



Tax Cuts and Jobs Act: A Missed Opportunity for Latino-Owned Businesses and Latino Workers

Submitted to

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Submitted by

UnidosUS

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Introduction

UnidosUS, formerly the National Council of La Raza, is the largest national Hispanic civil rights and advocacy organization in the United States. For 50 years, we have worked to advance opportunities for middle and working-class Latino families to achieve economic stability and to build wealth. In this capacity, UnidosUS and its Affiliate network of over 260 community-based organizations in 41 states, the District of Columbia, and Puerto Rico, work to provide education, healthcare, housing, workforce development, free tax preparation, and other services to millions of Latinos in the U.S. each year.

For more than two decades, UnidosUS has been actively engaged in anti-poverty work by advocating for a fair and equitable federal income tax system, preserving and expanding the Earned Income Tax Credit (EITC) and Child Tax Credit (CTC) and fighting for all individuals who pay their fair share of taxes to have access to crucial tax credits they have earned and for which they are eligible.

The primary purpose of the income tax system is to raise revenue to pay for public goods and services. Over time the tax code has been used to influence behavior and, while the individual income tax system is progressive and relatively fair, the wealth incentives in the tax code are completely skewed to the top. That said, the tax system can be reshaped to advance equity in many socioeconomic areas from housing to education. To achieve this, federal tax policy must address inequities within the system that treat wealthy taxpayers better than middle-class and lower income taxpayers. For example, the Latino community has the highest labor participation rate in the country (66%), but they are concentrated in low-wage jobs with few benefits. Many are struggling to make ends meet and face persistent barriers to building wealth. In 2016, 19.4% of Latinos lived in poverty compared to a national rate of 12.7%ⁱ and in that same year the average Latino family had just \$2 for every \$10 the average White family held in wealth.ⁱⁱ

We believe there is an opportunity to restructure the tax code's wealth-building subsidies around homeownership, higher education, and retirement so that they benefit more middle-class and working families, as well as communities of color. To do this, Congress must prioritize tax reforms that truly benefit working families, including incentives for homeownership, retirement security, and saving for higher education, rather than providing tax cuts for the wealthy.

Unfortunately, Republican leadership in Congress and the Trump Administration missed an opportunity to fuel economic mobility for working people. Instead, Congress passed and President Trump signed, the Tax Cuts and Jobs Act (TCJA) which is already giving massive financial windfalls to the wealthiest Americans and largest corporations but has done little to nothing for middle-class and working families. For example, the TCJA left millions of workers without the full benefits of the expanded CTC,ⁱⁱⁱ denied the CTC to nearly a million children without a social security number,^{iv} repealed the individual mandate and made no improvements to the EITC.^v The massive tax cuts in the law will add \$1.5 trillion—at a minimum—to the national deficit, which has led some Members of Congress to call for steeper cuts to federal programs that help working families make ends meet.

This written statement focuses on how the TCJA affects Latino families, Latino-owned businesses, and implications for spending on important federal support programs.

Benefit for Latinos Dwarfed by Corporate Windfall

Latinos, a young, aspiring, and hardworking segment of the federal tax base, make up 17% 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. 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. Furthermore, in 2015 Hispanic households contributed almost \$215 billion to U.S. tax revenues, including almost \$76 billion in state and local tax payments.^{vi} Of this, foreign-born Hispanics contributed \$96.9 billion in tax revenues. That includes almost \$36 billion in state and local taxes and more than \$61 billion in taxes to the federal government.^{vii} Latino contributions will continue to strengthen the national economy for decades to come, and we could see greater economic security for our workers if the economic and tax playing fields are leveled.

But, instead of helping hard-working Latinos, the TCJA provides a massive tax cut for the richest Americans and largest corporations while providing little relief for working families.

- Nationally, in 2019 the TJCA gives an average tax cut of \$55,190 to the richest 1% of Americans while 89% of Latinos will see an average tax cut of only a \$316.^{viii}
 - In Arizona, the disparity is similar: the richest 1% will receive an average of \$54,250 compared to \$331 for 89% of Latinos.^{ix}
 - In Florida, the gap is much worse, with the richest 1% receiving an average tax cut of \$98,480 while 84% of Latinos will see an average reduction of only \$260.^x

It is clear from these examples how heavily skewed the benefits of the TCJA are toward the wealthiest Americans.

Recent UnidosUS polling substantiates those statistics as few Latino families report seeing benefits from the new tax law. Only one-in-five Latino voters said their taxes have been reduced because of the law and only one-in-four reported seeing an increase in their take-home pay. In addition, the TCJA is misaligned with the priorities of Latino voters: six-in-ten said big corporations and the wealthy paying their fair share of taxes should be a high priority for Congress.

No Tax Relief for Latino-Owned Businesses

Much of the TCJA's \$1.5 trillion price tag comes from a reduction in the corporate tax rate, which dropped to 21% from 35%. However, many small businesses are not corporations, and changes in the tax law that affect small businesses only provide meager—and temporary—relief. Nationally, there are 4.37 million Latino-owned businesses that generate \$700 billion in revenue.^{xi} They are growing two to three times faster than the national average, standing to create millions of private sector jobs.^{xii} Between 2012 and 2017, the number of Latino-owned businesses increased nearly 32% compared to a 13.8% growth rate overall.^{xiii}

Yet, the TCJA heavily benefits large corporations, private equity firms, hedge funds, and real estate developers instead of helping many small business owners.^{xiv} The majority of the changes to the tax code that impact businesses will not help Latino-owned companies because 90% of Latino-owned businesses (more than four million) are not corporations disqualifying them from the reduction in the corporate tax rate.^{xv} Furthermore, benefits from changes to the tax code that affect “pass-through” businesses favor the wealthy. The Joint Committee on Taxation estimates that in 2018 taxpayers earning more than \$500,000 will get a total tax benefit of \$21.4 billion, more than half of

the overall benefit from the change to the pass-through deduction.^{xvi} Businesses for Responsible Tax Reform found that changes made by the TCJA will not generate enough savings for small businesses to hire new employees or make substantial investments and to understand the complexities of the TCJA will require many small businesses to hire outside experts, increasing their tax compliance costs.^{xvii}

Not only are the benefits for Latino-owned businesses far too small, but any provisions that would benefit them—including changes to the individual tax code—will expire after 2025. This means that by 2027, the TCJA will be even more lopsided with almost half (2.1 million) of Latino businesses facing a tax increase due to the expiration of most of TCJA’s provisions.^{xviii} At that point, more than 3.2 million Latino businesses (three in four) will lose an average of \$300 in after-tax income.

American Families Continue to Pay for Tax Cuts

Before passage of the TCJA, UnidosUS warned that tax proposals increasing the national deficit would lead to the Trump Administration and Republican leadership in Congress calling for draconian cuts to federal benefit programs that help millions of Americans.^{xix} Prior to the bill becoming law, the Congressional Budget Office estimated that in FY2019 the federal deficit would be \$689 billion.^{xx} After passage of the TCJA, CBO revised their estimate to \$980 billion, a 42% increase.^{xxi} The taxpayers of tomorrow will pay dearly for the TCJA’s massive tax giveaway to the wealthy. Unfortunately, the American people have already seen this scenario begin to play out in the Trump Administration’s fiscal year 2019 budget^{xxii} and most recently in the House reauthorization of the Farm Bill.^{xxiii} The administration and some Congressional Republicans have also made broad-based attempts to institute severe work requirements for families to access federal benefit programs, while doing nothing to help reduce poverty or improve job quality or access.^{xxiv}

The projected growth in the deficit resulting from the massive tax cuts given to the wealthiest Americans and largest corporations is already being used to justify devastating reductions to programs, including Medicaid, SNAP, housing assistance, and in education, that help Latino families make ends meet. Eighteen million Latinos rely on Medicaid,^{xxv} including more than one-in-four (27%) Latinas.^{xxvi} Nearly 740,000 Latino households rely on rental assistance and 10 million Latinos rely on SNAP for food.^{xxvii} Reduced funding for these programs threaten the wellbeing of millions of Latino families and children. Federal programs^{xxviii} lifted approximately 6.3 million Latinos out of poverty in 2015, including three million Latino children and 351,000 Latino seniors. These proposed cuts, and a renewed focus on work requirements, show a deep misunderstanding of the reality working families face when hard-earned wages are not enough to put food on the table, stay healthy and afford a safe place to live.

Conclusion

Instead of taking an opportunity to reform the tax code so that it does more for working families, Congress prioritized the wealthiest Americans and largest corporations, leaving families and small businesses with little to no benefit. By primarily benefitting people who already hold the most wealth and doing nothing to help lower income families financially stabilize and create wealth, the TCJA will only exacerbate an already wide racial and ethnic wealth gap.^{xxix} The process by which this bill was created and passed, provides further evidence that a comprehensive restructuring of the tax code by Congress must be done in a deliberative and transparent way, be bipartisan, and ought to include a broad range of perspectives and voices, much like the 1986 tax reform effort. Sustainable, systemic reforms are built on public and Congressional consensus. The TCJA did not embody that spirit,

significantly lacks the perspectives of diverse stakeholders and does not reflect broadly shared values of voters about government tax and spending policies.

Moving forward, we urge Congress to consider reforms that truly benefit working families, including those that directly address core barriers to economic security and wealth-building:

- 1) Strengthening the EITC and CTC and expanding access to more taxpayers including workers without children and ITIN (Individual Taxpayer Identification Number) filers;^{xxx}
- 2) Making higher education tax expenditures work for everyone, especially low-income families and students;^{xxxi}
- 3) Leveraging the tax code to encourage retirement savings and investments among working families; and
- 4) Ensuring that tax subsidies for homeownership are more progressive, include ways to assist working families in saving for a down payment and increase tax benefits for renters.

We welcome the opportunity to provide additional input on how to approach future tax reform initiatives in a way that establishes a modernized system capable of supporting America's future workers, entrepreneurs and taxpayers and bolsters a more inclusive economy.

ⁱ Jessica Semega, Kayla Fontenot, and Melissa Kollar, *Income and Poverty in the United States*, (Washington, DC: 2017), <https://www.census.gov/library/publications/2017/demo/p60-259.html> (accessed June 2018).

ⁱⁱ Urban Institute, "Features: Nine Charts about Wealth Inequality in America," updated October 5, 2017, <http://apps.urban.org/features/wealth-inequality-charts/> (accessed June 2018).

ⁱⁱⁱ Center on Budget and Policy Priorities Staff, *New Tax Law Tilted Toward Wealthy and Corporations*, (Washington, DC: Center on Budget and Policy Priorities, 2018).

^{iv} Jacob Leibenluft, *Tax Bill Ends Child Tax Credit for About 1 Million Children*, (Washington, DC: Center on Budget and Policy Priorities, 2017).

^v Center on Budget and Policy Priorities Staff, *New Tax Law Tilted Toward Wealthy and Corporations*, (Washington, DC: Center on Budget and Policy Priorities, 2018).

^{vi} New American Economy and UnidosUS, *Power of the Purse: How Hispanics Contribute to the U.S. Economy*, (Washington, DC: 2017), <http://publications.unidosus.org/bitstream/handle/123456789/1818/powerofthepurse.pdf?sequence=1&isAllowed=y> (accessed June 2018).

^{vii} Ibid

^{viii} UnidosUS, "Tax Cuts and Jobs Act: United States," (Washington, DC: UnidosUS, 2018), http://publications.unidosus.org/bitstream/handle/123456789/1843/tcja_national.pdf?sequence=1&isAllowed=y (accessed May 2018).

^{ix} UnidosUS, "Tax Cuts and Jobs Act: Arizona," (Washington, DC: UnidosUS, 2018), <http://publications.unidosus.org/bitstream/handle/123456789/1845/TCJA%20AZ.pdf?sequence=1&isAllowed=y> (accessed May 2018).

^x UnidosUS, "Tax Cuts and Jobs Act: Florida," (Washington, DC: UnidosUS, 2018), <http://publications.unidosus.org/bitstream/handle/123456789/1845/TCJA%20FL.pdf?sequence=2&isAllowed=y> (accessed May 2018).

^{xi} Geoscape and U.S. Hispanic Chamber of Commerce, *Hispanic Businesses and Entrepreneurs Drive Growth in the New Economy*, (Miami, FL: Geoscape and USHCC, 2017), <https://ushcc.com/2017-geoscape-report/> (accessed May 2018).

^{xii} Douglas Rivers, et al., *State of Latino Entrepreneurship, 2016*, (Stanford, CA: Stanford Graduate School of Business, 2016), <https://www.gsb.stanford.edu/faculty-research/publications/state-latino-entrepreneurship-2016> (accessed May 2018).

^{xiii} Ibid.

^{xiv} Steven Rosenthal, “The 25-Percent Rate for Pass-Through Businesses Helps Rich Investors, Not ‘Small’ Businesses,” November 8, 2017, Tax Policy Center, <https://www.taxpolicycenter.org/taxvox/25-percent-rate-pass-through-businesses-helps-rich-investors-not-small-businesses> (accessed May 2018).

^{xv} UnidosUS, “Tax Cuts and Jobs Act: Impact on Latino-Owned Businesses,” (Washington, DC: UnidosUS, 2018), http://publications.unidosus.org/bitstream/handle/123456789/1844/tcja_smallbusinesses.pdf?sequence=1&isAllowed=y (accessed May 2018).

^{xvi} Joint Committee on Taxation, Tables Related to the Federal Tax System as in Effect 2017 Through 2026, report prepared by the Joint Committee on Taxation for the Senate Committee on Finance, 115th Congress., 2nd sess., 2018, <https://www.jct.gov/publications.html?func=startdown&id=5091> (accessed June 2018).

^{xvii} Elizabeth Glass, The Tax Cuts and Jobs Act: Implications for Small Businesses, (Washington, DC: Businesses for Responsible Tax Reform, 2018), https://docs.wixstatic.com/ugd/4a8609_5ae6299d49534af6b27acb872d044e30.pdf (accessed May 2018).

^{xviii} Ibid.

^{xix} Eric Rodriguez for UnidosUS, Leveling the Playing Field: The Effect of the Tax Code on Inequity, 115th Cong., 2nd sess., 2018, <https://waysandmeans.house.gov/wp-content/uploads/2017/07/20170719TP-Testimony-Rodriguez.pdf> (accessed May 2018).

^{xx} Congressional Budget Office, An Update to the Budget and Economic Outlook: 2017 to 2027, (Washington, DC: Congress of the United States, 2017), <https://www.cbo.gov/system/files/115th-congress-2017-2018/reports/52801-june2017outlook.pdf> (accessed June 2018).

^{xxi} Congressional Budget Office, The Budget and Economic Outlook: 2018 to 2028, (Washington, DC: Congress of the United States, 2018), <https://www.cbo.gov/system/files/115th-congress-2017-2018/reports/53651-outlook.pdf> (accessed June 2018).

^{xxii} Amelia Collins, “The Trump budget is not what the American people want or need,” (Washington, DC: UnidosUS, 2018), <http://blog.unidosus.org/2018/02/12/trump-budget-2019/> (accessed May 2018).

^{xxiii} UnidosUS, “House GOP SNAP proposal threatens Latino health and economic well-being,” (Washington, DC: UnidosUS, 2018), <http://blog.unidosus.org/2018/04/17/farm-bill-snap/> (accessed May 2018).

^{xxiv} UnidosUS, “Work Requirements Will Hurt Latino Families Most,” (Washington, DC: UnidosUS, 2018), <http://publications.unidosus.org/handle/123456789/1851> (accessed May 2018).

^{xxv} “Distribution of the Nonelderly with Medicaid by Race/Ethnicity,” Kaiser Family Foundation, <https://www.kff.org/medicaid/state-indicator/distribution-by-raceethnicity-4/?dataView=1¤tTimeframe=0&sortModel=%7B%22colId%22:%22Location%22,%22sort%22:%22asc%22%7D> (accessed May 2018).

^{xxvi} Adam Sonfield, “Why Protecting Medicaid Means Protecting Sexual and Reproductive Health,” (Washington, DC: Guttmacher Institute, 2017), <https://www.guttmacher.org/gpr/2017/03/why-protecting-medicaid-means-protecting-sexual-and-reproductive-health> (accessed May 2018).

^{xxvii} UnidosUS, “Federal Programs Lift Millions of Latinos Out of Poverty,” (Washington, DC: UnidosUS: 2017), http://publications.unidosus.org/bitstream/handle/123456789/1748/Fact_sheet_Anti-poverty_UnidosUS2.pdf?sequence=5&isAllowed=y (accessed May 2018) and UnidosUS, “House GOP SNAP proposal threatens Latino health and economic well-being” (accessed May 2018).

^{xxviii} The model includes the following federal programs: EITC, CTC, SNAP, HUD, SSI, TANF, LIHEAP, and WIC.

^{xxix} Derrick Hamilton and Michael Linden, Hidden Rules of Race are Embedded in the New Tax Law, (New York, NY: Roosevelt Institute, 2018), <http://rooseveltinstitute.org/hidden-rules-new-tax-law/> (accessed May 2018).

^{xxx} UnidosUS, *Latino Priorities, American Values: A Latino Policy Agenda for the 115th Congress*, (Washington, DC: UnidosUS: 2017), <http://publications.unidosus.org/handle/123456789/1729> (accessed June 2018).

^{xxxi} UnidosUS, “The Federal Tax Code: Higher Education Tax Benefits and Latinos,” (Washington, DC: UnidosUS, 2018), http://publications.unidosus.org/bitstream/handle/123456789/1795/AOTC.Higher%20Ed%20Tax%20Benefits_FIN_AL.pdf?sequence=1&isAllowed=y (accessed June 2018).