Committee on Domestic Justice and Human Development

3211 FOURTH STREET NE • WASHINGTON DC 20017-1194 • 202-541-3160
WEBSITE: WWW.USCCB.ORG/JPHD • FAX 202-541-3339

November 22, 2017

United States Senate
Washington, DC 20515

Dear Senator:

Decisions about taxation involve fundamental concerns of "justice and equity," with the goal of taxes and public spending "becoming an instrument of development and solidarity" (*Mater et Magistra*, 132, *Compendium of the Social Doctrine of the Church*, no. 355). In an October 27 letter, the USCCB offered six moral principles to guide the Senate's consideration of tax reform, with particular attention to care for the poor and concern for families. This letter applies those principles to the "Chairman's Mark" and the "Chairman's Modification to the Chairman's Mark" (hereinafter the "Chairman's Mark") of the Senate's *Tax Cuts and Jobs Act*. Like the House-passed legislation, the Senate proposal is fundamentally flawed as written and requires amendment.

Care for the Poor. The Senate bill doubles the standard deduction, which will provide tax relief to many. However, the "Chairman's Mark," as written, **will raise income taxes on the working poor while simultaneously providing a large tax cut to the wealthy.** The nonpartisan Joint Committee on Taxation (JCT) reports that, on average, taxpayers making between $10,000 and $30,000 per year will see a tax increase in 2021, while millionaires get a tax cut the same year. In 2023 and 2025, average taxes will increase for those making less than $30,000, but they will go down for those making more than $30,000. By 2027, after most individual tax cuts are set to expire, average taxes will increase for taxpayers making less than $75,000, while decreasing for those making more. **Tax breaks for the financially secure, including millionaires and billionaires, should not be made possible by increased taxes to families struggling to meet their daily needs.**

The Chairman's Mark contains several other features which are worthy of comment:

- Job-related expenses can weigh heavily on working families. Unfortunately, the bill eliminates multiple **deductions for work expenses**, such as deductions for union dues and expenses, work clothes and uniforms, and work-related education.
- The above-the-line **deduction for educator expenses** was expanded from $250 to $500, and this is a praiseworthy change.
- The Senate proposal repeals one portion of the Affordable Care Act—**the individual insurance mandate**—apart from a needed comprehensive approach to health care reform, one that would protect against millions of additional people becoming uninsured and fix problems that pertain to affordability, protect unborn life, conscience and immigrant access. Tax reform should not become the vehicle for a partial health care reform that fails to address significant problems in our health care system while exacerbating other difficulties.

Strengthening Families. Society, in Pope Francis' words, is in "debt" to the family. The family is the most important institution in society because education, formation, and care for the human person, especially children, take place more in the family than anywhere else. The Senate bill avoids some of the pitfalls of the House bill by not tampering with the adoption tax credit or the exclusion for employer adoption assistance programs, and by retaining the out-of-pocket medical expenses deduction, which is a lifeline for families facing serious and chronic illnesses. But other features will cause mixed impacts:

- Children are a blessing from God, and Jesus explains that those who welcome them receive the Lord himself (cf. Ps. 127:3-5; Mk. 9:37). Yet, this bill appears to make families that have several children worse off. One of the most significant problems for larger families is the **elimination of the personal exemption**. In 2017, the personal exemption is $4,050, and it will increase to $4,150 in 2018. The exemption can be claimed by taxpayers, their children, and some other dependents. Its elimination potentially **places a significant burden on larger families**. The doubling of the standard deduction and the expansion of the child tax credit to $2,000 may make up this difference for a married couple with fewer than three children, but it appears that families with more than three children will pay more in many cases, and increasingly so with each child. **A change in the tax code should not place families in a worse situation because they have welcomed the gift of life**.
- It is laudable that, like the House bill, this tax plan recognizes the child in utero by allowing contributions to a **529 savings plan** before birth. However, the change is scheduled to sunset in 2025, and, unlike the House bill, the Chairman's Mark does not allow a 529 plan to go towards tuition payments for K-12 education.
- Like the 529 savings plan, the Child Tax Credit should be expanded to cover children in utero. The Senate should also increase the refundable portion of the credit above proposed levels for the sake of lower income families.
- It is also encouraging to see tax incentives for employers to provide **paid family and medical leave**, but this provision is scheduled to sunset at the end of 2019.
- Similar to the House bill, the Chairman's Mark creates **stricter rules around children's social security numbers** for the Child Tax Credit, making it unjustly difficult for immigrant taxpayers to receive the benefit.

Progressivity of the Tax Code. Pope St. John XXIII wrote that a progressive tax code is required by "justice and equity." The "Unified Framework," upon which this tax plan was based, promised that any new tax code would be "at least" as progressive as the present code. Like the House bill, *this plan breaks that promise*. The Chairman's Mark raises taxes on the working poor, while simultaneously providing large tax breaks to high-income taxpayers. **It eliminates the deductions for local property tax as well as state and local income and sales taxes**, which are often regressive in nature. It also **doubles the limits for the estate tax** (which currently applies to the estates of single people valued at more than $5.5 million and married couples valued greater than $11 million), and **eliminates the Alternative Minimum Tax (AMT)**, which was designed to prevent high-income earners from avoiding tax liability through loopholes. In the years that the working poor suffer a tax increase under this bill, millionaires and billionaires will see significant tax decreases. This must change.

Adequate Revenue for the Common Good and Avoiding Future Cuts to Poverty Programs. The state has a legitimate role in promoting the common good, and a legitimate interest in collecting taxes to do so. This tax plan, by design, will result in a nearly $1.5 trillion deficit over ten years. Even with the potential benefits of economic growth from individual and corporate tax cuts—which cannot be guaranteed—the poor should not be the ones to finance these changes. On November 14, 2017, the Congressional Budget Office wrote that **a deficit increase of $1.5 trillion over ten years would require spending cuts** as early as 2018, if other legislation is not enacted. These cuts will almost certainly include deep reductions to programs that help those in need. The repeal of the AMT and the doubling of the estate tax limits make up a large portion of this ten-year deficit and only go to high-income households. The bill should be fixed so that the risks taken fall on those who stand to benefit most, rather than on those who struggle on the margins of society.

Incentive for Charitable Giving and Development. Doubling the standard deduction will bring tax relief to many people, and this is a good feature of the Chairman's Mark which should be retained. However, for those who give to charity, it will make the charitable deduction increasingly a benefit only available to high income families. In addition to the increased standard deduction, the Senate should adopt an "above-the-line" charitable deduction that would incentivize and assist charitable giving at all income levels, and increase the amounts people can give. It would also guard against a multi-billion-dollar decrease in charitable giving that this plan would otherwise cause, shrinking civil society and cutting income to nonprofits that help the poor, just as government aid to those in poverty is jeopardized, as noted above.

By and large, money given to charity helps those in need. The tax code should encourage voluntary association, mutual aid, and a culture of giving, helping rather than hurting groups that will be asked to do more for the poor in the days ahead. Although it is good that the Chairman's Mark retains the Housing Credit and Housing Bonds that go towards the development of low-income housing, and takes some additional laudable measures to strengthen them, the credit will still be significantly devalued due to the lower corporate tax rate, and without further enhancement, development of low-income housing will likely be stifled. It is a good step that the Chairman's Mark encourages investment in economically distressed communities through the creation of "Opportunity Zones," and more should be done to foster authentic human development for communities most in need.

On Sunday, November 19, Pope Francis celebrated Mass for 7,000 people in poverty for the first World Day of the Poor. In his homily, the Holy Father described "omission" or "indifference" as "the great sin where the poor are concerned."[1] Congress must take adequate time to analyze the complexities of these proposed reforms, and make certain that the nation does not further enshrine indifference toward the poor into law. The Senate should act now to amend its legislation to better ensure a just and moral framework for all.

Sincerely,

+Frank J. Dewane

Most Rev. Frank J. Dewane
Bishop of Venice
Chairman, Committee on Domestic Justice
and Human Development

---

[1] Pope Francis, Homily for the First World Day of the Poor, November 19, 2017, http://w2.vatican.va/content/francesco/en/homilies/2017/documents/papa-francesco_20171119_omelia-giornata-mondiale-poveri.html.