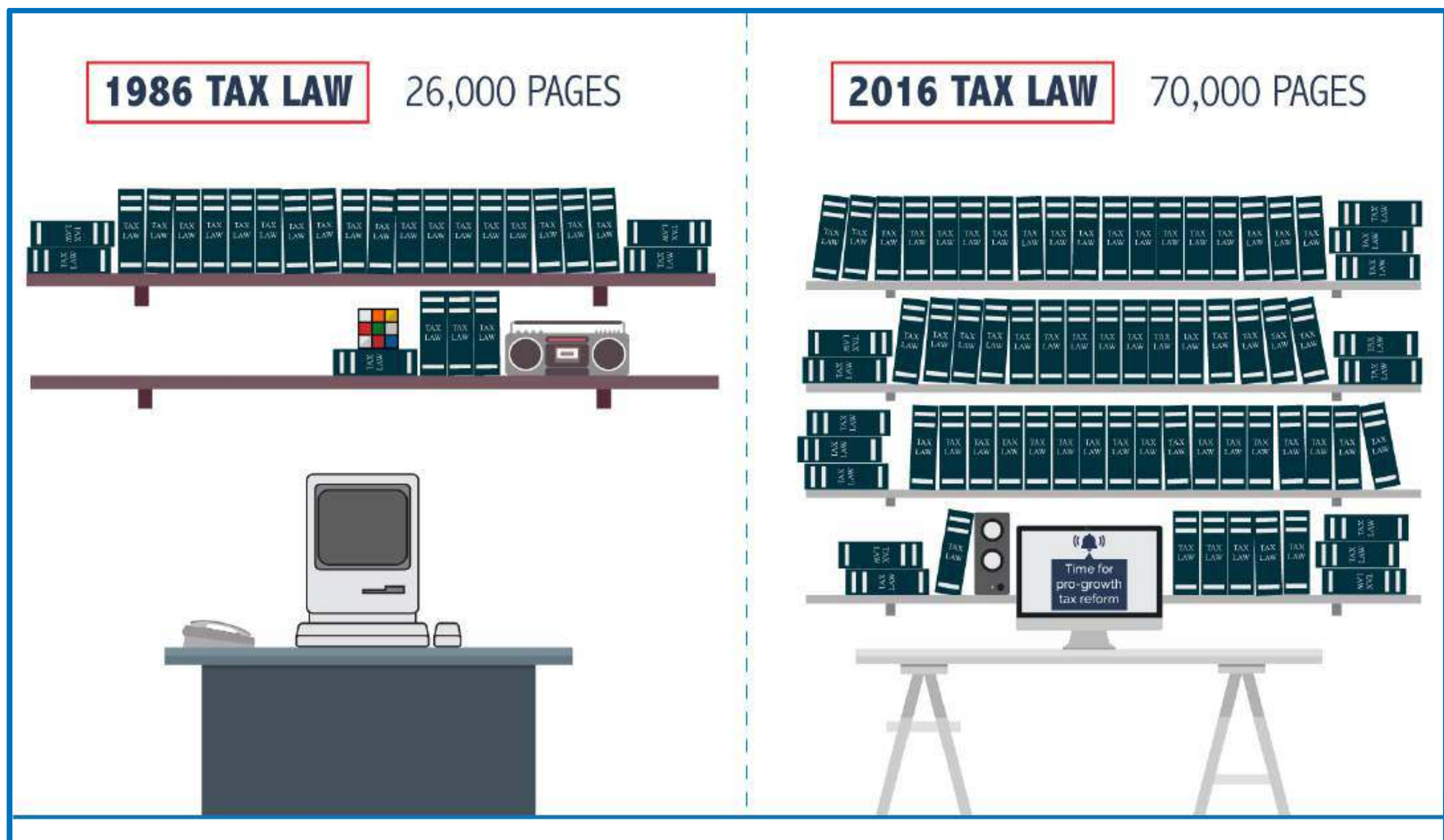
Armed with the bold ideas put forward by our Tax Reform Task Force, House Republicans stand ready to work with America's next president to hit the ground running on pro-growth tax reform in 2017.

## 3. THE CHALLENGE OF OUR BROKEN TAX CODE AND OUR BROKEN TAX COLLECTOR

As in 1986, America's tax code in 2016 has become completely and totally broken. It imposes burdensome paperwork and compliance costs, delivers special interest subsidies and crony capitalism, penalizes savings and investment, and encourages businesses to move overseas. And it is administered by a broken tax collection agency that continues to fail the American people.

### Problem #1: The Current Code Imposes Burdensome Paperwork and Compliance Costs

While the Internal Revenue Code runs over 2,600 pages, the tax code itself represents only a small fraction of the entire body of Federal tax law.[1] Taxpayers must navigate laws and guidance that include Treasury regulations; IRS forms, instructions, publications, and other guidance; and Federal court decisions. When all of these sources are compiled together, the Federal tax laws today fill approximately 70,000 pages – almost triple the number of pages at the time of the Tax Reform Act of 1986.[2] Recent estimates have found that Americans now spend over $409 billion and 8.9 billion hours annually trying to comply with our broken tax code.[3]




With a tax law that has nearly tripled in length in the last 30 years, it is no wonder that 9 out of 10 taxpayers now use either a professional tax preparer or computer software to file their taxees. **This blueprint delivers a simpler, fairer, and flatter tax code to help all Americans.**

= 1,000 PAGES

Real-world frustrations include:

- Families struggling to afford a college education must now wade through over a dozen different tax breaks for higher education and almost 100 pages of IRS instructions just to figure out which education tax benefits could help them meet the demands of growing tuition costs.[4]

- The tax code provides two separate tax benefits related to children: the child tax credit and the personal exemption for dependent children. But the definition of "qualifying child" is different for each benefit, so a family might qualify for one but not the other. A family also might be discouraged from seeking a benefit altogether – even if they are eligible to receive it.

- Even a concept as simple as "married" takes 218 words and five paragraphs to define.[5]

It is no wonder that nine out of ten taxpayers now use either a professional tax preparer or computer software to prepare their tax returns.[6]

Tax complexity and compliance costs are a serious burden for all Americans, but for small businesses – our nation's chief source of job creation – the burden is particularly severe. For example, tax compliance costs the 4 million S corporations in

this country more than $46 billion annually, nearly $12,000 per company.[7] Moreover, another significant compliance cost for family-owned businesses is the death tax. While the government collects only about $20 billion in revenues from estate and gift taxes, they represent a cost of $19.6 billion per year to individuals who must comply with these rules.[8]

Tax complexity feeds other problems as well, such as waste, fraud, and abuse. For example, according to the Treasury Inspector General for Tax Administration (TIGTA), over an 11-year period the IRS has sent out almost $150 billion in erroneous Earned Income Tax Credit (EITC) claims.[9] In 2013 alone, the IRS estimated that 24 percent of EITC payments were made in error – nearly one quarter of all payments were erroneous.[10]

House Republicans made a down payment on reducing waste, fraud, and abuse when we included one dozen program integrity provisions in the Protecting Americans from Tax Hikes (PATH) Act of 2015. But we have more work to do. The best way to reduce tax fraud is to simplify the tax code by enacting major tax reform.

### Problem #2: The Current Code Delivers Special Interest Subsidies and Crony Capitalism

The tax code is littered with hundreds of preferences and subsidies that pick winners and losers and create complexity. Instead of free-market competition that rewards success, our tax code directs resources to politically favored interests, creating a drag on economic growth and job creation. In fact, Washington encourages individuals and businesses to make investment decisions based not on the most promising new technologies and innovations, but instead on the promise of tax savings. Many of these tax preferences, sometimes referred to as "tax expenditures," are special-interest giveaways that are masked as tax breaks instead of direct grants. For fiscal year 2016, such "spending" through the tax code amounts to more than $1.4 trillion, or almost three-fourths of the amount of revenue raised by the entire Federal income tax. When Washington picks winners and losers with the tax code, the American people ultimately pay higher tax rates and keep less of their hard-earned money.

### Problem #3: The Current Code Penalizes Savings and Investment

The United States has one of the highest levels of taxation on capital in the world. We tax capital once at the corporate level and then again at the individual level — with integrated tax rates on certain investment income exceeding 50 percent. The overall taxation of capital in the United States is higher than all but four of the 38 countries that make up the Organization for Economic Co-operation and Development (OECD) and the BRIC countries (Brazil, Russia, India and China).

The following example illustrates how the Federal government can take more than half of an individual's savings. Assume an individual purchases shares in a corporation that pays out all of its profits in the form of dividends. The corporation earns $1,000 and pays $350 in corporate income tax, leaving $650 to distribute as dividends. A saver in the top tax bracket must pay the 20-percent dividend rate on that $650 ($130) and the 3.8-percent net investment income tax (which was enacted as part of the "Obamacare" legislation) on the same $650 ($24.70). In addition, the so-called Pease limitation requires the taxpayer to reduce his or her itemized deductions by $3 for every $100 in additional income, or $19.50. That loss of deductions increases taxable income by $19.50, and at a 39.6-percent rate generates $7.72 of additional tax liability. The sum of all these taxes on that original $1,000 in income is $512.42, or an effective tax rate of 51 percent. With State taxes on top of that, savers in some parts of the country pay an effective tax rate of over 60 percent on their investments.

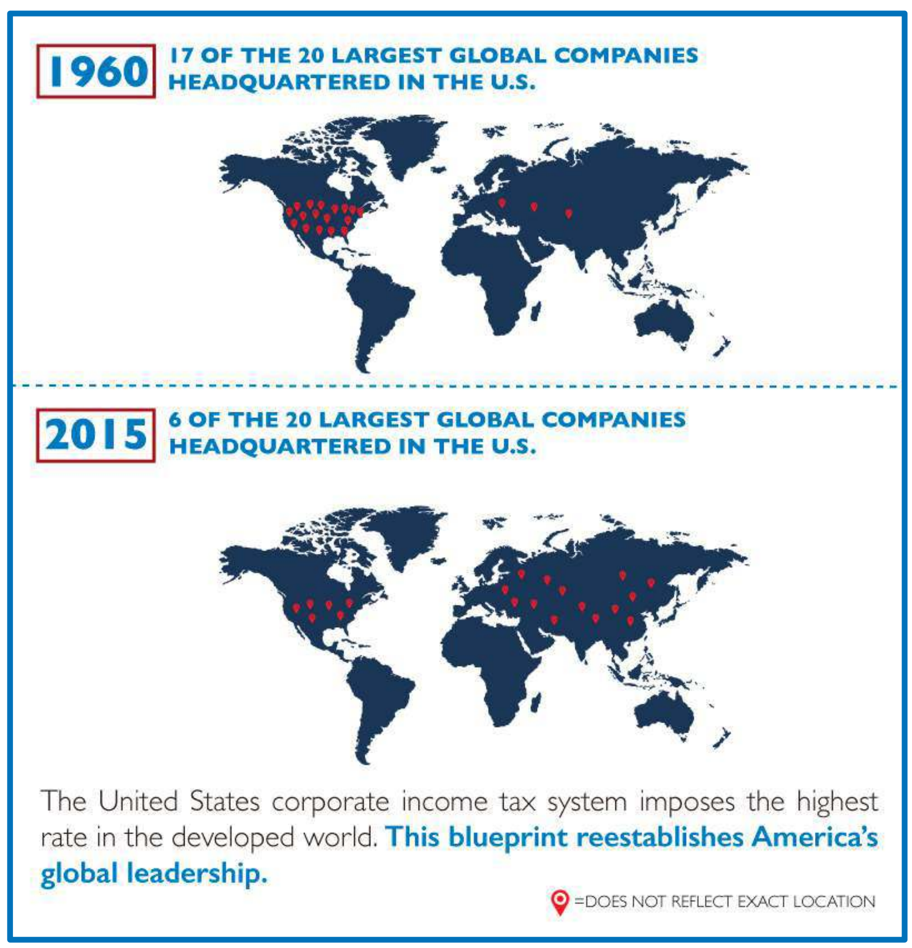
### Problem #4: The Current Code Encourages Businesses to Move Overseas

Our corporate income tax system imposes the highest rate in the developed world – 39 percent when the 35-percent Federal rate is combined with the average State corporate tax rate.[11] Globally, only two of 173 countries have a higher corporate tax rate than the United States – Chad and the United Arab Emirates.[12] The corporate tax rate represents the most important tax-related factor in a company's decision to invest and locate jobs in the United States or overseas. In 1960,

17 of the 20 largest global companies located their headquarters in the United States. By 2015, only six of the top 20 were located in the United States.[13]

Meanwhile, owners of small and closely held businesses face a top Federal marginal tax rate as high as 44.6 percent on their activities. As a result, a majority of our small businesses are forced to focus more resources on dealing with the tax code and less on creating jobs and investing in local communities.

Another disadvantage is that the United States still uses a so-called worldwide tax system, which means we tax the earnings of American companies overseas when those earnings are brought back to the United States, with a credit allowed for foreign taxes paid on those earnings. Meanwhile, virtually all of our major trading partners have adopted territorial tax systems, under which these governments generally do not tax the active business income earned overseas by companies headquartered in their countries.




Today, American companies must pay a tax penalty if they want to reinvest foreign earnings in creating jobs and raising wages in the United States. As a result, American worldwide companies currently hold more than $2 trillion in capital overseas – funds that can be reinvested in America only after payment of a hefty U.S. tax bill.

Our high corporate rate, our outdated worldwide tax system, and our origin-basis system that taxes exports have created a perfect storm that has encouraged so many businesses to move their headquarters overseas. That is why the pace of so-called "inversions" – where a larger American company acquires a smaller foreign company, but locates the headquarters of the new company outside the United States – has accelerated dramatically in recent years. From 2003 through 2011, corporations completed only seven such transactions, or less than one per year on average. But just in the period from 2012 through 2015, corporations completed 27 inversions, a pace of almost seven per year. At the same time, we are seeing an increasing number of American companies being taken over by foreign companies.

### Problem #5: The Current Code Enables a Broken Tax Collector

Over the past three decades, the IRS has become a prime example of executive branch overreach, blatant misconduct, and government waste. While the structure of the IRS has expanded over the years to create a duplicative, inefficient, and complex bureaucracy with approximately 80,000 employees across the country, the agency continues to fail hard-working American taxpayers.

The ongoing problems at the IRS are many, including the following:

- Customer service at the IRS has reached abysmal levels. In fact, the Government Accountability Office has confirmed that the IRS provided "the lowest level of telephone service during fiscal year 2015," with only 38 percent of callers able to reach an IRS representative.[14] And average wait times have tripled from 2010 to 2015, from 10.8 minutes to more than 30 minutes.[15]

- The IRS has repeatedly abused law-abiding citizens through its use of civil asset forfeiture policies. The agency has taken money from innocent small business owners, many of whom were forced to forfeit their hard-earned dollars to the government without any opportunity for recourse.

- The IRS makes billions of dollars in improper payments through the programs it administers, particularly the Earned Income Tax Credit (EITC). At 24 percent, the EITC has the highest level of improper payments of any Federal program, with nearly $15.6 billion in improper payments in fiscal year 2015, nearly double the rate of the next highest program.[16]

- Information technology (IT) systems at the IRS are extremely outdated, but the IRS has been unsuccessful in modernizing them despite spending billions of dollars. In fiscal year 2014, the IRS spent more than 20 percent of its total budget on IT, but many of its projects have been complete failures and actually left taxpayers vulnerable to identity theft-related tax fraud and cyber security attacks.[17] As a result, identity theft-related tax fraud also has been a rapidly growing problem that the IRS has not been successful in combatting. Despite millions of dollars spent by the IRS on systems designed to detect fraud, millions of taxpayers have had their identities stolen and used to file fraudulent tax returns for the purpose of getting refunds. The U.S. Treasury Inspector General for Tax Administration estimated in 2012 that the IRS could pay out $21 billion in identity theft-related tax fraud over five years.[18]

The IRS's mismanagement and lack of accountability have seriously compromised its ability to serve taxpayers and treat them fairly.

## 4. THE NEED FOR STRONGER ECONOMIC GROWTH: HOW TAX REFORM WILL HELP

### The Current Tax Code Stifles Economic Growth

Our broken tax code does more than just impose unnecessarily burdensome paperwork requirements, subsidize some industries at the expense of others, punish savings and investment, and force businesses to move overseas. The broken tax code also undermines economic growth – the growth that has been our country's engine of prosperity for generations.

Promoting robust economic growth is nothing less than a national imperative – it fuels our standard of living, makes balancing our Federal budget less challenging, and ensures that there is opportunity for all Americans. But in recent years the rapid expansion of opportunity that Americans once enjoyed and have come to expect is slipping away. For example, here's how economist Douglas Holtz-Eakin summarized recent economic growth trends at a February 2016 Committee on Ways and Means hearing:[19]

> The trend growth rate of postwar GDP per capita (a rough measure of the standard of living) has been about 2.1 percent. . . . [A]t this pace of expansion an individual could expect the standard of living to double in 30 to 35 years. . . . In contrast, the long-term growth rate of GDP in the most recent CBO projection is 2.0 percent. When combined with population growth of 1.0 percent, this implies the trend growth in GDP per capita will average 1.0 percent. At that pace of expansion, it will take 70 years to double income per person. The American Dream is disappearing over the horizon.

Holtz-Eakin concluded that "Raising the trend rate of growth is central to retaining the American dream and the nation's place on the globe."

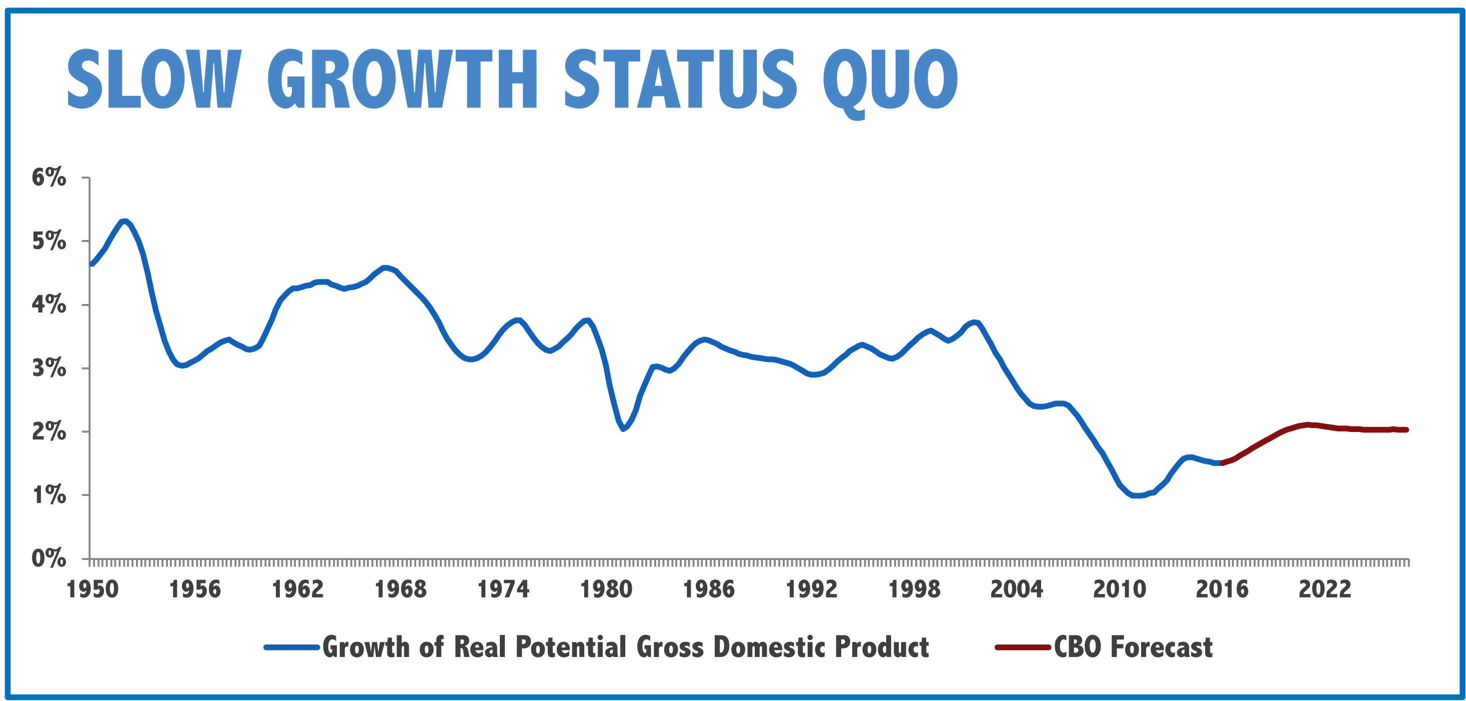
***How exactly does tax policy affect economic growth?***

*Tax policy may influence economic growth through four principal channels: labor supply, physical capital, human capital, and technological innovation. The non-partisan Joint Committee on Taxation (JCT) provides a helpful framework to think about taxes and growth in broad terms:*

> *To understand how tax policy may impact GDP through labor supply, physical capital, human capital, and technological innovation, it is useful to think of GDP as being the product of the amount of labor supplied in the economy and the average productivity of that labor. The productivity of workers in the economy is a reflection of a number of factors, including workers' human capital, the physical capital with which they have to work, and the technology available to them.*
>
> *Tax policy can directly influence the level of labor supply, physical capital, human capital, and technology in an economy by changing the after-tax returns to certain economic activities or changing the cost of pursuing them. Lowering individual tax rates on wages, for example, can increase labor supply by raising the after-tax returns to labor. Reductions in business income tax rates increase the after-tax return to capital and can encourage businesses to invest in physical capital, which could make workers more productive.*

*Given currently low levels of labor force participation, capital investment, and productivity growth it is important that tax reform operate on all of these channels to revive economic growth.* [20]

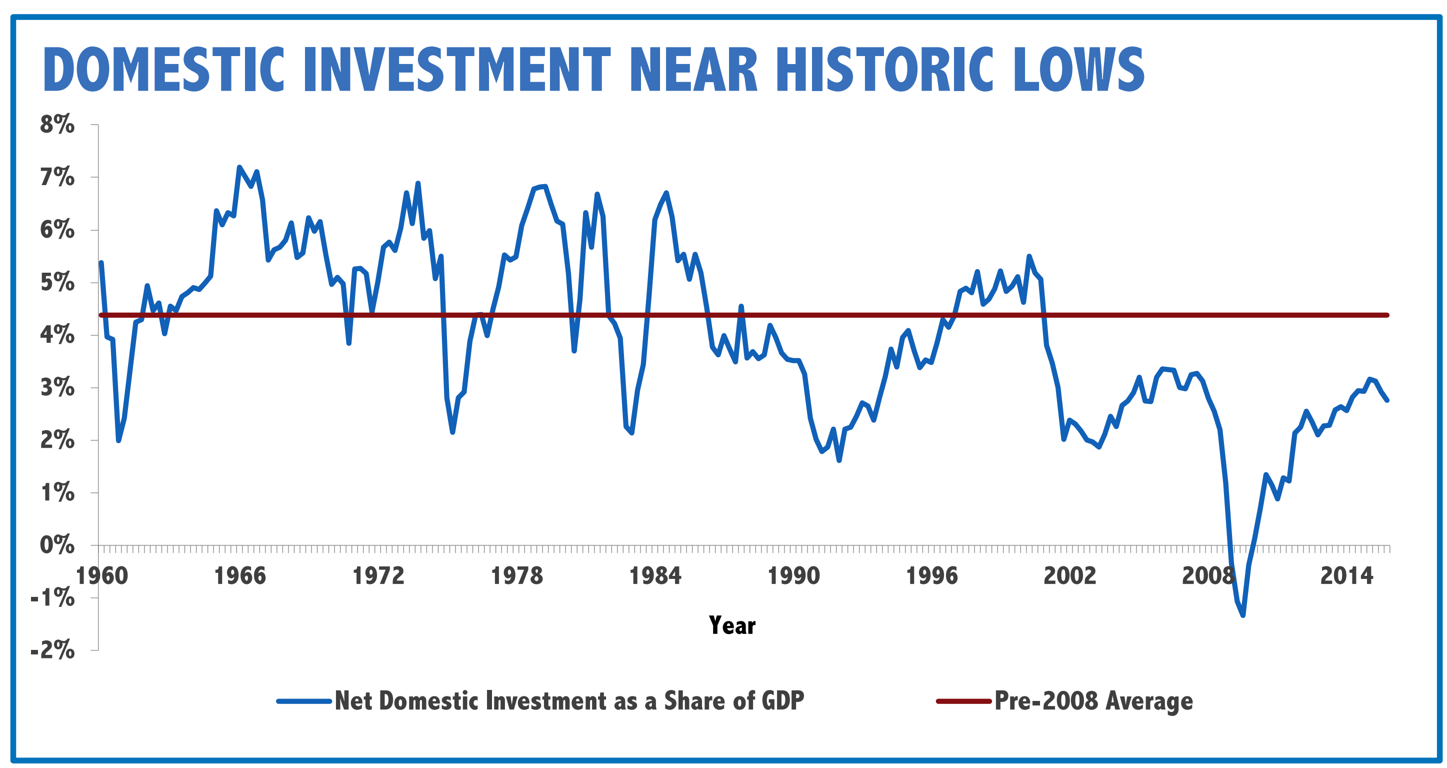
Two key factors driving our economic potential are growth in the size of the labor force (those who are employed or seeking work) and the productivity of those workers (the output they can produce per hour). However, recent years have seen sharp declines in each, causing trend growth to sink to historic lows. Even the anemic 2 percent future of growth that the Congressional Budget Office (CBO) projects might be too optimistic.




Importantly, the recent slowdown in labor-force growth is not related solely to Baby Boomers moving from employment to retirement. As has been noted by a wide array of economic analysts, troubling declines in labor-force participation are occurring even among workers in their prime earning years. This suggests more serious structural problems with the economy.

Productivity growth also has been persistently weak in recent years. Over the past three years, productivity growth has averaged a mere 0.4 percent – a far cry from the historical average of 2.1 percent. And while productivity growth may seem like an abstract economic concept, it is widely accepted as the key to growth in incomes. For example, according to President Obama's Council of Economic Advisers (CEA), if productivity had grown from 1973-2013 at the same rate it had from 1948-1973, the median household income would be $30,000 higher today – an increase of over 50 percent.[21] The effect of worker productivity on incomes dwarfed every other effect that CEA studied.[22]

One likely reason for the productivity slowdown is the fact that current levels of investment are dismal by historical standards. Without sufficient levels of investment, workers will miss out on new innovations and capital that make them able to produce more output per hour. Net domestic investment averaged 4.4 percent of gross domestic product (GDP) per year between 1960 and 2008. Today, however, it is a mere 2.8 percent of GDP – a level that was more commonly associated with recession years during the past two generations.




America's broken tax code discourages investment, which means workers have fewer resources and are less productive. **This Blueprint creates an environment in which job creators and American families can thrive.**

### Addressing the Growth Challenge with a New Tax Code

This Blueprint is designed to address all of these problems – slow growth, declining labor force participation, flat productivity, and weak investment. As is described in greater detail below, this Blueprint will dramatically reform our current tax code by reducing the taxation of savings and investment. These reforms will make the United States the most attractive place to invest in the world, which will stimulate much-needed investment, job creation, and wage growth. By replacing a broken tax code that diverts investment away from promising entrepreneurial endeavors and that discourages work, and delivering an efficient tax code that interferes as little as possible with the growth of businesses and preserves the value of work for individuals, this Blueprint will facilitate an environment in which American businesses – and more importantly American families – can thrive.

To get a sense of what is at stake, consider how increases in growth from tax reform could translate into higher incomes for a family of four. For example, over the next ten years, growth is expected to average 2.1 percent – far below the pre-recession average of 3.5 percent. If instead, as a result of tax reform, we average 3 percent growth, the level of GDP would be over 9 percent higher in 2026, and income for a family of four would be about $23,000 higher than it otherwise would be (measured in GDP per capita terms and in 2016 inflation-adjusted dollars).

Similarly, more rapid economic growth would significantly improve our nation's gloomy fiscal outlook. The same boost in growth described in the example above would reduce projected Federal budget deficits over the coming decade by almost $3 trillion.[23]

**Savings and Investment Incentives Are Better for Growth**

*Movement toward a consumption-based system need not involve a shift to an explicit consumption tax, such as a retail sales tax, but instead could result from reforms which exclude certain features of the income tax base. Those changes would achieve similar economic results albeit through different administrative rules.*

*Consumption-based tax systems are widely regarded to be more pro-growth than income-based tax systems like the current tax code. The reason involves the treatment of capital income – that is, the return to saving. An income tax includes saving in the tax base and thus penalizes saving, whereas a consumption-based system – as the name suggests – taxes only what is consumed, not what is saved.*

*As a result, income-based systems discourage savings and investment, which means slower capital accumulation, lower productivity, and therefore slower economic growth. The current tax code is mainly an income-based system (with limited features meant to mitigate the double taxation of savings, such as tax-preferred savings accounts). This broken tax code, however, does not go nearly far enough to mitigate the double taxation of saving. Substantial empirical evidence shows that moving more in the direction of consumption taxation would have significant economic benefits.*

## 5. A 21st Century tax system built for growth

### Overview

This Blueprint represents a dramatic reform of the current income tax system. This Blueprint does not include a value-added tax (VAT), a sales tax, or any other tax as an addition to the fundamental reforms of the current income tax system. The reforms reflected in this Blueprint will deliver a 21st century tax code that is built for growth and that puts America first.

For families and individuals, the new tax system will simplify and lower tax rates. It also will provide for reduced but progressive tax rates on capital gains, dividends, and interest income. In addition, the changes will significantly reduce the complexity and compliance burdens of the current system. The approach reflected in this Blueprint will be simple enough to fit on a postcard for most Americans.

For businesses both small and large, the focus of the new tax system will be on the growth and competitiveness of all job creators. It represents the largest corporate tax rate cut in U.S. history. It also will bring the lowest tax rate since before World War II to small businesses operated as sole proprietorships or pass-through entities such as partnerships or S corporations. And for the first time ever, all businesses will have the benefit of a full and immediate write-off of their investments in tangible and intangible assets.

From the perspective of America's place in the global economy, the new tax system will focus on investment in America and investment for America. The focus on business cash flow, which is a move toward a consumption-based approach to taxation, will allow the United States to adopt, for the first time in history, the same destination-based approach to taxation that has long been used by our trading partners. This will end the self-imposed unilateral penalty for exports and subsidy for imports that are fundamental flaws in the current U.S. tax system. The new tax system also will end the U.S. taxation of the worldwide income of American-based global businesses, which dates back to the first Civil War-era income tax. Under the territorial tax approach reflected in this Blueprint, for the first time American companies will be free to bring their foreign earnings home to invest in America without tax penalty. The new international tax rules also will be significantly simpler, reducing compliance burdens and the potential for controversy.

An integral part of this Blueprint is a new IRS for the 21st century that will be aligned with the new tax code for the 21st century. The new IRS will be built for customer service. With the new structure of the tax code, the new IRS will have a unit that will serve families and individuals and a separate unit that will serve businesses. And there will be an independent function designed to resolve small business disputes quickly, efficiently, and appropriately.

Tax reform should not be used to bail out Washington's spending problem. Fixing our broken tax code is about having a simpler, fairer, and flatter tax system –not about increasing taxes. This Blueprint will deliver a new tax system under which no income group will see an increase in its Federal tax burden. Furthermore, it envisions tax reform that is revenue neutral.

This standard, however, raises the question: how do we project the level of revenue that we expect the current tax code to raise? As of March 2016, the Congressional Budget Office (CBO) projects that Federal revenues will total $42.089 trillion over fiscal years 2017 through 2026. The CBO baseline (also called the "current law baseline"), however, assumes that the remaining temporary tax provisions will expire on schedule, resulting in a tax increase of more than $400 billion over the ten-year budget window if Congress fails to act. House Republicans reject the notion that tax reform should conceal a $400 billion tax increase, and therefore the current law baseline is not the proper standard for determining whether tax reform is revenue neutral. Because an assumption that Congress, in fact, will continue to extend current policy more closely resembles historical experience, House Republicans measure revenue neutrality by reference to a "current policy baseline" – i.e., achieving a level of Federal revenues that is approximately $400 billion less over the ten-year window than the current law baseline.

In addition, at the beginning of the 114th Congress, House Republicans approved clause 8 of Rule XIII, requiring the Joint Committee on Taxation to estimate the macroeconomic effects of major tax legislation and to include changes in Federal revenues resulting from changes in the size of the economy to be included as part of the official revenue estimate. Consistent with this rule, House Republicans achieve revenue neutrality in part by including the positive revenue effects from the economic growth that would result from a simpler, more pro-growth tax code.

Finally, this Blueprint assumes that the substantial tax increases enacted as part of the Obamacare law will be repealed as part of the proposal of the Health Care Task Force. Repeal of economically damaging tax increases such as the additional 3.8 percent tax on net investment income, the additional 0.9 percent payroll tax, the medical device tax, the health insurance tax, and others should not be paid for with other economically damaging tax increases. Rather, they should be paid for by repealing the massive new entitlement program created by Obamacare. Thus, this Blueprint envisions a pro-growth tax code without either those Obamacare taxes or other taxes to replace them.

## Simplification for American Families and Individuals

### *Highlights*

This Blueprint will simplify, flatten, and lower tax rates for families and individuals. In addition it will provide for reduced and progressive tax rates on capital gains, dividends and interest income, to encourage savings and investment. This Blueprint will eliminate the alternative minimum tax, so that people no longer will be required to calculate their tax twice every year. This Blueprint also will eliminate the estate tax and the generation-skipping transfer tax, so that the death of a family member or loved one no longer will be a taxable event.

Because these changes will significantly reduce the complexity and compliance burdens of the current system, the approach reflected in this Blueprint will mean that the revised tax filings for most Americans will be simple enough to fit on a postcard.

### *Individual Income Tax Rates*

Today, there are seven different regular tax brackets for individuals, with a top individual income tax rate of 39.6 percent. The Tax Reform Blueprint will make the individual tax system simpler, flatter, and fairer. This Blueprint will consolidate the

current seven tax brackets to three brackets and will lower the top individual income tax rate to 33 percent. Going forward, these income tax brackets will be indexed for inflation.

### INDIVIDUAL INCOME TAX BRACKETS UNDER THE BLUEPRINT

<table>
<tr><th>Current Law</th><th>Blueprint</th></tr>
<tr><td>10%</td><td rowspan="2">0%/12%*</td></tr>
<tr><td>15%</td></tr>
<tr><td>25%</td><td rowspan="2">25%</td></tr>
<tr><td>28%</td></tr>
<tr><td>33%</td><td rowspan="3">33%</td></tr>
<tr><td>35%</td></tr>
<tr><td>39.6%</td></tr>
<tr><td colspan="2">*As described below, the new standard deduction is larger than the current-law standard deduction and personal exemptions combined. This, in effect, creates a larger 0 percent bracket. As a result, taxpayers who are currently in the 10-percent bracket always will pay lower taxes than under current law.</td></tr>
</table>

Millions of small and closely held businesses are organized as pass-through entities – such as partnerships and S corporations – that are taxed under the individual rate structure rather than at the corporate rate. These businesses often compete directly with businesses that are subject to the corporate tax, with the differential in tax treatment creating potential distortions and inequities. As discussed below, the Tax Reform Blueprint will create a new business tax rate for small businesses that are organized as sole proprietorships or pass-through entities, which means that small business income will no longer be subject to the top individual tax rate – not even the lower 33 percent top rate in this Blueprint – thus leading to a maximum tax rate of 25 percent on small business income. This approach to the tax treatment of business income will build on concepts developed by Rep. Vern Buchanan of Florida in his Main Street Fairness Act (H.R. 5076).

#### ***Individual Alternative Minimum Tax***

The alternative minimum tax (AMT) requires families and individuals to compute both their regular income tax and their AMT, and then pay the greater of the two. In effect, the AMT is a second tax system. The requirement that taxpayers compute their income for purposes of both the regular income tax and the AMT is one of the complexities of the current tax code that is most far-reaching, with roughly 4 million American families subject to AMT in 2016, and millions more required to do the complex calculations to determine whether or not they are subject to it. The AMT is particularly burdensome for small business owners, who often do not know whether they will be affected by the AMT until they file their tax returns and therefore must maintain a reserve for potential AMT liability – funds not being used to create jobs or grow their businesses.

As the National Taxpayer Advocate, Nina Olson, said in her 2013 annual report to Congress:

> The AMT penalizes middle income taxpayers for having children, getting married, or paying state and local taxes. The AMT is also unnecessarily complicated and burdensome, even for those who are not subject to it. Many taxpayers must fill out a lengthy form only to find they owe little or no AMT after all.[24]

The National Taxpayer Advocate's recommendation to Congress was simple: "Permanently repeal the AMT." This echoed the recommendation to repeal the AMT that was included in a report on tax simplification issued by the Joint Committee on Taxation in 2001.

This Blueprint follows these recommendations and repeals the individual AMT.

### *Income from Savings and Investment*

Under an income tax, income from savings and investment is subject to double taxation, with investments made out of after-tax earnings and the returns on those investments also subject to tax. Thus, an income tax creates a bias against savings. The current tax code only partially mitigates this double taxation by providing a special rate structure for certain types of investment income. This rate structure applies to adjusted net capital gain and qualified dividends, with a top statutory tax rate of 20 percent. When the 3.8-percent tax on net investment income and the effects of the so-called Pease limitation on itemized deductions are taken into account, the top effective tax rate on capital gains and dividends reaches roughly 25 percent (exclusive of corporate-level income taxes).

This Blueprint provides for reduced tax on investment income. Families and individuals will be able to deduct 50 percent of their net capital gains, dividends, and interest income, leading to basic rates of 6 percent, 12.5 percent, and 16.5 percent on such investment income depending on the individual's tax bracket. This approach is similar to how relief from double taxation of savings and investment was structured for several years after the enactment of the first round of Reagan tax cuts in 1981. However, this Blueprint also includes interest income within the reduced tax on investment income, as part of the move in the direction of a cash-flow tax.

### *Simplification for Families*

**SIMPLE, FAIR "POSTCARD" TAX FILING**

| | | | |
|---|---|---|---|
| 1 | Wage and compensation income | 1 | |
| 2 | Add 1/2 of investment income | 2 | |
| 3 | Subtract contributions to specified savings plans | 3 | |
| 4 | Subtract standard deduction OR | 4 | |
| 5 | Subtract mortgage interest deduction | 5 | |
| 6 | Subtract charitable contribution deduction | 6 | |
| 7 | Taxable income | 7 | |
| 8 | Preliminary tax (from tax table) | 8 | |
| 9 | Subtract child credit | 9 | |
| 10 | Subtract earned income credit | 10 | |
| 11 | Subtract higher education credit | 11 | |
| 12 | Total tax | 12 | |
| 13 | Subtract taxes withheld | 13 | |
| **14** | **Refund due / taxes owed** | **14** | |

The tax code currently includes five basic family tax deductions and credits, each with its own rules, eligibility criteria, and calculations. Three benefits – the basic standard deduction, additional standard deduction, and personal exemption for taxpayer and spouse – are intended to protect a minimum level of income from Federal income taxation, with the level depending on whether the taxpayer is single or married. The other two – the personal exemptions for children and dependents and the child tax credit– are intended to deliver additional tax benefits to households with children and dependents. Consolidating these five benefits into two simpler benefits – a larger standard deduction and an enhanced child and dependent tax credit – will achieve the same policy and distributional goals as current law while making the tax code much simpler for low- and middle-income families.

Under current law, an individual determines his or her taxable income by reducing adjusted gross income (AGI) by any personal exemption deductions and either the applicable standard deduction or his or her itemized deductions. For 2016, the amount of the standard deduction is $6,300 for single individuals, $9,300 for heads of households, and $12,600 for married individuals filing a joint return. An additional standard deduction ($1,250 in 2016) is allowed with respect to any individual who is elderly or blind. In addition, a taxpayer generally may claim personal exemptions for the taxpayer, the taxpayer's spouse, and any dependents. For 2016, taxpayers may deduct $4,050 for each personal exemption.

In addition, under the current-law child tax credit, an individual may claim a $1,000 tax credit for each qualifying child under the age of 17. The credit starts phasing out for single filers earning over $75,000 and for joint filers earning over $110,000. To the extent the child credit exceeds the taxpayer's tax liability, the taxpayer is eligible for a refundable credit (equal to 15 percent of earned income in excess of $3,000). The taxpayer is not required to provide a Social Security number to claim the refundable portion of the credit (unlike the earned income tax credit today), which has led to substantial fraud and erroneous overpayments with respect to the refundable portion.

The Tax Reform Blueprint will consolidate the basic standard deduction, the additional standard deduction, and the personal exemptions for families and individuals. The new larger standard deduction will be $24,000 for married individuals filing jointly, $18,000 for single individuals with a child in the household, and $12,000 for other individuals. These amounts will be adjusted annually for inflation.

In addition, the Blueprint will consolidate the child credit and personal exemptions for dependents into an increased child credit of $1,500. The first $1,000 will be refundable as under current law. A non-refundable credit of $500 also will be allowed for non-child dependents.

The marriage penalty that exists in the current-law phase-out of the child credit will be eliminated, so that married couples will be able to earn up to $150,000 before their child credits start phasing out. This elimination of the marriage penalty reflects a proposal developed by Rep. Lynn Jenkins of Kansas, as part of the Child Tax Credit Improvement Act of 2014 (H.R. 4935, 113th Cong.).

To reduce waste, fraud, and abuse, a taxpayer will be required to provide his or her Social Security number to claim the refundable portion of the child credit. Rep. Sam Johnson of Texas has advanced this anti-abuse measure and it is reflected in his Refundable Child Tax Credit Eligibility Verification Reform Act of 2016 (H.R. 4722). The Committee on Ways and Means will continue to work to reform the child credit to reduce fraud and erroneous overpayments.

## SIMPLIFICATION OF FAMILY TAX BENEFITS

| Current Law | Blueprint |
| --- | --- |
| Basic Standard Deduction | Larger Standard Deduction |
| Additional Standard Deduction | |
| Personal Exemption for Taxpayer and Spouse | |
| Child Tax Credit | Larger Child and Dependent Tax Credit |
| Personal Exemption for Children and Dependents | |

These changes will simplify tax filing for families substantially, and the Tax Reform Blueprint aims to reduce the number of taxpayers who itemize their deductions from about one-third under current law to approximately 5 percent under our simpler, fairer, and flatter tax system.

***Earned Income Tax Credit***
The Blueprint will continue the earned income tax credit (EITC), which rewards work by low-income individuals, encouraging them to enter the workforce and have the opportunity to move up the income scale. The Committee on Ways and Means will continue to work to reform the EITC to reduce fraud and erroneous overpayments. In addition, the Committee will develop options for providing a more effective and efficient incentive to work.

***Simplification of Tax Benefits for Higher Education***
Under current law, there are over a dozen different overlapping tax benefits relating to education. These tax benefits are so complicated that many taxpayers cannot determine the tax benefits for which they are eligible. In fact, the IRS publication on tax benefits for education is almost 100 pages long. Streamlining education tax benefits will enable taxpayers to understand better the tax benefits for which they qualify.

This Blueprint will simplify the current array of tax benefits for families looking to make education more affordable for their children. The Committee on Ways and Means will work to simplify and consolidate the current-law provisions to provide a more effective and efficient package of higher education tax benefits that will cover both college and vocational training programs, including a savings incentive, such as 529 plans, and tax relief targeted at helping low- and middle-income families with the costs of higher education, such as the American Opportunity Tax Credit (which was made permanent in 2015).

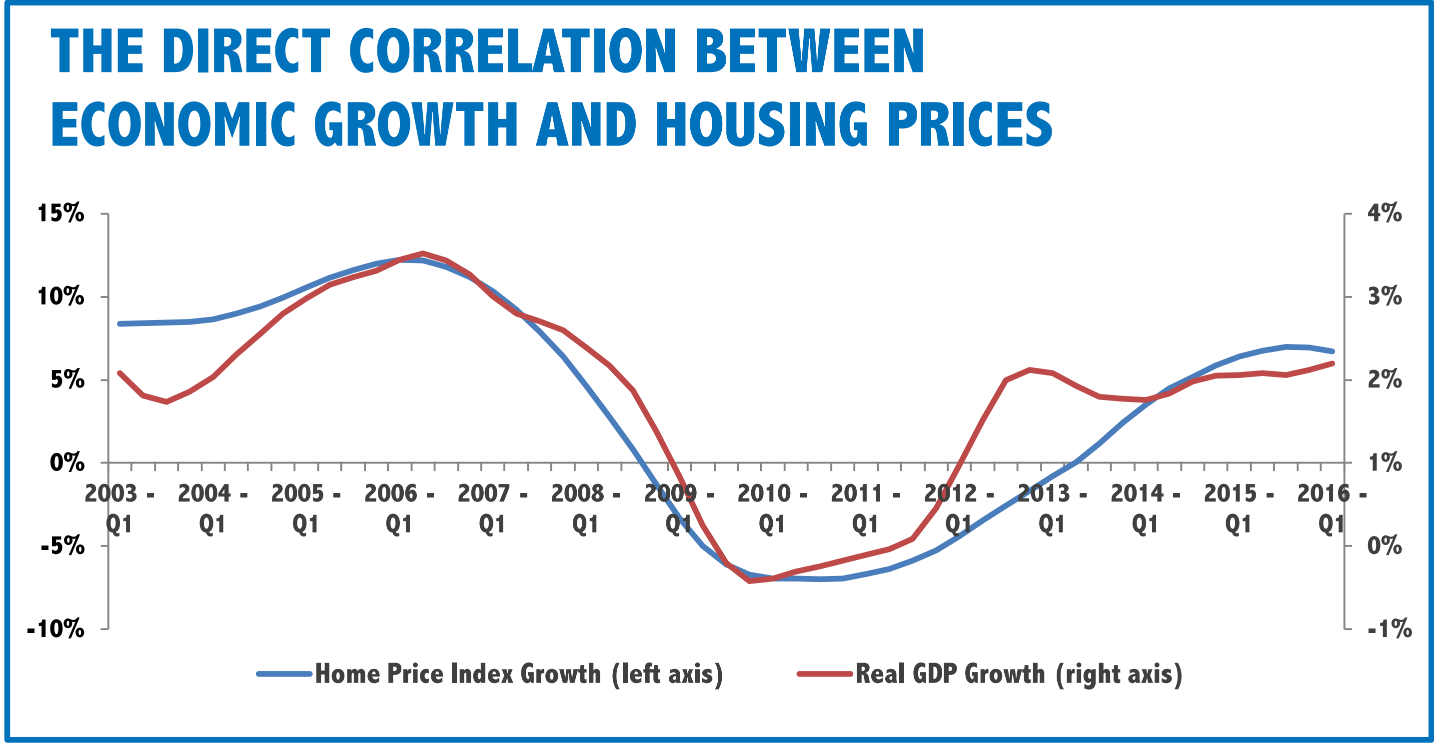
***Individual Exclusions and Deductions***
Under this Blueprint, the core component of the individual tax base will be compensation received. As discussed below, businesses will deduct compensation paid to their employees and workers. Generally, the tax system should use the same definition for taxable compensation of employees as it does for compensation employers may deduct.

Families and individuals generally will include in income any compensation received related to employment or self-employment. Two pressing national priorities – quality health care and retirement security – require exceptions to this general rule. The exclusion for employer-provided health insurance and related health provisions in the tax code (such as health savings accounts and flexible spending arrangements) are major components of our nation's health care system and therefore are being addressed in the context of the work of the Health Care Task Force. Second, this Blueprint will continue tax incentives for retirement savings. The Committee on Ways and Means will examine existing tax incentives for employer-based retirement and pension plans in developing options for an effective and efficient overall approach to retirement savings.

To simplify tax filings further for middle-income families, this Blueprint reflects the elimination of all itemized deductions except the mortgage interest deduction and the charitable contribution deduction. These two provisions help accomplish two important goals that strengthen civil society: homeownership and charitable giving.

***Homeownership***
Historical data show that the strength of the nation's housing market is tied more closely to the health of the overall economy than to any specific tax policies that might be in place. The best way to promote a thriving housing market is to improve the overall economy, which is precisely what comprehensive tax reform will achieve.

Today, a taxpayer may claim an itemized deduction for mortgage interest paid with respect to a principal residence and one other residence of the taxpayer. A taxpayer who itemizes deductions may deduct interest payments on up to $1 million in acquisition indebtedness (for acquiring, constructing, or substantially improving a residence), and up to $100,000 in home-equity indebtedness. Under the alternative minimum tax (AMT), however, the deduction for home equity indebtedness is disallowed.




*Data: Year-Over-Year Growth, 12-Quarter Moving Average*

America's housing market is most closely tied to the health of the national economy. **By improving the overall economy, this Blueprint promotes a thriving housing market.**

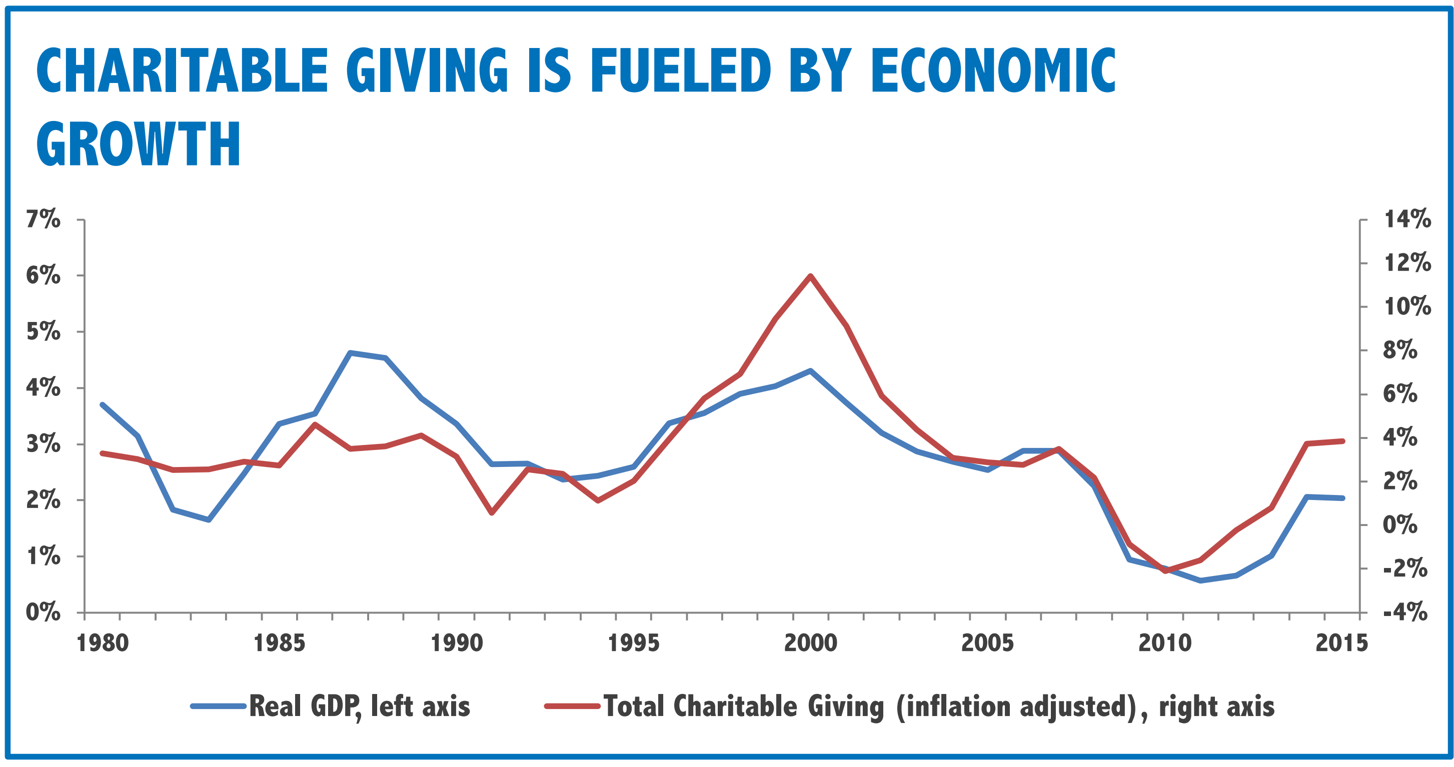
This Blueprint will preserve a mortgage interest deduction for homeowners. The Committee on Ways and Means will evaluate options for making the current-law mortgage interest provision a more effective and efficient incentive for helping families achieve the dream of homeownership. For those taxpayers who continue to itemize deductions, no existing mortgage will be affected by any changes in the tax code. Similarly, no changes will affect re-financings of existing mortgages. But just as importantly, because of the other provisions included in the new tax system, far fewer taxpayers will choose to itemize deductions, with the vast majority of taxpayers finding they are better off by taking advantage of the larger, simpler standard deduction instead.

***Charitable giving***

Americans are generous people who want to help their neighbors in need. For this reason, this Blueprint encourages charitable giving through a tax incentive.

Today, a taxpayer may claim an itemized deduction for charitable contributions. Because a taxpayer must itemize to claim a charitable deduction, however, only about 25 percent of taxpayers benefit from the current charitable contribution deduction. Moreover, historical data show that the total amount of charitable giving is tied more closely to the health of the overall economy than to any specific tax policies that might be in place. The best way to promote charitable giving to the organizations doing so much good in communities across the country is to improve the overall health of the American economy, which is precisely what this Blueprint will achieve.[25]

# CHARITABLE GIVING IS FUELED BY ECONOMIC GROWTH




*Data: Year-Over-Year Growth in Real GDP and Real Charitable Giving, Five-Year Moving Average*

Experts and advocates for charitable organizations have presented many policies over the years for reforming the deduction for charitable contributions to make it more effective and efficient. The Committee on Ways and Means will develop options to ensure the tax code continues to encourage donations, while simplifying compliance and record-keeping and making the tax benefit effective and efficient.

***Retirement Savings***

Today, individuals may contribute to Individual Retirement Accounts (IRAs), including traditional IRAs and Roth IRAs, subject to a variety of rules providing for contribution limits and income phase-outs. Individuals who are covered by a 401(k) or another employer-based retirement plan may have options for traditional accounts or Roth accounts within the plan. These accounts are subject to maximum elective contribution amounts.

The Committee on Ways and Means will explore the creation of more general savings vehicles, using as a model the retirement accounts that have proven so successful. Universal Savings Accounts have been proposed by many people over the years as a way to eliminate the double taxation of savings and investment for families, most recently by Rep. Dave Brat of Virginia (H.R. 4094). These are accounts to which individuals could contribute cash and over which they would have full control of investment decisions. Account holders could withdraw both contributions and earnings at any time, and for any reason, without penalty.

This Blueprint will continue the current tax incentives for savings. The Committee on Ways and Means will work to consolidate and reform the multiple different retirement savings provisions in the current tax code to provide effective and efficient incentives for savings and investment.

***Other Provisions Affecting Individuals***

Numerous other exemptions, deductions, and credits for individuals riddle the tax code, making it less fair for those who cannot take advantage of such provisions and more complicated for everyone. These special-interest provisions require

higher tax rates to compensate for the lost revenue, thus raising taxes on others and hurting the economy by reducing the incentives to work, save, and invest. This Blueprint will repeal these special-interest provisions to make the system simpler, fairer, and flatter for all families and individuals.

### *Estate and Generation-Skipping Transfer Taxes*

Under current law, the estate tax applies under specified circumstances to transfers of wealth when a person dies. An additional tax may apply to generation-skipping transfers, which generally involve a person making a gift that skips one or more generations – for example a gift from a grandfather to a grandchild or great grandchild.

This Blueprint will repeal the estate and generation-skipping transfer taxes. This will eliminate the Death Tax, which can result in double, and potentially even triple, taxation on small businesses and family farms.

## Competitiveness and Growth for All Job Creators

### *Highlights*

This Blueprint will bring historic reductions in the tax rates for businesses of all sizes and greater parity in the tax treatment of all businesses regardless of size or legal form. Instead of having some of the highest tax rates on entrepreneurship and business activity in the world, the United States will leapfrog many of its trading partners and offer globally competitive rates.

Today, businesses that invest to create jobs and grow their operations cannot recover the full present value of the capital investments they make, which means they effectively are taxed on funds they reinvest in the business. This stifles their ability to invest and grow, adversely affecting their contribution to American job creation and the growth of the American economy. This Blueprint will, for the first time ever, provide all businesses with the benefit of full and immediate write-offs of their investments in both tangible and intangible assets. This approach to cost recovery is equivalent to a 0 percent marginal effective tax rate on new investment. The new tax system will be a move toward taxation based on business cash flow.

The combination of the dramatic reduction in business tax rates and the effective elimination of current tax on business investments will mean a tax system that drives growth – growth of jobs, growth of American workers' paychecks, and growth of the American economy.

### *Tax Rate Structure for Small Businesses*

Today, 95 percent of businesses in the United States are operated as sole proprietorships or pass-through entities such as partnerships, limited liability companies (which are taxed in the same manner as partnerships), and S corporations. Moreover, more than 50 percent of business income in the United States is earned through sole proprietorships or pass-through entities.

Business income earned through a sole proprietorship or a pass-through entity today is reported by the owner or owners of the business on their individual tax returns and is taxed at an income tax rate as high as 44.6 percent.

This Blueprint will limit the tax rate that applies to small business and pass-through income to the 25 percent bracket. In other words, the 33 percent bracket will not apply to the active business income of sole proprietorships and pass-through entities. This represents the lowest top tax rate on the income of such businesses since before World War II.

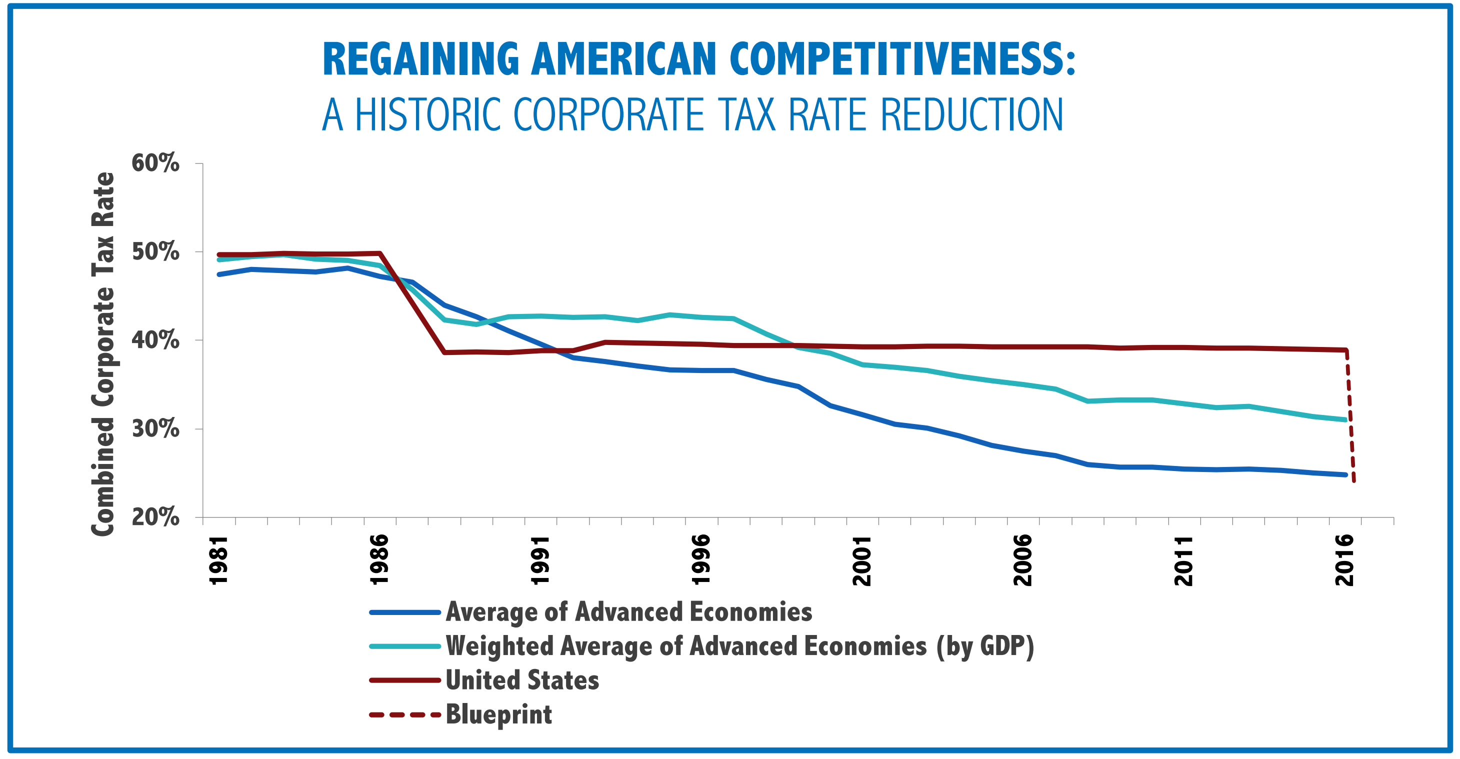
Under this new approach for taxing small businesses, sole proprietorships and pass-through businesses will pay or be treated as having paid reasonable compensation to their owner-operators. Such compensation will be deductible by the business and will be subject to tax at the graduated rates for families and individuals. The compensation that is taxed at the lowest individual tax bracket rate of 12 percent effectively will further reduce the total income tax burden on these small businesses and pass-through entities.

Two significant reforms with respect to the taxation of families and individuals that are discussed above will be critically important to the tax treatment of small businesses. With the elimination of the individual AMT, these businesses will no longer be burdened by the cost and complexity of this second tax system. In addition, the elimination of the estate and generation-skipping transfer taxes will allow family-owned businesses to transition smoothly from generation to generation, without the burden of the estate tax that today can leave grieving families with no choice but to liquidate the family business to satisfy the estate tax obligation owed to the government upon the death of their loved one. And, during the small business owner's life, the elimination of these taxes will save him or her from having to divert scarce capital to hire accountants and lawyers to ensure that the business survives to the next generation.

As discussed in more detail below, under this Blueprint, both small businesses organized as sole proprietorships or pass-through entities and larger businesses organized as C corporations will benefit from the approach that focuses on business cash flow and provides the benefit of the full and immediate write-off of business investments in tangible and intangible assets.

***Tax Rate Structure for Large Businesses***

Today, businesses operated through C corporations are subject to corporate tax at a statutory rate of 35 percent. The Tax Reform Act of 1986 reduced the top corporate tax rate from 46 percent to 34 percent. The corporate tax rate was increased to 35 percent several years later and has remained there ever since. This stands in stark contrast to what our major trading partners have done over the past 30 years. In 1986, when the United States enacted tax reform that significantly reduced the top U.S. corporate tax rate, the average corporate tax rate in the other OECD countries was 47.2 percent. Today, that average has dropped to 24.8 percent while the U.S. corporate tax rate remains at 35 percent.




*Note: Chart reflects the Federal and average State tax Rates; Advanced Economies denotes members of Organisation for Economic Co-operation and Development.*

In addition, income earned through a C corporation today is subject to double taxation, with a second layer of tax imposed on such income at the shareholder level through the individual tax on dividends and capital gains recognized on disposition of corporate shares. At the top effective individual tax rate applicable to dividends and capital gains, this yields a total tax burden on the earnings of C corporations that exceeds 50 percent today.

Finally, corporations today face the added burden of the corporate alternative minimum tax (AMT), which requires a second, separate tax calculation. The corporate AMT is imposed at a rate of 20 percent and generally applies above an exemption amount of $40,000, with an exemption for certain small corporations. The tax base for the corporate AMT reflects the effective add-back of many business tax deductions that are allowed for regular tax purposes but not AMT purposes. Corporations are required to pay the higher of the regular tax and the AMT and receive a credit for AMT paid that is carried forward to be applied to offset regular tax in future years.

This Blueprint will lower the corporate tax rate to a flat rate of 20 percent. This represents the largest corporate tax rate cut in U.S. history. The Tax Reform Act of 1986 reduced the corporate tax rate by 26 percent (12 percentage points). This Blueprint will reduce the corporate tax rate by 43 percent (15 percentage points). Economists at the OECD and elsewhere have identified the corporate income tax as the most harmful of all forms of taxation in terms of the adverse effect on growth. This dramatic reduction in the corporate tax rate will mean a dramatic reduction in the drag on American economic growth that results from the corporate income tax. (For further discussion, see the Appendix.)

At the same time, the effective double taxation of corporate income will be reduced through the reduction in the tax on dividends and capital gains of individual shareholders. As discussed above, individuals will be taxed at just half the regular individual tax rate on both dividends paid on corporate shares and capital gains recognized on dispositions of corporate shares.

In addition, this Blueprint will repeal the corporate alternative minimum tax (AMT). Like the individual AMT, the corporate AMT imposes burdens in the form of both direct tax costs and the cost of complexity. In its 2001 tax simplification report, the Joint Committee on Taxation concluded that the AMT "no longer serves the purposes for which it was intended" and recommended its repeal. The Blueprint follows that recommendation, putting an end to the unnecessary burdens of the corporate AMT.

***Benefit of Immediate Write-off of Business Investments***

Today, job creators face a complex array of schedules and systems of cost recovery for their investments in tangible and intangible assets to maintain and grow their operations. For each asset, they must determine the period over which the asset may be depreciated or amortized and the method that must be used to determine the annual allowance with respect to the asset. For many assets, the cost must be spread over many years for tax purposes. This means that businesses are taxed today on the earnings they reinvest in growing their operations and can recover the cost of that investment only many years later.

Current depreciation rules imperfectly measure the actual decline in the value of the asset in comparison to economic depreciation. The result effectively is different tax rates on different forms of investment, which distorts the allocation across asset classes. Today's cost recovery rules also fail to take into account inflation. This means that investors do not recover the full value of their investments, because inflation erodes the value of their deductions over time.

This Blueprint will provide businesses with the benefit of fully and immediately writing off (or "expensing") the cost of investments. This represents a 0 percent marginal effective tax rate on new investment. Elimination of the tax on business investment as a means to drive growth is the centerpiece of the legislation introduced by Rep. Devin Nunes of California, the American Business Competitiveness Act (H.R. 4377), which would introduce a business cash-flow tax.

This system of immediate cost recovery will apply to both investments in tangible property (such as equipment and buildings) and intangible assets (such as intellectual property). It will not apply to land.

**CURRENT TAX CODE** | **TAX REFORM BLUEPRINT**

When American job creators buy new equipment, they face confusing depreciation rules, which lead businesses to write off purchases over time. **This Blueprint allows job creators to immediately write off the full cost of new equipment in the first year (instead of five years under the current law) freeing up tax dollars to invest back into their business.**

### *Other Business Deductions and Credits*

Under this Blueprint, job creators will be allowed to deduct interest expense against any interest income, but no current deduction will be allowed for net interest expense. Any net interest expense may be carried forward indefinitely and allowed as a deduction against net interest income in future years.

The benefit of immediate expensing of business investment operates as a more beneficial and more neutral substitute for the deduction of interest expense associated with debt incurred to finance such investment. Allowing investments to be immediately written off provides a greater incentive to invest than is provided through interest deductions under current law; allowing both together would be distortive as it would result in a tax subsidy for debt-financed investment.

The elimination of deductions for net interest helps to equalize the tax treatment of different types of financing and reduces tax-induced distortions in investment financing decisions.  Providing neutrality takes the tax code out of marginal business decisions, letting market forces more efficiently allocate investment where it is most productive. It also eliminates a tax-based incentive for businesses to increase their debt load beyond the amount dictated by normal business conditions. A business sector that is leveraged beyond what is economically rational is more risky than a business sector with a more efficient debt-to-equity composition.

The Committee on Ways and Means will work to develop special rules with respect to interest expense for financial services companies, such as banks, insurance, and leasing, that will take into account the role of interest income and interest expense in their business models.

Net operating losses (NOLs) will be allowed to be carried forward indefinitely and will be increased by an interest factor that compensates for inflation and a real return on capital to maintain the value of amounts that are carried forward. Carrybacks of net operating losses will not be permitted and the deduction allowed with respect to an NOL carryforward in any year will be limited to 90 percent of the net taxable amount for such year determined without regard to the carryforward.

With respect to inventory, the Blueprint will preserve the last-in-first-out (LIFO) method of accounting. The Committee on Ways and Means will continue to evaluate options for making the treatment of inventory more effective and efficient in the context of this new tax system.

Today, the tax code is littered with special-interest deductions and credits that are designed to encourage particular business activity. These provisions create incentives for businesses to make decisions because of the tax consequences rather than because of the underlying economics. This tax-motivated shifting of resources causes a misallocation of productive capital and therefore slows economic growth. These special-interest provisions are a source of both complexity and controversy. Moreover, the proliferation of such provisions adversely affects the public's confidence in the fairness of the tax system as they can contribute to taxpayers' believing that everyone but them is getting special tax breaks. Finally, the existence of special-interest provisions reduces revenue and therefore requires growth-stunting higher tax rates on businesses across the board.

This Blueprint generally will eliminate special-interest deductions and credits in favor of providing lower tax rates for all businesses and eliminating taxes on business investment. This will allow business decisions to be made based on the economic potential rather than the availability of targeted tax benefits. A tax code that is more neutral will be more efficient and will facilitate economic growth. This will put the decision-making for both small and large businesses right where it belongs – in the hands of the men and women who build the businesses that employ American workers and supply customers around the world, as they have the best vision for how to grow those businesses for the future.

For example, the domestic production ("section 199") deduction would no longer be necessary. Section 199 effectively provides a small rate reduction for income from certain specific activities, including domestic manufacturing, production, growing, and extraction. For corporations, the deduction effectively reduces the rate on such income from 35 percent to about 32 percent. For pass-through entities, the top rate is reduced from 39.6 percent to about 36 percent. But section 199 is highly complex, often frustrating both those businesses that fail to qualify as well as businesses that do qualify but only after navigating a substantial paperwork burden. By cutting the corporate rate to 20 percent, and by cutting the top rate on the active business income of pass-through entities to 25 percent, the Blueprint makes section 199 unnecessary.

This Blueprint will provide a business credit to encourage research and development (R&D). America is a country of innovators and risk takers and historically the United States has been a world leader in technological advances. Today, however, our trading partners are using tax benefits and other incentives to attract research activity to their countries. The work done by Congress last year to make the R&D credit permanent was an important step in ensuring the viability of the United States as a location for R&D activity. The Blueprint will include an R&D credit in similar form so that America will continue to be an attractive place to conduct research. The Committee on Ways and Means will evaluate options for making the R&D credit more effective and efficient.

## Pro-America Approach for Global Competitiveness

### *Highlights*

This Blueprint eliminates the existing self-imposed export penalty and import subsidy by moving to a destination-basis tax system. Under a destination-basis approach, tax jurisdiction follows the location of consumption rather than the location of production. This Blueprint achieves this by providing for border adjustments exempting exports and taxing imports, not through the addition of a new tax but within the context of the transformed business tax system. The Blueprint also ends the uncompetitive worldwide tax approach of the United States, replacing it with a territorial tax system that is consistent with the approach used by our major trading partners. These two fundamental structural changes in turn allow other important aspects of the international tax rules to be simplified and streamlined significantly.

Taken together, a 20 percent corporate rate, a switch to a territorial system, and border adjustments will cause the recent wave of inversions to come to a halt. American businesses invert for two reasons: to avail themselves of a jurisdiction with a lower rate, and to access "trapped cash" overseas. Those problems are solved by the lower corporate rate and the territorial system, respectively. In addition, border adjustments mean that it does not matter where a company is incorporated; sales to U.S. customers are taxed and sales to foreign customers are exempt, regardless of whether the taxpayer is foreign or domestic.

***Treatment of Cross-Border Sales, Services and Intangibles***

Today, all of our major trading partners raise a significant portion of their tax revenues through value-added taxes (VATs). These VATs include "border adjustability" as a key feature. This means that the tax is rebated when a product is exported to a foreign country and is imposed when a product is imported from a foreign country. These border adjustments reduce the costs borne by exported products and increase the costs borne by imported products. When the country is trading with another country that similarly imposes a border-adjustable VAT, the effects in both directions are offsetting and the tax costs borne by exports and imports are in relative balance. However, that balance does not exist when the trading partner is the United States. In the absence of border adjustments, exports from the United States implicitly bear the cost of the U.S. income tax while imports into the United States do not bear any U.S. income tax cost. This amounts to a self-imposed unilateral penalty on U.S. exports and a self-imposed unilateral subsidy for U.S. imports.

Because this Blueprint reflects a move toward a cash-flow tax approach for businesses, which reflects a consumption-based tax, the United States will be able to compete on a level playing field by applying border adjustments within the context of our transformed business and corporate tax system. For the first time ever, the United States will be able to counter the border adjustments that our trading partners apply in their VATs. The cash-flow based approach that will replace our current income-based approach for taxing both corporate and non-corporate businesses will be applied on a destination basis. This means that products, services and intangibles that are exported outside the United States will not be subject to U.S. tax regardless of where they are produced. It also means that products, services and intangibles that are imported into the United States will be subject to U.S. tax regardless of where they are produced. This will eliminate the incentives created by our current tax system to move or locate operations outside the United States. It also will allow U.S. products, services, and intangibles to compete on a more equal footing in both the U.S. market and the global market.

The rules of the World Trade Organization (WTO) include longstanding provisions regarding the use of border adjustments. Under these rules, border adjustments upon export are permitted with respect to consumption-based taxes, which are referred to as indirect taxes. However, under these rules, border adjustments upon export are not permitted with respect to income taxes, which are referred to as direct taxes. This disparate treatment of different tax systems is what has created the historic imbalance between the United States, which has relied on an income tax – or direct tax in WTO parlance – for taxing business transactions, and our trading partners, which rely to a significant extent on a VAT – or indirect tax in WTO parlance – for taxing business transactions. Under WTO rules, the United States has been precluded from applying the border adjustments to U.S. exports and imports necessary to balance the treatment applied by our trading partners to their exports and imports. With this Blueprint's move toward a consumption-based tax approach, in the form of a cash-flow focused approach for taxing business income, the United States now has the opportunity to incorporate border adjustments in the new tax system consistent with the WTO rules regarding indirect taxes.

***Territorial Taxation of Global American Companies***

This Blueprint will replace the existing outdated worldwide tax system with a 100-percent exemption for dividends from foreign subsidiaries. This will allow American-based companies to compete in global markets on an equal footing. It also will eliminate the "lock-out effect" of current law, allowing American-based companies to bring home their foreign earnings to be reinvested in United States without additional tax cost.

The existing U.S. international tax regime has led to trillions of dollars in foreign earnings of American-based companies being "stranded" overseas because the tax rules discourage companies from bringing those earnings back to reinvest at home. As part of the move to the modern territorial approach to international taxation, this Blueprint will provide rules that will allow foreign earnings that have accumulated overseas under the old system to be brought home. Accumulated foreign earnings will be subject to tax at 8.75 percent to the extent held in cash or cash equivalents and otherwise will be subject to tax at 3.5 percent (with companies able to pay the resulting tax liability over an eight-year period). This will free up the more than $2 trillion in foreign earnings that have been locked out of the United States by the current tax rules. And no such build-up

will occur under the international tax rules provided in this Blueprint, as businesses will be free to bring home their foreign earnings to be invested to create American jobs and grow their U.S. operations.

***Simplification of International Tax Rules***

The destination-based, territorial approach for international taxation reflected in this Blueprint will allow the subpart F rules of the current international tax regime, which are some of the most complex rules in the tax code, to be significantly streamlined and simplified. These rules were designed in the 1960s to police our worldwide system of international taxation. However, they impose restrictions and burdens on American-based companies that further impair their competitiveness in today's highly integrated global economy.

A key component of these rules, the so-called foreign base company income rules, creates traps for the unwary and effectively drives American companies to pay higher foreign taxes. Because this Blueprint adopts a destination-based approach for cross-border transactions that levels the playing field and eliminates the tax incentives for moving jobs and profits offshore in the first place, there no longer is a need for this web of archaic technical rules. Under the Blueprint, the bulk of the subpart F rules, which were designed to counter tax incentives to locate overseas, will be eliminated because there no longer will be any tax incentive to locate outside the United States. Businesses will be able to make location decisions based on the economic opportunities, not the tax consequences. Only the so-called foreign personal holding company rules, which counter the potential for truly passive income to be shifted to low-tax jurisdictions, will continue to play a role in addressing potential abuse and will be retained under this Blueprint.

In addition to these important reforms that will create a modern international tax system for businesses, the Committee on Ways and Means will consider the appropriate treatment of individuals living and working abroad in today's globally integrated economy.

## A New IRS for the 21st Century

***A New Tax Administrator for a New Tax Code***

An integral element of this Blueprint will be to rebuild the IRS into a modern and efficient 21st century administrator of the nation's tax system. The new IRS will have a streamlined structure aligned with the simpler and fairer tax system for families and individuals and businesses of all sizes.

*Streamlined Taxpayer Service Agency*

With a dramatically simpler tax code, the Blueprint will create a new streamlined IRS dedicated to delivering world-class customer service. The new IRS will be centered on three major units: families and individuals, businesses, and an independent "small claims court" unit.

- The **families and individuals** unit will focus on providing state of the art customer service so that taxpayers can get efficient help and answers to their tax questions.
- The **business** unit will focus on administering the new tax code for businesses of all sizes and types, including specialists with expertise on the issues facing start-up entrepreneurs and small businesses and specialists with expertise on the issues facing large domestic companies and American-based global corporations.
- The **"small claims court"** unit will be independent of the new IRS. This will allow routine disputes to be resolved more quickly, so that small businesses no longer spend more in legal fees to resolve a dispute with the IRS than the amount of tax that was at stake.

Together, these three units will be the core of the new IRS's commitment to *Service First.* Each will have an efficient and accountable workforce specially trained to handle matters relevant to taxpayers in their particular area of responsibility. And

each of these units will have access to a modern taxpayer records system and internal communications that are secure and comply with record-retention requirements.

The new IRS will be headed by a newly appointed Administrator whose sole objective will be to manage the agency and administer the new tax code in an impartial, non-political manner for the benefit of American taxpayers. The Administrator will be appointed by the President with the advice and consent of the U.S. Senate and will have a term of three years. The President may reappoint the Administrator only once, which will ensure new management perspectives and prevent entrenchment of bureaucrats.

The new IRS will have a team of legal professionals dedicated to providing guidance and other information so taxpayers can apply the new tax code to the particular circumstances of their lives and businesses. While much of the current-law complexity can be eliminated under the new simpler, fairer, flatter code, questions will certainly arise about how the new rules apply in certain cases, especially as the economy continues to develop new business models. The new IRS will be prepared to provide that guidance in a thorough and timely fashion.

*A Service First Mission*

The new IRS will have a singular mission: Service First. Taxpayers will be able to count on an agency that will administer the nation's tax laws in a fair, consistent, and efficient manner while recognizing that Americans pay their taxes voluntarily and that their tax dollars fund the Federal government. To that end, all employees of the new IRS will be held accountable to the Taxpayer Bill of Rights, which includes the right of all taxpayers to:

- Be informed;
- Quality service;
- Pay no more than the correct amount of tax;
- Challenge the position of the IRS and be heard;
- Appeal a decision of the IRS in an independent forum;
- Finality;
- Privacy;
- Confidentiality;
- Retain representation; and
- A fair and just tax system.

By respecting these rights, the new IRS will perform its role without undue burdens and interference in the lives of American families, workers, and business owners.

*Commitment to Taxpayer Assistance:*

The new IRS will have modern and effective information systems that reflect the Service First mission. The agency must have options for taxpayers to communicate with the new IRS in an easy and efficient manner tailored to the taxpayer, not a one-size-fits-all approach. This will include easily accessible online resources for all taxpayers as well as printed information for those who prefer it. In addition, modern and secure systems will be needed to process the new simplified tax returns and maintain taxpayer account records in accordance with Federal law – all with the priority of protecting taxpayer privacy and ensuring information security.

### ***An Efficient and Effective Use of Taxpayer Resources***

Administering the nation's tax laws can be done in a fair, efficient, and effective manner that respects the hard-earned taxpayer dollars used to finance it. In addition to the streamlined service units, modernized dispute resolution resources, and the workforce and information systems focused on taxpayer service, the Blueprint will implement several other

improvements with the new IRS. First, the ineffective and inefficient Oversight Board will be eliminated, and those resources will dedicated to the *Service First* mission. Second, the new tax code will ensure that the agency does not have to waste time and energy directing unrelated government policy objectives embodied in complex special-interest deductions and credits. Finally, the simpler, fairer, flatter tax code will enable the new IRS to eliminate thousands of pages of regulations and guidance, and myriad forms, schedules, worksheets, and instructions that will no longer needed.

As the new tax code will be designed to foster economic growth and endure for years to come, the new IRS must do the same. The new agency must be forward looking and must continually adapt to the ever changing economy. And, by adhering to the core principle of *Service First*, the new IRS will be able to administer the new tax code efficiently and effectively without becoming a ubiquitous fixture in the lives of Americans.

## 6. THE PATH FORWARD

After the release of this Blueprint, the Committee on Ways and Means will turn its attention to the work of building the tax reform legislation that will encapsulate the policies and provisions reflected in the Blueprint. The legislation that the Committee will develop will be ready for legislative action in 2017.

### Consultation

As the Committee on Ways and Means drafts this tax reform legislation, it will have an ongoing dialogue with stakeholders – including families, workers, and job creators. The Committee welcomes and encourages robust comments on this Blueprint because it understands that tax reform will touch the lives of all Americans. These comments will affect our final legislation and determine the final product. Detailed information and feedback about the practical effects of the concepts reflected in the Blueprint will be invaluable in the process of transforming the Blueprint into legislation that will build a pro-growth, 21st century tax code.

### Transition

The Blueprint lays out the vision for a new tax system that is built for growth. As with any changes to the tax code, especially changes of the magnitude of the reforms set forth in this Blueprint, a smooth transition from the current system to the new system will be necessary. The Committee on Ways and Means will craft clear rules to serve as an appropriate bridge from the current tax system to the new system, with particular attention given to comments received from stakeholders on this important matter.

### Going Bolder

Building from this Blueprint, the Committee on Ways and Means is committed to continuing to explore and develop bold ideas for tax reform that will best accomplish the objectives of creating jobs, growing the economy and raising wages. The Blueprint identifies many ideas for tax system improvements that Members of Congress have devoted time and resources to develop and advance. These ideas have contributed to the vision reflected in the Blueprint. And the tax ideas of the Members of the House Republican Conference will be considered carefully as the Committee works on development of the bold legislation that will be built from the Blueprint.

In developing the legislation that will create a 21st century tax code, the Committee will consider all ideas and is committed to ensuring that the new tax code will encourage job growth and opportunity for all Americans.

# APPENDIX: TAX REFORM CONCEPTS AND ECONOMIC GROWTH

## Broaden the Base and Lower the Rates

One major goal of tax reform is to make the code simpler, fairer, and flatter. When carve-outs and loopholes are built into the tax code, they increase complexity, undermine the principle of fairness, and create economic distortions that draw resources away from more productive uses and therefore reduce economic growth. Additionally, carve-outs reduce tax revenue. This, in turn, typically requires increases in marginal tax rates to make up for lost revenue – which further discourages economic activity. In particular, because the current individual tax schedule applies to both workers and pass-through businesses, increased marginal rates discourage work, job creation, savings, and investment. Reversing these effects requires reform that broadens the tax base and lowers tax rates.

Evidence for the pro-growth nature of these reforms is well established. Even the conservative estimates by the Joint Committee on Taxation (JCT) demonstrate significant benefits of base broadening and rate reduction. For example, in 2005, the JCT simulated a proposal that would greatly expand the tax base while lowering individual tax rates across the board by about 25 percent.[26] Using a variety of models and assumptions, the JCT found that this proposal would increase GDP between 1.1 percent and 1.9 percent in the second half of the budget window and up to 3.5 percent in the long run. That increase in growth in the second half of the budget window, implies a $2,500 to $5,000 increase in income for a family of four. Further, using the Congressional Budget Office's (CBO) revenue rule of thumb, the growth from this proposal could be expected to generate between $300 billion and $800 billion in new revenues. In addition to faster economic growth, the JCT found that the policy would significantly increase the non-residential capital stock and private-sector employment.

However, a new and growing literature featured in the most prominent academic journals, summarized by Kevin Hassett, finds even more substantial growth effects of tax changes of this sort.[27] Summarizing the work of numerous authors studying the historical relationship between taxes and growth in multiple countries, Hassett finds a consistent pattern: Tax decreases of 1 percent of GDP will raise output by as much as 3 percent over 10 quarters. These large short-run effects imply large long-run effects. As Hassett explains: "the estimates suggest that the growth rate of output following a tax cut increases relative to what it would have been in the absence of the tax shock—and these elevated growth rates are not fully offset by output developments in later time periods. Thus, there is a permanent effect on the level of output, just as the tax models would suggest."[28] In other words, an increase in GDP induced by supply-side factors, even if it does not improve growth rates thereafter, will yield large growth effects in the long run as baseline rates of growth accumulate off of a higher base.

Hassett also identifies significant improvements in the theoretical and empirical understanding of the relationship between taxes and the labor supply.[29] These improvements further support the growth argument for rate-reducing reforms. This is borne out by model simulations that account for this larger labor response. For example, DeBacker et al. (2015) simulated a 10-percent across-the-board reduction in individual tax rates and found an immediate increase in GDP of 1.6 percent (reflecting the strong labor supply response) as well as a long run increase in GDP of about 1.5 percent - not to mention substantial gains in investment, employment, and wages.[30] This estimate can be viewed as a likely upper bound estimate for the positive growth effects of individual rate cuts of that magnitude.

## An Internationally Competitive Corporate Tax System

The United States has the highest corporate tax rate in the industrialized world. Given the fact that the United States operates in a global economy in which capital is highly mobile across countries, having the highest corporate tax in the developed world is a recipe for slower growth, weaker investment, and reduced innovation. A high corporate tax rate discourages foreign businesses from locating and investing in the United States and puts U.S. firms at a competitive disadvantage with the rest of the world. For these reasons, the OECD states that the corporate tax is the most economically harmful type of tax.[31]

In addition to making U.S. firms less competitive than their foreign counterparts, the corporate income tax is also a hidden tax on consumers and workers. Part of this has to do with the fact that capital is mobile and labor is relatively immobile. When the corporate tax causes capital to flee the United States in order to seek a better rate of return in a more lightly taxed jurisdiction, workers in the United States have less capital to work with and are less productive. Over time, this slows productivity growth and therefore reduces wages. Moreover, when capital flees it tends to take jobs with it. And those are just the direct effects – there are indirect effects as well. Although businesses do indeed pay taxes (and a lot of them) they are generally able to recover those costs by passing them on to consumers through higher prices and on to their employees through lower wages. These effects are so well known that the JCT, the CBO, and the Treasury Department all incorporate them in some form in their analyses. The JCT, the CBO, and the Treasury Department all conservatively assume that about 25 percent of the burden of corporate taxes is borne by labor.[32] However, other academic literature finds even higher burdens on labor. For example, one study by the CBO finds that domestic labor bears 70 percent of the burden of the corporate tax.[33] Other research by Hassett and Mathur finds that a 1 percent increase in corporate taxation reduces wages by half a percent.[34] And these effects are only going to grow because the more mobile capital becomes, the more labor will bear the burden.

Therefore, lowering the corporate tax rate would have significant economic benefits – faster growth and higher employment, investment, productivity, and wages. One particularly noteworthy example of the benefits of reform comes from a 2013 National Bureau of Economic Research (NBER) paper that simulated the repeal of the entire corporate income tax.[35] Unlike many attempts by other economists before them, these economists made an attempt to model the rest of the world in such a way that they could accurately depict how capital would flow into the United States as a result of corporate tax repeal. According to one of the authors, "fully eliminating the corporate income tax and replacing any loss in revenues with somewhat higher personal income tax rates leads to a huge short-run inflow of capital, raising the United States' capital stock (machines and buildings) by 23 percent, output by 8 percent, and the real wages of unskilled and skilled workers by 12 percent."[36] Under this scenario, repealing the corporate income tax would generate so much new economic activity in the United States that it would finance a third of the revenue lost by repealing the corporate tax. (For perspective, the CBO projects that the corporate tax will raise $4 trillion in revenue over the next decade).[37] Although repealing the corporate income tax is clearly a pro-growth policy, simply lowering the rate to get closer to the international average would increase U.S. competitiveness and have similar economic benefits (albeit of a lower magnitude). Moreover, because U.S. rates are so high relative to our international competitors, the room for growth is significant.

### Minimizing the Taxation of Savings and Investment: Proposals Reflecting a Consumption Base

Consumption-based tax systems are widely regarded to be more pro-growth than income-based tax systems. The reason has to do with the treatment of the return to saving. Whereas a consumption tax is neutral to saving (by excluding capital income from the tax base), an income tax actively penalizes saving (by including capital income in the tax base). As a result, income-based systems discourage savings and investment which means slower capital accumulation, lower productivity, and therefore slower economic growth. One way to get at this issue is to move toward a consumption-based system or to adopt one entirely. There is substantial empirical evidence that moving to or toward a consumption-based tax would have significant economic benefits.

For example, in 2001 a group of highly respected economists simulated five different tax reforms, including a proportional income tax, a proportional consumption tax, and a so-called "X Tax."[38,39] Each of these reforms broadened the tax base and lowered rates while moving toward (or to) a consumption-based system by including features such as the full-expensing of investment. The authors found substantial economic benefits in the short run and long run. These reforms would increase economic output by about 3 percent to 6 percent over the budget window and by 6 percent to 9 percent in the long run. Gains this large could supply roughly $1 trillion to $2 trillion in extra revenue for deficit reduction within the budget window and would lead to substantial gains in GDP per capita. For example, under the consumption tax example, if applied to the current economic baseline, income for a family of four could be up to $16,500 higher after 10 years.

In 2005, economists at the Treasury Department simulated two deficit-neutral and distributionally-neutral proposals of interest: a Progressive Consumption Tax (X Tax) and the Growth and Investment Tax (GIT). The X Tax would couple a progressive wage tax with a business cash flow tax set at the highest marginal rate of 35 percent. The GIT would build on that approach by layering on a flat capital income tax of 15 percent that would allow the top marginal rate to fall to 30 percent. Using macroeconomic models similar to those in use at the CBO and the JCT today, the Treasury economists found that the X Tax would increase economic output by as much as 2.3 percent within the budget window and 6 percent in the long run. They also found that the GIT would increase output by as much as 1.9 percent within the budget window and by 4.8 percent in the long run.[40] The authors of this study noted that their models could have even understated growth effects because some or all of the models do not capture the benefits of the reduced cost of compliance from a simpler tax system, efficiency gains from reducing debt and equity distortions, better allocation of capital across sectors, and an improved allocation of capital across different types of assets.

Building off of these efforts, in 2007, economists Diamond and Zodrow modeled a flat consumption tax and a stylized GIT. Diamond and Zodrow found that the flat tax would increase GDP by about 4 percent within the budget window and by up to 4.9 percent in the long run. Meanwhile, the stylized GIT would increase GDP by around 3 percent in the budget window and by 3.9 percent in the long run.[41] Diamond and Zodrow found that these reforms would significantly increase employment, investment, and pre-tax wages.

The examples above show the effects of significant steps toward consumption-based systems as well as the growth effects of moving to a pure consumption tax. However, there are other reforms that can be very pro-growth – namely adopting full expensing of depreciable property.

Full expensing would allow businesses to deduct the full cost of any new investment immediately. In other words, full expensing would levy a 0 percent marginal effective tax rate on eligible investment. If the treatment of the returns on saving is the key difference between an income and consumption base, as established above, then exempting a significant amount of investment income from the tax base via full-expensing would be a significant step toward a consumption-based system.

Many analysts believe that full expensing offers more "bang for the buck" with respect to government revenues and economic growth than any other policy – even a reduction in the corporate tax rate. The reason this can be true is that full expensing applies only to new investment, whereas a reduction in rates would benefit both new and old capital. In other words, expensing is a more targeted pro-investment provision. At the high end, some estimates show that enacting full expensing could increase long-run GDP by 5 percent in addition to increasing the capital stock, employment, and wages.[42]

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