

LEVELING THE PLAYING FIELD: THE EFFECT OF THE TAX CODE ON INEQUITY

Presented at

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Submitted by

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Introduction

Chairman Roskam, Ranking Member Doggett, and members of the subcommittee, thank you for inviting me to appear this morning on behalf of UnidosUS (formerly National Council of La Raza). For over twenty years I have worked on anti-poverty and economic security issues on behalf of the Latino community, and I am pleased to be here today to share our concerns about the direction of current tax reform proposals being debated in Congress. Individual tax reform can raise the incomes of working class American families while delivering economic growth, but only if lawmakers are intentional about centering the benefits of reforms on middle-class and working families and individuals. Congressional tax reform comes once in a generation. Since the last Congressional tax reform in 1986, the Latino community has grown to more than 56 million people across the nation and is now over 17% of the US population. The tax code has had significant implications on the economic security and mobility of Latino workers during that time. A Congressional tax rewrite today stands to impact the economic and wealth opportunities for millions of Latinos well into the future.

UnidosUS is the largest national Hispanic civil rights and advocacy organization in the United States, an institution recognized in the book *Forces for Good* as one of the highest-impact nonprofits in the nation. We represent nearly 300 Affiliates – local, community-based organizations in 41 states, the District of Columbia, and Puerto Rico – that provide education, healthcare, housing, workforce development, free tax preparation, and other services to millions of citizens and immigrants in the U.S., annually.

UnidosUS has a long history of anti-poverty work and advocacy for a fair and equitable federal income tax system. For more than two decades, UnidosUS has actively engaged in public policy issues such as preserving and expanding the Earned Income Tax Credit (EITC) and Child Tax Credit (CTC), fighting to ensure all individuals who pay their fair share of taxes have access to crucial tax credits that they have earned and are eligible for, and working to reorient the tax code's wealth building subsidies around homeownership, higher education, and retirement so that they can benefit more middle-class and working families, as well as communities of color.

Advancing equity within federal tax policy is crucial for all Americans, including hard-working middle-class and working Latinos raising children. The Latino community has the highest labor force participation rate in the country (66 percent) but many still struggle to make ends meet:

- The Latino poverty rate remains the second highest when compared to other racial or ethnic groups. In 2015, 21.4 percent of Latinos lived in poverty compared to 13.5 percent nationally.ⁱ
- Latinos had one of the lowest median household incomes in 2015. While non-Hispanic Whites enjoyed a median household income of \$62,950 that year, Latinos only earned \$45,148.ⁱⁱ
- In 2013, the average Latino family had just \$1 for every \$10 the average White family held in wealth.ⁱⁱⁱ

The purpose of the federal income tax system is to collect necessary revenue to fund important public goods and services. Public funding for national defense, veteran's services, homeland security, health care, K-12 public education, transportation and infrastructure, social safety net protections, food safety and environmental protection, and workforce retraining are all important investments and services that taxpayers benefit from.

Over time the federal income tax system has also evolved to incentivize economic and social behavior among taxpayers. For instance, through the tax code, the government spends close to \$700 billion in “tax expenditures” – targeted deductions, exemptions, credits, preferential tax rates, and other tax breaks – to subsidize wealth accumulation among taxpayers. Through the tax code, taxpayers are incentivized to buy homes, go to college, invest, and save for retirement.

Despite the important public and economic benefits to the individual income tax system, tax policies are not always fair and recent tax proposals tilt the playing field even further toward the wealthy and are cause for great concern. My testimony today will focus on the importance of the tax code to all middle-class and working Americans, including Latinos, our concerns with current tax proposals, and our principles for a tax reform that can benefit Americans from Main Street to Wall Street – equitably.

Latinos and the Tax Code

Latinos, a young, aspiring, and hardworking segment of the federal tax base, make up 17 percent of the current U.S. population, and by 2050 will account for one-third of the U.S. workforce, making the community an integral component of the nation’s economy. Latinos contribute in many ways to the economy – they work, they pay taxes, and participate in our economy as consumers. Latino contributions will continue to strengthen the national economy for decades to come, but only if the economic and tax playing fields are leveled. According to the Selig Center for Economic Growth, Hispanics in the US controlled \$1.3 trillion in buying power in 2015, an amount larger than the GDP of Australia.

UnidosUS has held onto this premise in serving our mission to create more opportunities for Latinos to participate in and contribute to the nation’s economy and wealth. For example, through the institution’s tax policy work, UnidosUS has fought to protect and strengthen the refundable tax credits for working families – the EITC and CTC – two powerful tools for alleviating poverty, building financial security, and boosting opportunity for working families. In 2015, UnidosUS mounted a tax campaign to help preserve key provisions in the EITC and CTC from expiring that year. By the end of the campaign, we successfully made permanent those key provisions that were at stake, and were able to help five million Latino families with nine million children keep an average of more than \$1,000 a year in their pockets.

We believe that taxpayers with similar income, who work, and pay similar amounts in taxes ought to be treated the same by our tax system. Part of the reason for an overly complex tax system is a desire by politicians to restrict tax benefits from certain classes of taxpayers, such as immigrants. For over a decade, UnidosUS has worked with Congress to stop politicians from using the tax code to punish immigrant families raising U.S. children. Millions of native-born American children with hard working immigrant parents are helped by the Child Tax Credit. We also believe that tax incentives for savings, home buying, making retirement contributions, and paying for higher education, should reach more middle-class and working families than it currently does.

Concerns with the President’s and House Republicans’ Tax Proposals

Tax proposals from President Trump and House Republicans make one thing clear: the wellbeing of middle-class and working families and individuals is not a priority. While the President promised on the campaign trail to dramatically improve opportunities for the working class in this country, we see signs that the wealthiest individuals and corporations will prosper at the expense of those same workers and their families. The tax cuts proposed by the Administration would be funded by

decimating budgets for programs that help workers maintain a basic standard of living, like nutrition assistance, housing assistance, public education, and health care. UnidosUS has three key concerns regarding tax proposals from President Trump and the House Republicans.

- ***The Trump administration has shown that it intends to pay for proposed tax breaks through budget cuts on programs that help Americans.*** The Trump tax plan would result in over \$5 trillion in lost revenues in the first decade^{iv}, and the House tax plan would lose \$3.1 trillion in revenues.^v But in the absence of credible ways to pay for these plans by limiting tax breaks or raising other revenues, the Administration's budget framework effectively pays for its tax breaks, at least in part, by cutting the budgets to crucial programs that support families struggling to make ends meet. The cuts would, for example:
 - Endanger families' health through unprecedented cuts to the Medicaid program and changes to its structure that end the program as we know it. Latinos make up 31% of those who rely on Medicaid for health care coverage.
 - Take food off kitchen tables across the country by slashing food stamps by 25%. This program helps working families, and those in between jobs, feed their families and reduce the risk of food insecurity. In 2015, SNAP provided nutrition assistance to 3.3 million Latinos, and kept 1.2 million Latinos out of poverty.
 - Eliminate funding for after school programs for low-income kids and reduces funding for higher education programs, including federal programs like GEARUP and TRIO that are aimed at helping low-income students prepare for and succeed in college. One-third of GEARUP participants and one-fifth of TRIO participants are Latino.

Lessons learned from the state of Kansas suggest that this type of tax reform does not work. In 2013, Kansas lawmakers passed a tax cut package that skewed toward the wealthy based on the premise that such reform would spur economic growth. Four years later, the economic growth that was promised never materialized. Instead, Kansas now has a budget deficit, with underfunded schools and pensions, and no money for infrastructure repairs or other public service projects.

If Congress and the administration want to improve economic opportunity and growth for Americans, they should pass comprehensive immigration reform, invest in infrastructure and workforce development, take into serious consideration constituents' fears about losing their healthcare and work to stabilize our healthcare system, and pass higher education reauthorization.

- ***Both the Trump and House tax proposals would accelerate the growing wealth divide.*** These tax plans would provide massive tax breaks to the wealthiest Americans and tilt the playing field even further in their direction at the expense of middle-class and working families.
 - Both the Trump and House tax proposals would end the estate tax, levied on only the wealthiest estates. In 2017, 99.8% of estates owe no estate tax at all because only estates worth more than \$5.49 million per person (\$10.98 million per couple) are required to pay the estate tax.^{vi} It is only the top 0.2% of wealthy estates that are required to pay, and who would benefit from the elimination of the estate tax.^{vii}

- Both the Trump and House tax proposals would also provide massive pass-through tax breaks to the wealthy. Beneficiaries of such tax breaks would include wealthy investors, hedge fund managers, bankers, executives, and lawyers – many of whom are millionaires.^{viii} A lower tax rate on pass-through business income like the one in the Trump plan would mean the 400 highest-income taxpayers would receive an average of roughly \$9 million in tax cuts in 2018.^{ix}

These proposals not only bypass hard-pressed working-class families and individuals but could ultimately worsen their financial wellbeing. The gains for the highest-income households would dwarf those of less-affluent families. Under Trump’s campaign tax proposal, people with incomes above \$1 million would get a tax cut averaging \$387,000 in 2025, raising their after-tax income by 14 percent.^x Conversely, those making between \$40,000 and \$50,000 would see their after-tax income rise by just 1 percent, or \$500, on average. The House GOP tax plan will also largely benefit the wealthy. Under the House plan, people with incomes above \$1 million would receive tax cuts averaging \$302,000 in 2025, raising their after-tax incomes by 11 percent.^{xi} People making between \$40,000 and \$50,000 would receive just \$120, on average, according to the House plan.^{xii}

Such ill-advised deficit driven tax cuts would very likely leave most middle-class and working families who are the driving force behind the U.S. economy *worse* off because the large tax cuts for the very wealthy would be paid for, at least in part, by cutting programs on which they and millions of other middle-class and working families rely on to maintain a basic standard of living or during particularly tough times.

- ***Both the Trump and the House tax plans propose changes that would take money directly out of the pockets of American workers and their families.*** The proposal to double the standard deduction for single filers and married taxpayers filing jointly would not provide any tax benefits to at least 17 million working families and individuals because they do not earn enough to owe federal income taxes, even though most pay significant payroll and other taxes.^{xiii} Trump’s tax plan also likely proposes to eliminate the head of household filing status and personal exemptions, which together could increase taxes for single parents.

Furthermore, President Trump proposes cutting the CTC by denying eligibility to millions of working families who honestly and accurately claim the credits under current law. This would affect roughly 5 million children – most of whom are U.S. citizens.^{xiv} Research suggests that doing so would not only increase hardship for these children, but also weaken their prospects for a healthy childhood, success in school, and ultimately their ability to contribute to the economy as adults.

Principles in Tax Reform

We believe that tax reform should work for all taxpayers, and provide sufficient money to fund vital public goods and services as well as meet the needs of an aging population. As Congress moves forward, we urge you to develop a plan that puts middle-class and working people first, and fuels upward economic mobility instead of increasing an already significant wealth divide. UnidosUS will follow the principles below when examining tax reform proposals to ensure that they:

1. ***Raise sufficient revenue to build a strong economy and invest in our future – and at the very least not lose revenue.*** A strong economy remains a paramount concern for Latinos. With sufficient revenue our country can afford to invest in – not cut – essentials like education, infrastructure, health care, and family-supporting tax credits that help our children thrive. These investments will build a strong economy and competitive workforce in the long term.
2. ***Are progressive and ensure that everyone, including the wealthy and corporations, pay their fair share.*** As a result of enacted austerity measures, middle-class and working families and children have already endured cuts to vital programs such as Head Start, education, workforce development, housing assistance and other critical services. Tax reform should ask those who are doing the best in today's economy – the wealthy and profitable corporations – to pay their fair share.
3. ***Support working families and children, and reduce poverty.*** The tax code has long been an instrument to provide critical means-tested supports to working families and children. More can be done to support working families by improving existing refundable tax credits that will further help working class taxpayers out of poverty.
4. ***Promote economic mobility and asset-building among middle-class and working Americans.*** The tax code supports asset-building through mechanisms such as deductions for retirement savings or mortgage interest, but does so in a way that disproportionately benefits those who need these least. Asset-building features in the tax code should be reformed to ensure that middle-class and working Americans also have the opportunity to save for their future, have access to affordable education, and a path to homeownership.

Conclusion

It has been over three decades since Congress reformed the tax system. There is no question that tax reform is overdue and that plans for reform should do more for working class taxpayers. The evidence is overwhelming that a comprehensive restructuring of the tax code by Congress ought to be done in a deliberative and transparent way, must be bi-partisan, and ought to include a broad range of perspectives and voices. The 1986 tax reform effort was bi-partisan, took years to complete, and included the voices of diverse stakeholders. Moreover, the experience of the enactment of the Affordable Care Act and current efforts to repeal and replace the law is a reminder of how crucial the process is – that sustainable, systemic reforms are built on consensus in the public and in Congress. In 1986, the U.S. Latino population was less than 8% of the total U.S. population, today it is more than 17%. By 2044, 14 states will be majority-minority. An American consensus on tax reform that includes the perspectives of diverse stakeholders and reflects broadly shared values about government tax and spending policies is our best chance of establishing a modernized system that will stand the test of time.

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- iv *How Much Will Trump's Tax Plan Cost?*, (Committee for a Responsible Federal Budget: Washington, D.C. 2017), <http://www.crfb.org/blogs/how-much-will-trumps-tax-plan-cost> (accessed July 2017).
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