



Oral Testimony (As Prepared) for Hearing, “American Ingenuity: Promoting Innovation Through the Tax Code”¹

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Chairman Meuser, Ranking Member Landsman, and distinguished members of the Committee,

I am honored to testify on how tax policy can; support investment in innovative activities through targeted tax credits, deductions, and other tax breaks; lift up children, who are the future innovators, entrepreneurs, and workers needed for a dynamic economy; and raise revenue to fund investments outside the tax system, including federal research and grants for small business innovation.

The 117th Congress enacted tax benefits intended to spur innovation, and created new tools to give small and startup businesses access to those tax benefits. The Bipartisan Chips and Science Act, the Bipartisan Infrastructure Law, and the Inflation Reduction Act created major new tax credits for investments in domestic manufacturing of chips and equipment, and for innovation across the energy sector.

For example, one of the IRA’s tax credits for advanced manufacturing invests \$10 billion in projects with high potential for innovation and commercialization. And, starting in 2025 the law transitions to a “tech neutral” regime intended to spur innovations in producing zero-emissions electricity and fuels.

Most tax benefits, including credits and deductions, can reduce income tax owed. But many small businesses, and especially startups, have limited tax liability.

Both the Chips Act and the IRA create new ways of giving smaller and startup businesses better access to tax breaks for investment and innovation, such as the ability to transfer certain tax credits, and to receive others paid out directly like a tax refund.

The 117th Congress also temporarily expanded the Child Tax Credit, which is an investment in the future innovators, entrepreneurs, and workers needed for a dynamic and inclusive economy. Research shows that such credits make children likelier to grow up healthier and do better in school Which in turn delivers long-run benefits for workplaces, communities, and the economy. Researchers find that America is losing out on having more inventors who are women, people of

¹ References can be found in the submitted written testimony for this hearing <https://www.law.nyu.edu/sites/default/files/SBC%20Written%20Testimony%206.6.23.pdf>. Video of the testimony as delivered can be found at https://www.youtube.com/watch?v=r2_VGhJ2ZFw.

color, or from low-income families because children with equal talent and potential are growing up in households too poor or not connected enough to become inventors and entrepreneurs. Tax policy that reduces child poverty and increases opportunity, like a fully-refundable CTC, can help unlock that potential.

The tax system also supports innovation and small business by raising revenues to fund investments made outside the tax system, including federal R&D and grants for small business innovation. So, it's unfortunate that the deal to avert US default cut parts of the budget that fund these programs.

The deal also cut IRS funding. This will hurt honest small businesses. The IRS won't be able to do as much to transform service for small businesses who want clear, and timely help understanding and meeting their tax obligations. More unscrupulous large businesses will continue to have an unfair competitive advantage by avoiding—or evading—taxes that they owe.

To close, let me note that the TCJA, prioritized large permanent corporate rate cuts, over investing permanently in future workers and innovators. It paid for corporate rate cuts, in part by requiring deductions for certain research expenses to be taken over time, rather than deducted immediately.

But some lawmakers are proposing reversing nearly all scheduled revenue-raising provisions of the 2017 tax law. That would lead to a combination of tax subsidies that aren't well-targeted to small businesses or innovation.

Under that proposal, certain businesses would be able to claim deductions for investments—and would also be able to fully deduct the cost of interest on their borrowing. That set of tax subsidies would be especially valuable for the leveraged buyout industry—as well as for large multinational corporations that avoid taxes by making large interest payments to their foreign affiliates.

Going forward, small business and innovation would be best served by tax policy that does four things:

First, the tax system can use well-targeted tools to efficiently reach small and innovative businesses and give them the level of service they deserve from the IRS.

Second, the tax system can invest in future workers and innovators through measures like an expanded CTC.

Third, the tax system can eliminate unfair competitive advantages that large tax evaders and avoiders currently enjoy,

And fourth, the tax system can raise revenues to fund public R&D and private innovation.

Thank you for inviting me, and I would be glad to take your questions.