

June 9 2023

## House Ways and Means Committee Releases Three Tax Bills

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House Ways and Means Committee Chairman Jason Smith (R-MO) and other Republicans on the Committee today (Friday, June 9) introduced three bills that the committee plans to mark up on Tuesday, June 13. The bills “are being combined as part of a new legislative tax relief and jobs package,” Smith said in a statement. The bills are:

- The Tax Cuts and Working Families Act (HR 3936), which would increase the standard deduction for two years, and rename it the “Guaranteed Deduction.”
- The Small Business Jobs Act (HR 3937), aimed at providing information reporting relief for small businesses and increasing the reporting threshold for Venmo and Paypal type payments, encouraging investment in new equipment and production capacity for small businesses, and expanding the Opportunity Zone program to rural communities.
- The Build It in America Act (HR 3938), which would retroactively restore expensing of R&D costs, retroactively extend preferable rules for interest expense deductibility under section 163(j), allowing for 100% expensing of manufacturing equipment, overriding in part the final foreign tax credit regulations, repealing the Superfund tax on petroleum, tightening existing rules relating to real estate sales by foreign companies and investors, and repealing several of the energy incentives in last year’s Inflation Reduction Act.

Legislation introduced a week ago by Chairman Smith and committee Republicans relating to retaliation against countries that adopt certain aspects of the OECD’s global minimum tax regime was not included in the package released today, but our understanding is that Chairman Smith still plans for the Committee to consider this legislation as well.

PDFs of the bill texts and summaries for each are attached with this alert. *Washington Council Ernst & Young will distribute an analysis of the bills later today.*

Below is the text of a news release the committee released today:

### **Smith Introduces the *American Families and Jobs Act* to Cut Taxes for Working Families, Grow Main Street Businesses, and Protect American Innovation & Competitiveness**

WASHINGTON, D.C. - In response to specific concerns raised by American workers, families, farmers, and small businesses during field hearings across the country, Ways and Means Committee members have introduced legislation to help struggling families, grow jobs, and support a stronger economy. Today,

these solutions are being combined as part of a new legislative tax relief and jobs package by Ways and Means Committee Chairman Jason Smith (MO-08).

Chairman Smith issued the following statement after introducing the *American Families and Jobs Act*, comprised of three bills: the *Tax Cuts for Working Families Act* (H.R. 3936), the *Small Business Jobs Act* (H.R. 3937), and the *Build It in America Act* (H.R. 3938):

“As we traveled to communities across this country, Americans from all walks of life – workers, parents, farmers, and small business owners – have shared their concerns with today’s chronically high prices, climbing interest rates, labor shortages and supply chain failures, as well as the challenge of competing with China.

“In field hearings held in West Virginia, Oklahoma, and Georgia, we listened to their stories and their solutions. Now we are taking action to deliver relief and create a better, stronger future for American workers and families. The legislation introduced today pulls together critical ideas introduced by Ways and Means Committee members in response to needs and concerns voiced by the American people. It builds on successful tax policies enacted by Republicans that spurred higher economic growth – far more than projected – and sparked the fastest growth in real wages in 20 years. These policies will provide relief for working families, strengthen small businesses, grow jobs, and protect American innovation and competitiveness.”

The *Tax Cuts for Working Families Act*, the *Small Business Jobs Act*, and the *Build It in America Act* will be considered by the Ways and Means Committee in the coming days.

#### [Tax Cuts for Working Families Act \(H.R. 3936\):](#)

- To help working families struggling under Biden’s inflation crisis, the Ways and Means Committee is helping Americans keep more of their hard-earned money.
  - Under President Biden inflation has gone up faster than wages for a record 25 straight months, leaving families farther and farther behind.
- This bill provides a new \$4,000 Guaranteed Deduction Bonus for the next two years, which will result in annual tax savings and more money in the household budgets of middle-class families who have been hit hard by the cost-of-living crisis.
  - This applies on top of the current Guaranteed Deduction (also known as the “Standard Deduction”), which was doubled by Republicans in the 2017 tax reform law.

- Today, 9 out of 10 American households use the Guaranteed Deduction, which provides tax relief and fewer tax filing headaches.

### Small Business Jobs Act (H.R. 3937):

- To help strengthen small businesses forced to navigate price spikes, worker shortages, and supply chain failures in President Biden's economy, the Ways and Means Committee is cutting IRS red tape, expanding jobs and investment, and supporting rural communities.
- Eliminating headaches and unnecessary costs for small businesses by fixing an IRS reporting rule that has not been inflation-adjusted in almost 70 years.
  - Currently, business owners are required to send tax forms to contractors that provide more than \$600 of work to their business.
  - In the Ways and Means Committee field hearing in Peachtree City, Georgia, a small business owner reminded Congress that those rules have remained unchanged since 1954.
  - This provision offers relief to American workers and small businesses by increasing the reporting threshold for subcontract labor from \$600 to \$5,000.
- Stopping the attack on the gig economy and Americans by repealing Democrats' new rule that has the IRS targeting gig workers and those who use Venmo or PayPal to sell items like a used couch, guitar, or concert tickets.
  - In 2021, Democrats reduced the IRS reporting threshold for these transactions from \$20,000 to \$600.
  - The Biden Administration knows this rule is unfair and unworkable, which is why they have already delayed implementation this year.
  - Repealing this rule will ensure Americans aren't saddled with a mountain of paperwork, confusion, or taxes that they don't owe.
- Increasing U.S. innovation and jobs by growing small business access to funding by expanding a current tax incentive to investors in startups organized as S Corporations.
  - Currently, these tax benefits are available only to investors in startups organized as C Corporations – leaving out S Corporations, which represent nearly half of all U.S. business entities.
  - According to U.S. Census data, startup companies less than five years old create the majority of net new jobs in our economy, creating 1.7 million jobs per year.

- Encouraging investment in new equipment and production capacity by increasing immediate expensing for small businesses to \$2.5 million.
  - Builds on successful policy from the 2017 tax reform law, which doubled the expensing limit from \$500,000 to \$1 million.
  - With this provision, small businesses like farms and machine shops can afford new equipment and expand their businesses. Their investment raises productivity, boosts wages, and creates more jobs.
- Delivering greater economic development and opportunity with a new Rural Opportunity Zone program that will revitalize struggling communities.
  - Opportunity Zones (OZs) were a major success from the 2017 tax reform law. They attracted investment and jobs to low-income communities across the country that were struggling to attract investment and capital.
  - While being the largest economic development program, investments have tended toward urban areas, which received 95 percent of OZ investment.
  - This provision will allow rural communities to benefit from the same recovery and development OZs have delivered to urban areas.

#### Build It in America Act (H.R. 3938):

- President Biden's failed economic policies and the continued threat from China have made clear that we must bring home and strengthen our supply chains, especially those for food, medicine, and affordable energy. With the Build It in America Act, the Ways and Means Committee begins to secure our supply chains while growing our economy and countering efforts by China to gain a competitive edge over American workers and businesses.
- These policies have a proven track record of creating an economy where workers and small businesses can thrive. Several of the provisions in this bill that were originally enacted as part of the Republican 2017 tax reforms were in part responsible for:
  - Economic growth rising a full percentage point higher than the previous decade. In the two years following enactment of the 2017 tax reforms, average GDP growth was 2.6 percent, as compared to an average growth of 1.5 percent over the ten years prior. It was also higher than the Congressional Budget Office (CBO) projected.
    - According to the Office of Management and Budget, an extra percentage point increase in economic growth can reduce deficits by up to \$3.5 trillion.

- Record tax revenues. At \$4.9 trillion, revenues in 2022 were \$1.6 trillion higher than when the 2017 tax reforms were enacted – \$884 billion higher than what CBO projected they would be under tax reform.
- Restoring American competitiveness and innovation by extending the ability for companies to immediately deduct research and development (R&D) costs.
  - Starting in 2022, companies could no longer immediately deduct R&D costs and have been required to gradually spread those expenses over time, for a minimum of 5 years and as high as 15 years.
  - Losing the immediate deduction has led to higher tax bills for small, innovative businesses – forcing them to slow their growth, reduce their workforce, or borrow funds to pay a big tax bill to the IRS.
  - This provision will ensure that the United States sustains its status as a global innovation leader.
- Ensuring that mid-sized businesses can deduct borrowing costs during this time of rising interest rates by extending interest deductibility.
  - Starting in 2022, employers face a more restrictive limit on the amount of business interest that they can deduct each year. Instead of using “earnings before interest, taxes, depreciation, and amortization”, companies may deduct interest expenses only up to 30 percent of their “earnings before interest and taxes”, resulting in higher tax bills.
  - With today’s higher interest rates, the 2022 change increases costs for mid-sized companies and industries that are required to finance their operations with debt and do not have the ability to issue other financing options like issuing stock.
  - This provision will ensure that the United States is a competitive location to hire, invest, and grow for manufacturing, energy production, and other critical industries.
- Promoting American jobs and manufacturing by extending 100 percent expensing.
  - Starting in 2023, job creators are able to immediately deduct only 80 percent of the cost of equipment, machinery, and vehicles, with the rest of the deduction claimed over the life of each asset.
  - This provision will ensure that businesses are incentivized to re-shore their operations and facilities from China back to the United States.

- Lowering the price at the pump by repealing Democrats' superfund tax on petroleum.
  - Policies that harm affordable and clean American energy production drive up gasoline prices and increase American dependence on foreign countries.
  - Repealing this tax on affordable and secure energy resources from Democrats' so-called Inflation Reduction Act will improve our energy security and lower prices for consumers.
  
- Encouraging supply chains to get out of China by protecting American companies from the Biden Administration's misguided tax regulations that discourage near-shoring to Western Hemisphere countries.
  - The Biden Administration's foreign tax credit regulations favor countries like China and Russia over neighboring, allied countries in Central and South America.
  - By rolling back these regulations, this provision removes an unnecessary roadblock to moving operations closer to home.
  
- Stopping agricultural land purchases by foreign adversaries with a tax rule blocking the purchases of American farm and ranch land by buyers from "Countries of Concern," including China, Russia, and Iran, and preventing undisclosed purchases of such land.
  - U.S. adversaries are attempting to secure access to agricultural products by quietly acquiring U.S. farmland. China's reported holdings of farmland are said to be 384,000 acres and that acreage has grown by more than 50 percent since 2019. What's more, questions remain about whether China's ownership has been fully reported.
  - The Build It in America Act builds off existing tax rules for real estate sales by foreign companies and investors. The rule applies to "Countries of Concern," which are those engaged in a long-term pattern of conduct significantly adverse to the national security of the United States, including the People's Republic of China (not including Taiwan), the Russian Federation, Iran, North Korea, Cuba, and the regime of Nicolas Maduro in Venezuela.
  - U.S. citizens and permanent residents, including dual citizens, are exempt.
  
- Replacing Democrats' bad tax policy – which includes hundreds of billions of dollars in special interest tax breaks for big business and the wealthy – with good tax policy that returns money to American taxpayers and provides real assistance to our small businesses and job creators.

- Democrats' so-called Inflation Reduction Act included handouts that placed the American taxpayer on the hook for big payouts to big corporations and big banks.
  - Companies with over \$1 billion in sales receive more than 90 percent of special interest tax subsidies for electricity.
  - Banks and insurers receive over half of these tax breaks, and more than three times as much as any other industry.
- The Inflation Reduction Act also created new tax credits for luxury electric vehicles purchased by the wealthy.
  - Nearly 80 percent of electric vehicle credits flow to households earning over \$100,000.
- Under the Build It in America Act, those bad tax policies – which are intended to benefit a hand-picked group of politically connected individuals and corporations – are replaced in favor of broad-based policies that create jobs and benefit hardworking Americans.
  - Repeals two special interest credits not operative until 2025 or later.
  - Repeals three electric vehicle credits which have ballooned in cost by over 700 percent since last fall.

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