Oral Testimony (As Prepared) for Hearing, “Medicare Forever: Protecting Seniors by Making the Wealthy Pay Their Fair Share”¹

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Chairman Whitehouse, Ranking Member Grassley, and distinguished members of the Committee,

I am honored to join you today.

The tax base is the foundation for the federal budget. It supports the nation’s priorities like social security, defense, education, and health care—including Medicare. But our federal tax base isn’t broad enough to ensure a sound financial footing for Medicare and other national priorities for generations to come.

Some income from vast fortunes is completely carved out of the federal income tax base. It goes untaxed over decades, lifetimes, and generations. Large multinationals can still report profits offshore so that they are subject to little or no US tax. And a raft of other loopholes and preferences shrink the tax base and attract tax avoidance and evasion instead of productive investment, innovation and work.

An example that directly hurts Medicare and the other trust funds is that gaps in Medicare taxes mean that some high-income business owners don’t have to pay into the system in the same way that workers and other business owners do, but can instead avoid hundreds of billions in taxes.

The tax base is also weakened by a stark federal tax gap. More than half a trillion dollars of taxes owed under law just aren’t paid, so don’t contribute to important national programs. Some $100 billion of that amount should have been paid directly into the Medicare, Social Security, and UI trust funds, but wasn’t.

So, while I just mentioned that some business owners take advantage of loopholes in the law to avoid Medicare taxes, other filers are just not paying the taxes that the law says they do owe. Sometimes that can be because filers try to undertake aggressive but lawful tax avoidance, and step over the line into unlawful tax evasion. For example, the IRS has been taking a very close look at certain hedge fund and private equity managers and other wealthy business owners that

¹ References can be found in the submitted written testimony for this hearing https://www.law.nyu.edu/sites/default/files/Strengthening%20the%20Tax%20Base-%20Written%20Testimony.pdf. Video of the testimony as delivered can be found at https://www.budget.senate.gov/hearings/watch?hearingid=094D46E9-D3A8-BA44-8E75-46AFBAE08A24. 

www.law.nyu.edu/centers/tax-law-center
the IRS says have been unlawfully underpaying hundreds of millions in self-employment contributions each.

Where do we start to broaden the tax base, and shrink the federal tax gap? Here are three important ways:

The first is by rejecting proposals that that are on the table right now but that would increase tax cheating and shrink the tax base. That means maintaining IRS discretionary and mandatory funding. Cutting IRS funding even more deeply than agreed to in the debt ceiling deal would hurt deficits, hurt honest filers, and benefit tax cheats. It also means rejecting proposals to weaken new information-reporting tools. These tools help the IRS find and focus on tax evasion.

And it means building on, rather than reversing, the corporate base broadening enacted in 2017. For example, the stronger limit on interest deductions claimed by large businesses should be retained, it helps reduce the tax system’s tilt towards debt financing. But if lawmakers do weaken some of the 2017 law’s corporate base broadeners, the cost should be offset with other corporate tax increases.

Second, lawmakers can address the big areas of the tax base that need attention: income from large fortunes that never gets taxed; tax subsidies for multinationals foreign profits; and the complex and patchy taxation of pass-through entities. A good example of a priority in the pass-through area is closing those loopholes in Medicare taxes and sending the revenues to the trust fund.

Third, lawmakers can choose from the menu of other options, large and small, to broaden the tax base, such as strengthening the bipartisan Corporate Transparency Act, stopping cryptocurrency traders from gaming the timing of tax losses, and reducing tax non-compliance in the market for expensive art.

The Tax Law Center has proposed or analyzed several dozen options to broaden the tax base – with input from leading practitioners and researchers – and they’re linked to in my testimony. Lawmakers of both parties have often looked to base broadening as an economically sound way to raise revenues and improve the fairness and integrity of the tax system. There continue to be good options in this space.

Lawmakers can choose to use the revenues to protect Medicare and other federal priorities from cuts that would cause families hardship; to reduce long-term deficits and to make new investments that raise health and living standards; and build an economy that is dynamic, inclusive, and resilient.

I would be happy to take your questions.