2025 Budget Stakes: High-Income Tax Cuts, Price-Hiking Tariffs Would Harm Families

High-income households and profitable corporations would grow even wealthier under Republican proposals for trillions of dollars in new or extended tax cuts, even as Republican proposals for trillions of dollars of cuts to health assistance, food assistance, and other programs would leave more children in poverty, more families without stable housing, and more people without health coverage. Families would also face an additional burden: higher prices for many basic goods due to the tariffs that President Trump has begun to impose, which would act as a large tax increase on U.S. consumers.

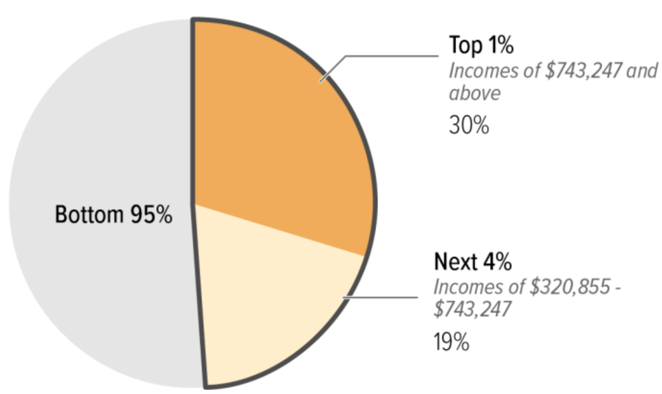
Extending 2017 Tax Cuts Would Give Biggest Benefits to the Wealthy

The major tax law that President Trump and a Republican-controlled Congress enacted in 2017 was heavily skewed to households with high incomes. It was also expensive, costing $1.9 trillion over ten years, according to the Congressional Budget Office's 2018 estimate. And it failed to deliver the economic gains its backers promised; studies found the benefits didn't "trickle down" to most workers.

Key parts of the 2017 law expire at the end of 2025. Republican plans call for extending them, and some plans also call for adding large *new* tax cuts, including tax cuts aimed at corporations, wealthy shareholders, and large estates. Extending the expiring tax cuts would:

Do relatively little for households with low or middle incomes. Households with incomes in the top 1 percent (who make more than roughly $743,000 a year) would get tax cuts averaging $61,000 a year, compared to only about $400 for households with incomes in the bottom 60 percent (who make roughly $96,000 or less). Those tax cuts would come on top of the large tax benefits that wealthy people will receive from the 2017 law's permanent corporate tax cuts, which are tilted even more heavily toward wealthy people than the expiring individual tax cuts.

Over 49% of Costs of Extending 2017 Law's Expiring Provisions Flow From Tax Breaks for the Top 5% of Households



Source: Office of Tax Analysis, Department of Treasury. "The Cost and Distribution of Extending Expiring Provisions of the Tax Cuts and Jobs Act of 2017"

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Add trillions in debt, much of it to benefit the wealthy. Extending the expiring tax cuts would cost $4.2 trillion over the decade 2026-2035, and roughly half of the benefits would go to people making over roughly $320,000 (that is, people with incomes in the top 5 percent).

Worsen racial inequities. Due to racial barriers to economic opportunity, households of color are more likely than non-Hispanic white households to have low incomes. Extending the expiring pieces of the 2017 tax law would give much bigger benefits to households with *high* incomes, so it would widen the already large income gaps between white households and households of color, particularly Black, Latino, and American Indian and Alaska Native households.

Weaken the nation's ability to fulfill our commitments to seniors and meet national needs and challenges. The aging of the population will raise Social Security and Medicare costs. That means we need to raise more revenue to fulfill our long-standing retirement and health care commitments to seniors. We also need more revenue to support high-value investments that improve well-being and broaden prosperity, such as bringing down families' high child care costs, and to improve the nation's long-term budget outlook. Doubling down on tax giveaways for wealthy households and corporations would be a step in the wrong direction.

Proposed IRS Funding Cuts Would Protect Wealthy Tax Cheats

During the 2010s, steep budget cuts imperiled the IRS's ability to serve taxpayers and enforce the nation's tax laws. But funding from the 2022 Inflation Reduction Act is helping the IRS dramatically improve its customer service, operate the direct file mechanism so people can file their taxes directly with the IRS for free, and modernize and improve its tax enforcement efforts. Those efforts are already paying off in cracking down on tax cheats and ensuring that wealthy people pay more of the taxes they owe. But Congress has already canceled some of the new enforcement funding, and Republican budget proposals call for repealing the rest.

Proposed Tariffs Would Mean Higher Costs for Consumers

During the campaign, then-candidate Donald Trump proposed a tariff of 10 or 20 percent on most or all imports, with a 60 percent tariff on imports from China. And on February 1, President Trump signed executive orders imposing tariffs of 25 percent on imports from Mexico and Canada (10 percent on energy imports from Canada) and 10 percent on imports from China, though the Administration later delayed the Mexican and Canadian tariffs. Research shows that the extra costs imposed by these tariffs are passed on to consumers; the tariffs announced February 1 would cost a typical middle-income household around $1,200 per year, according to one estimate. Tariffs can also provoke trade wars, which can harm domestic businesses.

Congress Should Create a More Adequate, Equitable Tax System

Instead of extending and expanding costly tax breaks for those who least need help, Congress should create a more equitable federal tax system that raises revenue sufficient to meet the nation's needs and requires wealthy households and corporations to pay their fair share.

As a first step, Congress should let the 2017 tax cuts for households with high incomes expire on schedule. Congress also should expand the Child Tax Credit, especially for the roughly 17 million children who don't receive the full credit today because their families' incomes are too low, and expand the Earned Income Tax Credit for workers not raising children in their home, who now receive little or nothing from the credit. In addition, Congress should scale back corporate tax breaks and reduce the special tax breaks enjoyed by very wealthy households that shield their considerable income from taxation. And Congress should provide the IRS with the funding it needs to enforce the nation's tax laws and better ensure that wealthy people and corporations pay the taxes they legally owe.

February 4, 2025