

THE PLAN FOR REAL TAX REFORM

Endorsed by the New Democrat Coalition

The New Democrat Coalition supports comprehensive tax reform that will promote economic growth, is targeted towards our middle class and is fiscally responsible. We believe tax reform done right is important for middle class families, American businesses, and keeping our national economy competitive.

True middle class tax reform will promote economic growth without exacerbating the long-term fiscal situation, and must not place a higher tax burden on low and middle income families. Both parties can agree that doing nothing is not an option. Reforming our tax code is long overdue, and our country unequivocally needs a modern tax system that supports middle-class families and entrepreneurs, fosters business development, is globally competitive, encourages innovation and creates opportunities for Americans to succeed in the 21st-century economy.

New Democrats believe comprehensive tax reform should:

1. Put middle class families first;
2. Support workers and enable them to invest in themselves and their jobs;
3. Simplify the tax code to enable private sector growth and small business fairness;
4. Promote innovation, entrepreneurship, and new business formation;
5. Spur infrastructure investment;
6. Be built for long-lasting success.

New Democrat Coalition Tax Reform Priorities

1. Put middle class families first.

Since 1913, the United States has relied on a progressive income tax, which helped create and sustain a strong American middle class. As Congress reforms the tax code, we oppose shifting the tax burden onto low and middle income families. Middle class families should be the beneficiaries of, not the bank for, comprehensive tax reform.

We believe tax reform must first give middle class families tax relief before the wealthy and simplify the tax code to reduce the time and financial costs of compliance for all taxpayers. Tax reform should expand and defend many critical tax benefits that support American families—such as those that make child and dependent care, health care, access to affordable housing, and education expenses more affordable—to provide the most benefit to the middle class and lower income families. That means helping families with adopted children,

teachers, victims of long-term illnesses, and young people striving for the American Dream while struggling under the crippling burden of student debt, not harming them. The goal of simplifying the tax code cannot be used as cover for increasing taxes on vulnerable Americans and the middle class.

2. Support workers and enable them to invest in themselves and their jobs.

Americans value their independence and the dignity of work, but changes in the economy and technology are driving disruptions in the structure and nature of work. The New Dems believe technological progress has and will continue to lead us to new industries, economies and opportunities, but also cause economic and political disruption for some Americans. Tax reform done right is one tool that can help ease the transition and change many workers have already begun to face.

Many American workers have not received a raise over the last several years. For too many, the opportunity to earn a better life seems beyond their grasp. While companies must compensate workers fairly, there are levers within the tax code that can be used to help offset disruption and instability. We should build upon the Earned Income Tax Credit (EITC) by expanding eligibility for childless adults and providing the option for payments to be made more frequently throughout the year to serve as a true wage subsidy enhancement.

We must do more to enable workers to safeguard their futures by using the tax code to encourage retirement savings and to enable employers and workers to invest in new skills. As STEM jobs continue to grow and new industries are created, we must give workers the tools to adapt to the changing economy and the evolving nature of work by expanding tax credits for lifelong learning and skills development. We should also consider tax reform solutions that make the tax code more fair for independent workers and that simplify filing for independent workers and those who support themselves and their families through multiple jobs.

Finally, the tax code should be realigned to better incentivize companies to hire and invest in people rather than simply rewarding capital expenditures. We must foster a culture of lifelong learning, encouraging employers and enabling individuals to invest in skills development. We recommend increasing the current limit on employee educational and training expenses that can be considered business expenses and exempt from employees' taxable income, and allowing for full expensing of training and certification programs. We also support the development of lifelong learning accounts which would offer tax incentives for employers and workers to invest in skills development throughout their careers. The tax code can also be reformed to encourage employers to provide student loan repayment for employees by allowing student loan payments to be made tax-free.

3. Simplify the tax code to enable private sector growth and small business fairness.

There is wide consensus that the corporate tax code should be reformed to increase U.S. competitiveness and create more U.S. jobs. New Democrats support a fiscally responsible approach to establishing a more competitive corporate rate through broadening the base, simplifying the code, and eliminating tax provisions that do not serve a broad economic purpose. Any reductions in the corporate rate should be offset by elimination of provisions

that do not serve a broad economic purpose. By simplifying the code, firms can focus more on their core business and less on tax compliance.

Tax reform must be done in a way that is fair to the vast majority of small and family businesses who currently file as pass-through entities, while preventing any individuals and large firms from improperly taking advantage of pass-through tax treatment. As a means of addressing parity between businesses that pay the corporate rate and the pass-through rate, we should streamline transition rules that make it as frictionless as possible for pass-through businesses to elect a C-Corp structure under a reformed tax code when appropriate for that business.

We support moving towards a more competitive international tax system that encourages companies to bring capital back to the U.S. and make investments in American people, products, and companies. In order to effectively transition to such a system, we should also implement structural changes and strong rules to prevent companies from gaming the system by shifting jobs and revenue overseas for tax purposes, and create incentives for companies to reinvest repatriated earnings in American assets and people. This would require a one-time deemed repatriation of overseas profits, using the proceeds to invest in infrastructure to create good, long-lasting jobs, make our businesses more competitive, and allow Americans to spend more time doing the things that are important to them and less time and money commuting.

4. Promote innovation, entrepreneurship, and new business formation.

Tax reform should encourage investment in growing industries and jobs here in the United States. The New Dems support tax incentives for domestic research and development, manufacturing, and intellectual property creation and retention. This must be done in a way that ensures long lasting investment, economic growth, and high quality jobs for American workers.

Growth and opportunity require robust new business formation. New businesses have created on average 1.5 million jobs per year over the last three decades. Tax reform should facilitate increased access to capital among start-ups and new firms, support employee-owned business structures, and should boost economic growth in communities that have been left behind by spurring more private sector investment in those communities.

While the tax code can be used to foster good business practices and innovative investments, fiscally responsible tax reform with rate reductions requires Congress to consider new revenue sources, such as a tax on greenhouse gas emissions. A tax on greenhouse gas can be used to help pay for tax reform and influence businesses to make better decisions that benefit our public health and environment. It will also create market incentives that lead to new innovations around clean energy technology, thereby creating American jobs.

5. Spur infrastructure investment.

The New Democrat Coalition is determined to increase long-term federal investments in infrastructure improvements. Infrastructure projects are consistently evaluated as the best return on government investments. It is clear that we desperately need more money to fix and

build out new infrastructure. We should use both the opportunity and potential revenue gained through deemed repatriation in tax reform to increase infrastructure funding. We should also improve dedicated funding formulas and create new revenue options to establish more sustainable infrastructure funding streams for the future.

6. Be built for long-lasting success.

Pursuing tax reform through budget reconciliation will lead to a partisan outcome that will turn the tax code into a political football, exposing American taxpayers and businesses to uncertainty, risk, and financial cost. We continue to urge Congressional Republicans to commit to an open, bipartisan process, and to commit to fiscally responsible, revenue neutral tax reform without budget gimmicks.

Unfortunately, the Republican process has followed a very different trajectory, with Republicans passing a budget that permits tax reform that will increase the debt by at least \$1.5 trillion within the 10 year budget window and buries additional costs under layers of gimmicks. Left unchecked, the growing national debt threatens the American economy and financial well-being of Americans, stalling wage and job growth, making borrowing more expensive, and stagnating GDP growth.

The New Dems support fiscally responsible policies that do not hide the true costs of tax reform and shift the burden onto future generations further down the road. Any additional revenues gained through tax reform should be used to pay down the debt; and policy changes must not be used as gimmicks to improve the budget scoring. Furthermore, how we pay for tax reform must be tenor matched: one-time revenue gains such as deemed repatriation must be used for one-time expenditures—such as infrastructure investment—not for lowering rates in an unsustainable way.