

## **GOP Tax Bill Shifts Resources to the Rich**

by Marty Wolfson

Rep. Jackie Walorski wants us to believe that the GOP tax bill, recently passed by the House of Representatives, is a good deal for working people and middle-class families. In a recent op-ed in the South Bend Tribune, she claims that the tax bill fixes the current tax code, which “favors special interests, not hardworking Hoosiers like you.”

In reality, the tax bill is an outrageous transfer of money to the wealthy and to large corporations. Walorski tries to have us believe that the tax bill really helps ordinary families by selectively citing aspects of the bill and ignoring parts of the bill that contradict her claims.

**Standard Deduction.** She says that the bill doubles the standard deduction, but omits the fact that the bill also eliminates the personal exemption. (Both of these reduce the amount of income that is taxable.) Under the GOP tax bill, single individuals or childless couples would see a small benefit. But because the personal exemption applies to children as well as adults, families with two children, for example, would pay somewhat more taxes. And the more children they had, the more taxes they would have to pay, compared to the current law.

**Tax Rates.** Walorski also says that the bill “lowers rates for low- and middle-income Americans to 12 percent, 25 percent, and 35 percent.” Actually, the bill raises rates for the lowest income Americans; the current lowest tax rate is 10 percent, not 12 percent.

**Child Tax Credit.** Walorski says the bill “expands the child tax credit to \$1,600 per child, [and] provides an additional \$300-per-parent credit.” However, many lower-income families do not have enough income to take full or even partial advantage of the higher child tax credit, even as the credit’s coverage is expanded to higher-income families, and the \$300-per-parent credit expires in 2022.

**Education Benefits.** She continues by saying that the tax bill “helps you save and invest for the future by streamlining higher education benefits.” If by streamlining she means cutting benefits, she is correct. The bill eliminates the deduction for student loan interest in 2018. It also increases the tax burden on graduate students who teach or do research by requiring them to pay taxes on tuition waivers they receive. Teachers at K-12 schools would lose the \$250 deduction for educator expenses; these expenses represent the pencils, paper, and other supplies that many teachers provide for their students out of their own pockets. These policies undermine the idea that we as a society value education.

**Loopholes.** Walorski asserts that the tax bill “makes taxes simpler and fairer by eliminating carveouts and loopholes that benefit the wealthy and well-connected.” However, she does not mention that the tax bill maintains the notorious “carried interest” provision, whereby Wall Street managers pay lower tax rates on their income than do ordinary taxpayers. She does not mention that the bill eliminates the Alternative Minimum Tax, which prevents wealthy taxpayers from avoiding taxes altogether. In a rare tax return of Donald Trump’s that was made public, we learned that much of the taxes that he did pay in 1995 were due to the Alternative Minimum Tax.

**Itemized Deductions.** Walorski says, “Taxpayers will also have the option of itemizing their taxes and deducting things like charitable contributions, home mortgage interest, and state and local property taxes up to \$10,000.” Of course, taxpayers already have the option of listing

itemized deductions (which can be used in place of the standard deduction and serve to reduce taxable income), but under the House tax bill what they can deduct is severely restricted. The deduction for mortgage interest is reduced and limits are now applied to property tax deductions (the Senate bill eliminates them altogether). Most other itemized deductions are eliminated, including medical expenses, state and local income taxes, theft or casualty losses, tax preparation expenses, and employee expenses.

***Estate Tax.*** Acknowledging the repeal of the estate tax, Walorski says that this will “protect family farms and small businesses.” She fails to mention that the estate tax, a tax on inherited wealth, does not apply to individual estates of \$5.49 million or smaller. Only the very wealthy pay this tax. The Tax Policy Center estimates that in 2017 only 80 small farms and businesses will pay this tax; the taxes these small farms and businesses pay constitute only about 1 percent of all taxable estate tax returns and fifteen hundredths of 1 percent of the total estate tax revenue. Billionaires like Donald Trump are the primary beneficiaries of a repeal of the estate tax.

***Taxes on pass-through businesses.*** Walorski says that the tax bill “delivers the lowest rates for Main Street job creators in nearly 80 years, with a top rate of 25 percent on small businesses like manufacturers, mom-and-pop restaurants, and family farmers.” She is referring here to a provision in the tax bill that lowers the rate on “pass-through” businesses to 25 percent. Pass-through businesses pass their tax liabilities on to the owners of the businesses, who pay taxes at the individual rate. They are not just small businesses; they can be Wall Street firms like private equity firms and hedge funds, large pipeline companies, and other large companies like real estate developers (such as Donald Trump). These companies would benefit from a reduction in the pass-through rate to 25 percent, but nearly 90 percent of pass-through owners (the small businesses to which Walorski refers) already pay 25 percent or less because they do not earn enough income to pay higher rates.

***Taxes on large corporations.*** Walorski mentions the pass-through rate reduction, but she does not mention the enormous giveaway to large corporations, which would see a reduction in their tax rate from 35 percent to 20 percent under the House bill. Actually, corporations do not pay 35 percent now, due to loopholes in the tax law. What they pay has been estimated at more like 18 percent. The House reduced the tax rate but did not close the loopholes. So corporations likely will wind up paying much less than 20 percent. Furthermore, the corporate tax cuts in the House bill are permanent, unlike the individual tax cuts, which expire by 2027 (partially in the House and totally in the Senate). The Joint Committee on Taxation, a Congressional committee, said that the average tax rate for taxpayers with incomes under \$75,000 would be higher by 2027.

***Budget deficits.*** The individual tax cuts are repealed by 2027 because, in order for Republicans to pass the bill in the Senate without Democratic votes, the tax bill has to limit the increase in budget deficits by 2027 to \$1.5 trillion. Republicans say, though, in 2027 they will make the individual tax cuts permanent. But either ordinary Americans will pay more taxes or else the budget deficit will explode.

***Medicare cuts.*** Passage of tax legislation with increases in deficits of \$1.5 trillion will immediately trigger the PAYGO (“pay-as-you-go”) budget rule, which calls for reductions in mandatory spending programs (like Medicare) to offset the budget deficits. The spending

reduction to Medicare is limited to 4 percent, and Congress could waive the PAYGO rule, but the threat of budget deficits has been used in the past by those who wish to reduce or eliminate government spending programs.

***Trickle down.*** Finally, Walorski asserts that “these reforms will lead to more jobs and higher wages.” This is the familiar “trickle-down” theory: give tax cuts to corporations that boost their profits and they will use those profits to increase investments in new plant and equipment. The new investment will increase employment and boost productivity, and the greater productivity will enable corporations to increase workers’ wages.

The empirical evidence for this theory is nonexistent, and the evidence we do have disproves it. For example, increases in productivity over the past 35 years have not resulted in an increase in wages and benefits, which have been largely stagnant. More recently, at a meeting hosted by the Wall Street Journal, a Journal editor asked a roomful of CEOs how many would increase capital expenditures if the GOP’s tax plan to cut the corporate tax rate to 20 percent became law. Only a few hands went up, leading Gary Cohn, President Trump’s chief economic advisor, to ask plaintively, “Why aren’t the other hands up?”

In summary, Jackie Walorski’s attempt to portray the House tax bill as a boon for lower- and middle-class taxpayers relies on misstatements and selective descriptions. Most economic analysts have concluded that the GOP tax plan would primarily cut the taxes of corporations and the rich, and only marginally help ordinary Americans. An analysis of the entire House tax bill makes this clear.