Questions for the Record Following Scott Hodge’s Testimony to the Senate Budget Committee Hearing: Ending a Rigged Tax Code: The Need To Make the Wealthiest People and Largest Corporations Pay their Fair Share of Taxes

Senator Sanders

Question 1

Your website states that 33 percent of your funding comes from corporate sources. What are some of the major corporate donors to your organization? Do any of the grants require that you advocate for policies that would financially benefit these donors?

Per Tax Foundation policy, we do not publicly disclose our donors. Our financial documents, including IRS Form 990, are available at taxfoundation.org/financials.

As a nonpartisan and independent education organization, the Tax Foundation prides itself on conducting fact-based research guided by our four principles—simplicity, transparency, neutrality, and stability—which form the basis of sound tax policy. Our donors understand that because we adhere to those principles, our positions on various tax policies may not align with private interests. We have lost contributions over issues such as our opposition to industry-specific tax incentives, patent boxes, and tax holidays, our support for a destination-based cash-flow tax, and our modeling of carbon tax options, just to name a few examples.
Senator Crapo

Question 1

Mr. Hodge, your written testimony identifies that the percentage of tax filers owing zero income taxes at the federal level has climbed from a recent low of around 18 percent in the mid-1980s to almost 35 percent in the past couple of years. Given that, some tax-increase advocates say that other, more regressive taxes such as sales and payroll taxes should be taken into account. Yet, payroll taxes are used largely to fund very progressive retirement and disability benefits in Social Security, which also must be taken into account.

There are many ways people use tax and transfer data to make various cases. And some recent work by tax-increase advocates involves very questionable methodological and data choices by analysts. Even progressive economist Larry Summers recently called some of the recent tax-increase advocates’ work as “substantially inaccurate and misleading.” Is it true that there are studies showing relatively large increases in income inequality over the past few decades, while there are also others showing no significant increases?

Over the past decade, there has been an ongoing debate about how income inequality has changed over the last 50 years. Gabriel Zucman and Emmanuel Saez have argued that income inequality has increased rapidly since 1980 when looking at pretax income shares and the share of national income going to the top 1 percent of earners.

However, other economists, such as the U.S. Treasury economist Gerald Auten and Joint Committee on Taxation (JCT) economist David Splinter, find that income inequality has risen much more modestly over that time. Using a broader measure of income that accounts for various technical tax issues, Auten and Splinter conclude that “since the early 1960s, increasing government transfers and tax progressivity resulted in little change in after-tax top income shares.”

Recent research by John Early, former assistant commissioner of the Bureau of Labor Statistics, and former Senator Phil Gramm (R-TX) indicates U.S. household income inequality has decreased since 1970, once all government transfers and taxes are taken into account. This shows that the federal fiscal and tax system remains progressive overall.
Question 2

Mr. Hodge, we see a lot of data and analysis, of variable quality, on the distributions of income and wealth. But those data sets are usually entirely static. Yet people in the low- or high-income or wealth parts of a distribution today are not necessarily the same as people in those parts in past or future periods. That is, the income and wealth distributions normally portrayed are static; yet, incomes change over time and wealth accrues from a process of accumulation over time. Do you agree that someone who may be in the top, say, 10 percent of the income distribution today may never have been in that decile in the past and may not be in that decile in the future?

Looking at point-in-time snapshots of income and wealth can contribute to a picture of widening inequality, but that picture is incomplete because it does not show how people move in and out of income groups over time. For instance, the income of an average taxpayer rises dramatically as he or she ages and gains education and experience.\(^2\) A snapshot of income data in one year cannot tell the life cycle story of income, which tends to exhibit an inverted-U-shape pattern, rising with age and then dropping slightly as taxpayers enter retirement. Similarly, data from the Internal Revenue Service (IRS) shows the frequency of taxpayers who make the top 400 individual income tax returns with the highest adjusted gross income from 1992 to 2014.\(^3\) Of the 4,584 people who made it into the top 400 at some point over that period, 3,262 qualified for only one year while only 138 qualified for at least a decade. In other words, 71.2 percent of the taxpayers who were in the top 400 made it once and not again. We should not conclude that the top is a monolithic group that is impossible to enter into or exit from or that it is the same people in the same income groups over time.


**Question 3**

**Mr. Hodge,** many tax-increase advocates call for a significantly higher corporate tax rate, and tax-code changes in provisions related to international taxes that would put American companies at significant competitive disadvantages. Calls for higher taxes on corporations are often couched in desires to have companies pay their “fair share,” with no useful definition being provided about how fairness is defined or why those advocating higher taxes should be deemed to be arbiters of what is fair and what is not.

Corporations have owners. Owners are called shareholders. And a significant amount of shares are held directly or in pensions, 401(k) accounts, and other vehicles used by Americans to help fund their retirements. Shares held in retirement accounts are not the exclusive domain of the so-called “rich.” Rather, Americans across the income and wealth spectrum hold shares to help fund current or future retirements.

**Mr. Hodge, do you agree that higher taxes on corporations can have damaging effects on nest eggs of Americans across the income and wealth spectrum who are in retirement now or saving for future retirement?**

According to Pew Research Center, over half of American families have investments in the stock market at a median holding of about $40,000. Overall ownership rates have been increasing over recent years, driven primarily by an increase among families in the lower half of the income distribution.

Retirement plans hold nearly 37 percent of all U.S. stock, according to 2015 data. In 2017, public employee funds held about 41 percent of the top 1,000 retirement fund assets or about $4.25 trillion and public defined benefit plans held about $955 billion in domestic equity.

Even in tax-preferred retirement accounts, the corporate income tax reduces the returns on investments. Research suggests that increasing the corporate rate could be especially harmful to retirement savings as it reduces the value of corporate stock.

Raising the corporate tax would also have broader economic effects that would reduce after-tax incomes. The Tax Foundation model estimates that raising the corporate income tax rate to 28 percent would reduce GDP by 0.8 percent, the capital stock by 2.1 percent, lower wages by 0.7 percent, and eliminate 159,000 jobs.

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