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***NEBRASKA TAXPAYERS FOR FREEDOM* ISSUE PAPER:**

BIDEN REGIME TAX HIKE WILL HARM NEBRASKANS.

BACKGROUND. The Biden Regime has promulgated its American Families Plan, a massive $2.25 trillion tax and spend monstrosity. Hawked as an infrastructure and jobs proposal, it actually would centralize more power in the federal bureaucracy and create no jobs.[1] An 8-year spending plan funded by raising the corporate tax rate and increasing the global minimum tax on U.S. corporations to 21% from 13%, along with several other increases. His plan to raise taxes on the wealthiest Americans, including the largest-ever increase in levies on investment gains, would fund about $1 trillion in childcare, universal pre-kindergarten education, and paid leave for workers. The Biden Regime plan includes more money for poor families with children, greater subsidies for those buying Obama Care health insurance, and free community college tuition. The highest tax rate on investment gains, which are mostly paid by the wealthiest Americans, since the 1920s. The rate has not exceeded 33.8% in the post-World War II era. White House officials are debating other possible tax increases that ultimately could include capping deductions for wealthy taxpayers or increasing the estate tax.

CORPORATE TAX HIKES. This plan would raise the corporate tax rate to 28% from the present 21% rate, begin a new 15% minimum tax on book income for large corporations, propose an international agreement to impose global minimum corporate taxes that would cripple U.S. competitiveness, hike taxes on U.S-headquartered multinational corporations, establish a 21% minimum tax on foreign profits, repeal tax policies that encourage fossil fuel production, and create more corporate welfare benefits for unreliable wind and solar farms. Book income is what corporations report to shareholders in financial statements. It provides information about the finances and performance of the corporation to investors and creditors. This differs from the calculation of taxable income that corporations must figure to comply with their tax liability. The White House Fact Sheet on the Biden proposal states, “The time has come to level the playing field and no longer allow countries to gain a competitive edge by slashing corporate tax rates.” The Regime is actively working to deny a competitive edge for American business by its attempt to create a cartel of high-tax countries, stamping out competition and innovation. This potential international agreement would have the effect of outsourcing U.S. tax policy to Red China, Russia, and other countries. Biden is willing to harm U.S. employers and workers in order to help foreign countries raise more tax revenue. The Regime admits that these policies would increase our tax burden by over $2 trillion over 15 years.[2] Including state tax, the tax rates on American corporations would rise to an average of 32.4%[3] and perhaps 48.8%. Our companies will suffer the highest taxes on corporations among our major international competitors, higher than the British 19%, Russian 20%, Red Chinese 25%, Canadian 26.5%, German 29.9%, Mexican 30%, and French 32%. Businesses will pass along added costs to consumers through higher product and service prices. One study stated that the price increases following the Biden corporate tax hikes loom larger for cheaper items and products bought by poorer families.[4] The doubling of taxes would hurt the returns on private investment into venture capital and private equity funds. These funding sources are a primary source of funding for new drug discoveries and technology innovation.

CORPORATE RESULTS. Biden would make the U.S. far less desirable as a destination for investment and job growth, threatening American global competitiveness and slowing our crucial economic recovery. He would make U.S.-based corporations takeover targets and increase decisions to move headquarters out of the U.S. Competition among jurisdictions lowers the burden of taxes on the economy, which facilitates growth that benefits workers and consumers. Reductions in corporate tax rates generate growth and expand the global economy to the benefit of all. The House Ways and Means Committee noted, “Foreign countries will never raise their taxes as high as Biden’s U.S. tax hikes—they know too well how important competitive tax rates are for attracting jobs and growth.” The effect of this plan would once again make it more expensive and less competitive to establish a corporate headquarters and employ workers in the U.S. The proposed minimum tax would subject U.S. businesses to a new tax burden that foreign companies would not face. Biden would reignite corporate inversions, transactions whereby U.S. multinationals become foreign multinationals, usually

1 David A. Ditch, “9 Things You Need to Know About Biden’s ‘Infrastructure’ Spending Plan,” The Daily Signal, April 7, 2021, https://www.dailysignal.com/2021/04/07/9-things-you-need-to-know-about-bidens-infrastructure-spending-plan.

2 “Fact Sheet: The American Jobs Plan,” The White House, March 31, 2021, https://www.whitehouse.gov/briefing-room/statements-releases/2021/03/31/fact-sheet-the-american-jobs-plan/ (accessed April 7, 2021).

3 Garrett Watson, “Combined Corporate Rates Would Exceed 30 Percent in Most States Under Biden’s Tax Plan,” Tax Foundation, April 1, 2021, https://taxfoundation.org/combined-corporate-rates-biden/ (accessed April 11, 2021).

4 Scott R. Baker, Stephen Teng Sun, and Constantine Yannelis, “Corporate Taxes and Retail Prices,” National Bureau of Economic Research Working Paper No. 27058, April 2020, http://www.nber.org/papers/w27058 (accessed April 8, 2021).

through acquisition by a foreign company. Repealing the FDII deduction (Foreign-Derived Intangible Income Section 250 allows domestic corporations that have FDII to deduct a specified percentage of the excess of the corporation income from export sales over a fixed return on its tangible depreciable assets for the year) at the same time as increasing the corporate tax rate would create an incentive for multinational businesses to transfer their intellectual property to foreign jurisdictions. Such would lead the companies to also move their research and development, manufacturing, and other business operations abroad, resulting in lost jobs for American workers.[5] His plan would probably actually cost the government money. Budget forecasters figure that if rates spiral, people stop selling assets, so tax receipts can actually fall below the level had Biden never changed the tax. The corporate rate increase will harm working families because of a significant part of this tax borne by workers in the form of wages and jobs. In a 2017 report, Stephen Entin of the Tax Foundation stated that workers bear 70% of corporate taxes. Another Tax Foundation analysis found that the higher rate would reduce GDP by 0.8%, kill 159,000 jobs, and reduce wages by 1.8%. Other economists argue that from 20% to 100% of the tax hits workers. An American Enterprise Institute conservative think tank study found that a 1% increase in the corporate tax rate correlates with a 0.5% decline in real wages. In 2007, the nonpartisan Congressional Budget Office determined that workers pay more than 70% of the cost of corporate taxes. Heritage Foundation analysts predict that the higher corporate tax rate will reduce Gross Domestic Product (GDP) by 0.96%, or $1,650 per family. Wages will drop by 1.27%, reducing income by about $840 annually for median households.[6] These tax hikes also will harm families by increasing the costs of household goods and services. A 2020 study by the National Bureau of Economic Research found that 31% of the corporate tax falls on consumers. Because an estimated $2 trillion of the Biden tax plan targets corporations, workers and families collectively will become hundreds of billions of dollars worse off in the form of lower wages and higher prices. This tax increase will not only hit large businesses. There exist one million corporations classified as small employers, defined by the Small Business Administration as an independent business with fewer than 500 employees. His plan to enact a second death tax will disproportionately hit family-owned businesses, and his capital gains tax hike will deprive small businesses of new capital. A corporate tax increase also will threaten the life savings of families by reducing the value of publicly traded stocks in brokerage accounts and 401(k)s. Individual investors opened 10 million new brokerage accounts in 2020, and at least 53% of households own stock. In addition, 80-100 million people hold a 401(k), and 46.4 million households have an individual retirement account.

INDIVIDUAL TAX HIKES. Proposed income tax increases for the wealthy would hit individuals earning more than $452,700 in 2022 and married couples making at least $509,300, according to a White House official. The tax code has traditionally separated income brackets for single and married filers. Under current brackets, singles earning $523,601 and

up or couples making $628,301 or more pay the top 37% rate. Biden would restore the Clinton-era top personal tax rate of 39.6%. Capital gains taxed as regular income, and unrealized capital gains subject to tax at death. The plan also would increase capital gains taxes on investments like stocks and real estate. The Biden attempt to raise the top individual income tax rate also will raise taxes on small businesses, including LLCs, S corporations, and sole proprietors that pay taxes through the individual side of the tax code. These businesses account for 58% of all business income, so this could become a significant tax hike on NE businesses. The capital gains tax is really a tax on investment, so raising the tax will see a reduction in new investment and could dry up new capital for startups, innovators, and entrepreneurs. Wealthy Nebraskans could face an overall federal capital gains tax rate doubled at 43.4%, including the 3.8% net investment tax on individuals with income of $200,000 or more ($250,000 married filing jointly). These higher taxes would fund Obama Care. Currently, those earning more than $200,000 pay a capital gains rate of about 23.8%, including the Obama Care net investment tax instituted as part of that law. The proposed tax increase would exist in addition to the existing 3.8% Net Investment Income Tax. A Penn Wharton Budget Model estimates that raising the top rate on capital gains to 39.6% would *decrease* revenue by $33 billion over FYs 2022-2031.

REPEALS TRUMP TAX CUTS. President Trump reduced the corporate income tax rate to 21% from 35% in his 2017 tax relief legislation. Before that date, our corporate tax rate was the highest in the industrial world and placed U.S. workers at a competitive disadvantage. Trump succeeded in creating jobs, raising wages, promoting new investment, and creating an economic boom.[7] From 2017-2019, wages increased over $1,400 above the previous level for production and

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[5] **Matthew D. Dickerson** is Director of the Grover M. Hermann Center for the Federal Budget, of the Institute for Economic Freedom, at The Heritage Foundation.

6 Garrett Watson and William McBride, “Evaluating Proposals to Increase the Corporate Tax Rate and Levy a Minimum Tax on Corporate Book Income,” Tax Foundation, February 24, 2021, https://taxfoundation.org/biden-corporate-income-tax-rate/ (accessed April 6, 2021).

7 Adam N. Michel, “An Economic History of the Tax Cuts and Jobs Act: Higher Wages, More Jobs, New Investment,” Heritage Foundation Backgrounder No. 3592, March 16, 2021, https://www.heritage.org/taxes/report/economic-history-the-tax-cuts-and-jobs-act-higher-wages-more-jobs-new-investment.

nonsupervisory employees. Actual family income reached a historic peak in 2019. Unemployment fell, reaching a 50-year low of 3.5%. The proposed new minimum tax would add unnecessary complexity to the tax code. Trump repealed the corporate alternative minimum tax (AMT), which was ineffective and distorted.
Statement by Donald J. Trump, 45th President of the United States of America:

Joe Biden's radical plan to implement the largest tax hike in American history is a massive giveaway to China, and many other countries, that will send thousands of factories, millions of jobs, and trillions of dollars to these competitive Nations. The Biden plan will crush American workers and decimate U.S. manufacturing, while giving special tax privileges to outsourcers, foreign and giant multinational corporations. Biden promised to "build back better"—but the country he is building up, in particular, is China and other large segments of the world. Under the Biden Administration, America is once again losing the economic war with China—and Biden's ludicrous multi-trillion- dollar tax hike is a strategy for total economic surrender. Sacrificing good paying American jobs is the last thing our citizens need as our country recovers from the effects of the Global Pandemic. Biden's policy would break the back of the American Worker with among the highest business tax rates in the developed world. Under Biden's plan, if you create jobs in America, and hire American workers, you will pay MORE in taxes—but if you close down your factories in Ohio and Michigan, fire U.S. workers, and move all your production to Beijing and Shanghai, you will pay LESS. It is the exact OPPOSITE of putting America First—it is putting America LAST! Companies that send American jobs to China should not be rewarded by Joe Biden's Tax Bill, they should be punished so that they keep those jobs right here in America, where they belong. This legislation would be among the largest self-inflicted economic wounds in history. If this monstrosity is allowed to pass, the result will be more Americans out of work, more families shattered, more factories abandoned, more industries wrecked, and more Main Streets boarded up and closed down—just like it was before I took over the presidency 4 years ago. I then set record low unemployment, with 160 million people working. This tax hike is a classic globalist betrayal by Joe Biden and his friends: the lobbyists will win, the special interests will win, China will win, the Washington politicians and government bureaucrats will win—but hardworking American families will lose. Joe Biden's cruel and heartless attack on the American Dream must never be allowed to become Federal law. Just like our southern border went from best to worst, and is now in shambles, our economy will be destroyed!

ENFORCEMENT. Biden would increase funding for IRS tax-collection enforcement measures. He requested a $1.2 billion increase, from the current $12 billion, for the IRS in his FY 2022 discretionary appropriations budget.

RESULTS. Tax increases will directly threaten the middle class. Food prices will rise 3.5%, eggs and meat up by over 5%. Increased corn prices will further impact a variety of food products. Corn prices have almost doubled since the start of the pandemic and reached a 13-year high. Food prices hiked by a 59% increase in pork, 23% spike in soybean costs, and 21% spiral in wheat prices. This increase in grocery and restaurant bills will only accelerate, if the Biden plan succeeds. Gas at the pump will increase 22%. Lumber hikes will reach 250%; new home prices up $36,000, with overall housing up 11%. New cars will cost over 9% more, the highest increase in 68 years. Household items, baby care, and general merchandise already are up between 5.2%-7.2% from this time in 2020. Feeding the problem is the sharp price increase in commodities vital to our basic needs. Microchip prices are up by 25% over 2020, hiking the price of items for phones, TVs, and car parts. The distinct risk of the Federal Reserve having to increase interest rates by the end of 2022 means inflation will arrive through massive government spending from the Biden tax/spend proposal. Joining several "emergency" measures hastily passed under the guise of pandemic relief and Biden massive new spending plans, we will see potential for 1970s economic stagflation. Combined with the already-passed 2021 pandemic relief package, this spending will total $6 trillion, more than double the entire federal budget before the Great Recession. Moreover, Biden requested a 16% increase in domestic spending in his FY 2022 budget.[8]   He admits that his infrastructure plan would bring tax increases to some who earn only $200,000 while insisting that a separate hike on businesses "will not slow the economy at all." Another concern is that higher taxes could imperil the creation of new business, which is especially troubling, as there are fewer startups than in the past.

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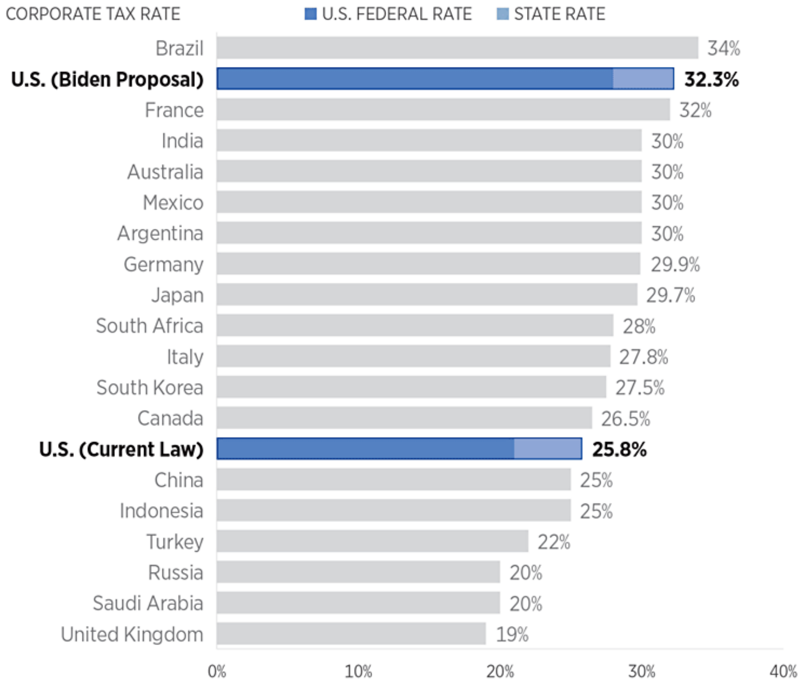
[8] Kristin Tate is a libertarian writer and an analyst for Young Americans for Liberty. She is an author whose latest book is How Do I Tax Thee? A Field Guide to the Great American Rip-Off.

CHART 1

Biden Proposal Would Make U.S. Corporate Tax Rate One of Highest in G20



NOTE: Figures for non-U.S. countries include national and subnational rates, where applicable.
SOURCES: Elke Asen, "Corporate Tax Rates around the World, 2020," Tax Foundation, December 9, 2020, https://taxfoundation.org/publications/corporate-tax-rates-around-the-world/ (accessed April 14, 2021), and Daniel Bunn, William McBride, Garrett Watson, and Erica York, "President Biden's Infrastructure Plan Raises Taxes on U.S. Production," Tax Foundation, March 31, 2021, https://taxfoundation.org/biden-infrastructure-american-jobs-plan/ (accessed April 14, 2021).

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PHONY BIDEN SPENDING. Traditional projects like roads and bridges constitute less than 50% of the new infrastructure spending; the remainder funds welfare projects. These tax increases are not sufficient given the Biden Regime spending ambitions. Commerce Secretary Gina Raimondo conceded that middle class tax hikes may become necessary for the Biden splurge.

BAD FOR NE FARMERS. A group of congressmen is pressing Biden to exempt family farms from his tax hike legislation. Under the Biden plan, farm heirs no longer would receive a stepped-up basis for capital gains tax purposes, which resets the value of inherited property to the death date. Instead, heirs would become liable for the tax on the full appreciation in value from the time the original owner bought the assets, in some cases decades before. This change would risk forcing owners to sell part or all of a farm or ranch handed down for several generations to pay the tax burden. The Biden gouge would begin taxing gains on inherited assets above $1 million, or $2.5 million per couple, factoring in the present tax exclusion for up to $500,000 in gains on a primary residence. Steep tax bills for affected farms would require years to pay off. The American Farm Bureau Federation has battled against repeal of the stepped-up basis for decades. "The value of many farms is tied up in land and equipment and most farmers don't have large amounts of money on-hand to pay capital gains taxes. They could be forced to sell the farm or take out costly loans just to pay capital gains taxes," American Farm Bureau Federation President Zippy Duvall said, "Eliminating the stepped-up basis isn't a tax on the rich — it's a tax on the middle class." This tax would impact other small businesses in rural NE communities that rely on farmer and rancher spending. NE Cong. Adrian Smith joined 130 other GOP reps to object to this alteration. These Republicans want the stepped-up basis provision to remain, because properly valuing appreciation to determine capital gains would become expensive and difficult or result in a phantom gain, if the original value difficult to determine.

CAPITAL GAINS EFFECTS. A Tax Foundation analysis found that the Biden hike would cost the U.S. Treasury $124 billion over 10 years. A large body of empirical research shows that after taxes on capital gains increase, taxes from capital gains decrease. Compared with other forms of income taxed under the individual income tax, capital gains are very responsive to tax rates. One reason for this degree of responsiveness is the treatment of unrealized capital gains at death. Under current law, after a person passes an appreciated asset to an heir in death, the asset cost basis is "stepped up" to its current market value, thereby wiping out accrued gains from a tax perspective. Higher taxes on capital gains make this option more attractive, especially for wealthier taxpayers who plan to leave large estates to their heirs. Another reason is the discretionary nature of capital gains realization. Because taxes are due upon realization instead of accrual, taxpayers can use several strategies to time taxing in ways that reduce liability. For example, investors can defer a capital gain hoping for lower tax rates in the future, or they may tend to realize gains only in years when they experience other losses. Recent evidence suggests that this type of tax planning plays a large role in taxpaying patterns. Also, a large share of corporate equity is in tax-sheltered investment vehicles like 401(k)s. Thus, ways for legal tax avoidance limit the revenue-raising potential of capital gains taxation. Table 1 below shows the projected revenue effects of raising the top rate on capital gains and dividends to 39.6% under 2 scenarios. First, the proposal under current law, in which a large share of capital gains escape taxation altogether through stepped-up basis at death. Second, the proposal in the context of a constructive realization at death, under which decedents with appreciated property would owe tax on the difference between market value and cost basis. In both cases, assumed enactment starting in 2022.

Table 1. Conventional Revenue Estimates, Fiscal Years 2022-2032, from Tax Foundation.

Billions of dollars, Change from Current-Law Baseline

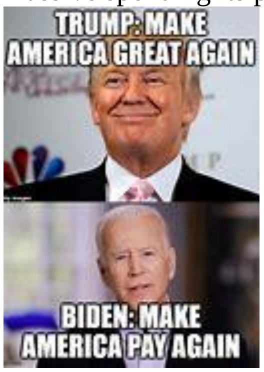
	2022	2023	2024	2025	2026	2027	2028
39.6% with stepped-up basis @ death	-15	-7	-3	0	-2	-2	-2
39.6%, no stepped-up basis	-4	7	11	14	13	13	14

DEATH TAX. This legislation would create a second death tax by repealing a provision known as step-up in basis. This tax hike would apply a 43.4% capital gains tax to unrealized gains of every asset owned by a taxpayer when they die. This ruse disproportionately will fall on family-owned businesses and could force them to downsize and liquidate assets. It will create new complexity by forcing taxpayers to determine the cost basis of assets, many owned for decades. According to a study by Ernst and Young, this second death tax will cost 80,000 jobs annually for the first 10 years, increasing to 100,000 jobs each year thereafter. For every $100 in new federal revenues gained by the Biden plan, workers will see $32 in lower wages.[9]

REAL ESTATE TARGETS. The Regime plan seeks to end a traditional provision in the tax code that allows real estate developers to defer taxes when they exchange properties, if their gains top $500,000. Biden wants to abolish the right for investors to defer paying taxes on the gains they receive on property investments that appreciate in value more than $500,000. This provision called a like-kind or 1031 exchange, named for the IRS code section. The Regime plans to use the money generated by capping tax-free exchanges to help fund its $1.8 trillion welfare American Families Plan. Like-kind exchanges, part of the tax code since 1921, allow investors to delay paying taxes on the gains made on real estate sales, if the funds reinvested in other properties within 6 months of the initial real estate transaction. Thus, if someone purchases a $2 million multifamily apartment in Omaha, and it appreciates in value to $5 million at the time of sale, the investor will not have to pay a capital gains tax on that $3 million, if the $5 million then used to buy an apartment building in Grand Island. That cycle can continue indefinitely, allowing a personal net worth to increase without taxes on the gains, and the properties then passed on to heirs at death. The provision in its current form saves investors much money every year. From 2020 through 2024, the Joint Committee on Taxation estimates that the exchanges would save investors from paying about $41.4 billion in taxes. Many real estate investors, those who work in the real estate industry, and several real estate groups are fighting the Biden plan and working overtime to kill the planned change. Suzanne Goldstein Baker, an executive VP and general counsel at Investment Property Exchange Services, told the Washington Examiner that the tax break is not wrong and benefits not only the wealthy but a broad spectrum of taxpayers. She said the provision benefits small-business owners, farmers, and ranchers. She pointed out that when real estate sold and purchased, the process creates jobs and that though the $500,000 cap would not affect the most modest of exchanges, those exchanges are not the ones that generate job growth. She said all commercial real estate sets above that $500,000 mark, including office buildings and multifamily housing. Baker claimed 1031 exchanges are a powerful stimulus for the economy and that, if the provision limited, the GDP would contract. Investors argue that 1031 exchanges improve liquidity in the market. Some in the real estate industry worry that changing 1031 exchanges could slow growth, because owners would become more reluctant to sell properties for fear of the inevitable tax bill. A study of like-kind exchanges by Ernst & Young found that they support 568,000 jobs and $27.5 billion of labor income. The researchers also concluded that like-kind exchanges would generate $55.3 billion in value-added items in the U.S. in 2021. Baker, also co-chair of the Government Affairs Committee at the Federation of Exchange Accommodators, said that commercial real estate produces job growth, that "The larger the project, the more zeros there are, the more jobs there are that come from that. While the administration is looking at capping 1031 exchanges as a means of providing a pay-for, in my opinion, the real pay-for is job growth generation." Baker said the change also could increase tenant rent. For example, an investor who owns an apartment building wants to move from a cold climate to Florida yet remain close to his investment. She said that if like-kind exchanges become limited and the investor sold and bought a new apartment building without the ability to defer the taxes, the cost of capital would rise, and thus rent at the new apartment building might increase.

[9] Alexander Hendrie is the director of tax policy at Americans for Tax Reform.

INFLATION. Every Nebraskan will pay higher taxes thanks to this Biden scheme, because it will fuel inflation, a hidden tax. Warren Buffett, widely regarded as a long-term investor, has moved from concerns about unemployment to concerns about inflation. "We are seeing very substantial inflation," Buffett said at the 2021 annual meeting of Berkshire Hathaway, "We are raising prices. People are raising prices to us." His private sector experience reinforced by former Sec. of the Treasury Larry Summers, who warned that inflation indicators were "flashing red alarm" and that "all the signs are for inflation starting to break out." Inflation will grow, because the Biden Regime has no other way to pay for the massive spending its plan requires. Blue states with impossible pension burdens and enormously inefficient bureaucracies



and work rules will get money from this plan. Left-wing activists will receive funding to further their efforts to radically change America. Trying to train Americans to give up work and join a dependency society so they rely on government largesse instead of themselves consumes an enormous amount of money. It also cuts revenues from taxes, as people quit working, while increasing the cost of caring for those who decline to work. Faced with popular hostility to taxes and the intense demands from the Left for more government spending, the classic answer always is a deliberate policy of inflation. Inflation will become the key byproduct of the Biden Regime desperate strategy of spending beyond its means. Inflation is especially tough for the poor, the retired, and small businesses. They do not have the resources to absorb inflation. So, their standard of living drops with each year of inflation.

OPPONENTS. Among the numerous organizations opposing the Biden plan are the American Farm Bureau Federation, the American Hotel and Lodging Association, the Mortgage Bankers Association, the Real Estate Round Table, and the National Association of Realtors.

ODDS OF PASSAGE. Republicans in Congress oppose this tax increase, but Socialist Democrats who narrowly hold the House and Senate may attempt to ram through the bill under special budget reconciliation rules that avoid the usual 60 votes needed in the Senate. Because the plan likely will not garner enough GOP support to pass with a 60-vote majority, Democrats will use this budgetary tactic to pass it with a simple majority, meaning that every GOP vote is a must No vote.

TAKE ACTION NOW. The American Families Plan will destroy NE family finances, family savings, family investments, family farms and ranches, and our state commerce and industry. The bill will not actually raise much revenue, will slow economic growth, and hurt stock prices and overall investment. Using the information above, contact your representative and Sen. Deb Fischer immediately to vote NO and stop this huge tax hike on Nebraska individuals and businesses. Email netaxpayers@gmail.com for congressional contact information and join our NTF *President Watch* project.