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## Commentary: Republican Tax and Budget Agenda Would Leave Most Low- and Middle-Income Children Worse Off

By Sharon Parrott

The budget plan that Senate Budget Committee Chair Mike Enzi unveiled September 29 would allow Congress to fast-track enactment of \$1.5 trillion in deficit-increasing tax cuts and allow the tax-writing committee to cut critical programs, including health coverage, to make the tax cuts even larger. And, by increasing deficits and debt, the tax cuts would intensify pressure, likely in the next several years, for steep budget cuts in programs that help low- and middle-income families or support longer-term economic growth, which is important to children's future prospects. Most low- and middle-income children and their families would likely *lose* more from these budget cuts than they would *gain* from the tax cuts.

### Proposed Tax Cuts Likely Provide Little to Low- and Middle-Income Children

Last week, the Trump Administration and congressional Republican leaders unveiled a set of tax proposals intend to serve as the framework for their forthcoming tax bill. The so-called "Big Six" tax framework specifies large tax cuts aimed at profitable corporations and wealthy households while offering little overall to lower- and middle-income working families. While lacking in some details, the plan closely follows many aspects of the House GOP's "Better Way" tax plan released last year, which also was heavily tilted to those high on the income scale.

The tax framework would: reduce tax rates on high-income households and wealthy corporations; cut taxes on so-called "pass-through" income, a type of income from certain financial firms, lobbyists, law firms, and other high-earning "pass-through" businesses; and eliminate both the estate tax on very large inheritances and the Alternative Minimum Tax. Taken together, these provisions would provide extremely large tax cuts to the wealthiest families, even after accounting for the plan's elimination of certain deductions including the deduction for households' state and local tax payments.

Some 80 percent of the benefits of the tax framework would go to the top 1 percent of households in 2027, and 40 percent would go to the top 0.1 percent of households (1 of every

1,000), according to Tax Policy Center (TPC) analysis. The bottom 80 percent of households would get just 13 percent of the tax cuts.<sup>1</sup>

Many low- and middle-income households would receive no benefit under the GOP framework, while others would benefit only modestly. The plan would increase the Child Tax Credit but the increase is non-refundable, meaning only families with incomes high enough to owe federal income taxes would benefit. And other elements of the plan would undo some of the benefit of the Child Tax Credit increase, such as by eliminating personal exemptions and raising the lowest income-tax rate from 10 percent to 12 percent.

The TPC analysis shows that the 27 million American households with children that have incomes under \$75,000 would receive an average tax cut of just \$20 in 2027, when the key tax cut provisions would be in full effect. Meanwhile, families with children and incomes over \$500,000 — the top 2.5 percent of all households with children — would see sizable benefits. Those with incomes between \$500,000 and \$1 million would receive tax cuts averaging \$13,600 in 2027, while those with incomes over \$1 million would receive a \$204,000 tax cut, on average.<sup>2</sup>

TPC estimates that the GOP framework would cost more than the already large \$1.5 trillion in deficit-increasing tax cuts the Senate budget resolution calls for. Congress would have several choices for bringing the plan's net cost down to \$1.5 trillion: cut entitlement programs under the jurisdiction of tax-writing committees, including programs that provide health care and basic assistance for struggling families; raise revenues by closing loopholes or other measures; or lower the cost of the plan's tax cuts, which could be done in part by using gimmicks to mask the tax policies' true cost.

## Tax Cuts Will Increase the Deficit

While some Administration officials claim<sup>3</sup> that tax cuts spur enough additional economic growth to offset their cost, the record is clear: tax cuts *reduce* revenues and *increase* deficits:

- Tax-cut proponents in the early 1980s argued that tax cuts would spur economic growth and deficits wouldn't grow, but, in fact, deficits grew substantially.
- Similarly, the 2001 and 2003 tax cuts have added \$5.6 trillion to deficits over the 2001-2018 period, including the associated increase in interest costs (even though a small share of the tax cuts were allowed to expire).<sup>4</sup>
- In 2012, Kansas enacted massive tax cuts that Governor Sam Brownback promised would act "like a shot of adrenaline into the heart of the Kansas economy." The reality proved far

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<sup>1</sup> Tax Policy Center, "A Preliminary Analysis of the Unified Framework," September 29, 2017, <http://www.taxpolicycenter.org/publications/preliminary-analysis-unified-framework>.

<sup>2</sup> Tax Policy Center Table T17-0226.

<sup>3</sup> See, for example, Christopher Condon and Ben Brody, "Trump's Team Pushes Back Against Critics of Tax Plan," Bloomberg Politics, October 1, 2017, <https://www.bloomberg.com/news/articles/2017-10-01/mnuchin-says-tax-reforms-aimed-squarely-at-middle-class-cuts>.

<sup>4</sup> Chuck Marr, "Unpaid-for Tax Cuts for Wealthy Even Less Defensible Now Than in Bush Era," Center on Budget and Policy Priorities, September 13, 2017, <https://www.cbpp.org/blog/unpaid-for-tax-cuts-for-wealthy-even-less-defensible-now-than-in-bush-era>.

different — the state’s economic and job growth lagged behind the nation (and most neighboring states) after the tax cuts took effect. To make up for the massive revenue loss, Kansas drained its operating reserves, raised the state sales tax, closed schools early in some districts, and cut other services. Two bond rating agencies downgraded the state’s bonds, and the state Supreme Court ruled that school funding levels were unconstitutionally low, leading lawmakers to reverse course on the tax cuts earlier this year.

If policymakers now enact large, unpaid-for tax cuts, deficits will balloon. Many of those in Congress who support tax cuts today will likely declare the deficit a crisis when that occurs, and point to spending as the culprit. When they turn their sights to deep budget cuts, children will risk bearing a large share of the burden.

## **Children’s Programs Could be Targeted for Cuts When Congress Turns to Deficit Reduction**

The higher deficits resulting from unpaid-for tax cuts would likely trigger new calls for budget cuts, including cuts in programs that provide important investments and supports to children.

President Trump and many Republican lawmakers have repeatedly cited the projected growth in debt that we already face — *before* accounting for a \$1.5 trillion tax cut — to justify their proposals for harsh budget cuts, including substantial reductions in programs benefitting children or promoting long-run economic growth. For example:

- The House Republican budget plan, the Trump budget, and the new Senate budget plan all call for trillions of dollars in cuts to entitlement programs over the coming decade, including massive cuts in Medicaid.
- Both the House and Trump budget plans would deeply cut SNAP (formerly food stamps), by at least \$140 billion over ten years. The Senate plan lacks sufficient detail to identify its SNAP cuts, but it includes large cuts in the budget category that includes SNAP, the Earned Income Tax Credit, and Supplemental Security Income, which provides income assistance for poor seniors and people with disabilities.
- The House budget plan calls for harmful changes in the Earned Income Tax Credit that could lead large numbers of eligible children to lose this important wage supplement.<sup>5</sup>

The entitlement program cuts in the all three budgets grow over time. For example, by 2027, the House budget would cut SNAP by about 40 percent. Children would be a prime target for cuts of this magnitude, since SNAP serves 20 million children, and two-thirds of SNAP benefits go to households with children.

The House, Senate, and Trump budget plans also call for sharp cuts in non-defense discretionary funding — the budget area that funds child care and Head Start, K-12 public education, housing assistance, job training, and student aid, among other programs. The *Senate* budget would cut this

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<sup>5</sup> Robert Greenstein and John Wancheck, “Verifying Incomes of All EITC Filers Would Delay Refunds, Raise Costs, Divert IRS Resources from More Effective Uses,” Center on Budget and Policy Priorities, September 29, 2017, <https://www.cbpp.org/research/federal-tax/verifying-incomes-of-all-eitc-filers-would-delay-refunds-raise-costs-divert-irs>.

part of the budget by 18 percent in 2027 compared to the 2017 level, and by 29 percent compared to the 2010 level, after adjusting for inflation. The cuts in this area in the *House* and *Trump* budget plans are even deeper. This part of the budget also funds a broad set of public services that help children indirectly by supporting longer-term economic growth, such as scientific research, or by supporting basic government functions such as protecting the safety of the food and water supplies. Most of the budget cuts in these budget plans likely won't be enacted this year. Republican congressional leaders have signaled that their primary focus in the months ahead is enacting their deficit-increasing tax cuts. But the budget plans clearly show where congressional Republicans will look in the future when they turn their attention to deficit reduction.

Cuts like those contained in these budget plans would increase poverty and hardship among children, reduce access to health care, and reduce children's likelihood of success in school. Federal assistance programs, including SNAP and refundable tax credits, lifted 11 million children above the poverty line in 2014 and made another 9 million less poor.<sup>6</sup> And Medicaid and the Children's Health Insurance Program are largely responsible for lowering the share of children who are uninsured from 14 percent in 1997 to 5 percent in 2016, well below the rate for non-elderly adults.<sup>7</sup> Not only do these investments reduce poverty and hardship in the near term, but a growing body of research shows that assistance programs improve poor children's educational and health outcomes as adults.<sup>8</sup>

## **Low- and Middle-Income Children Likely Net Losers from Plans' Tax and Budget Cuts**

While the tax cuts outlined in the GOP framework are heavily skewed toward high-income households and profitable corporations, the subsequent program cuts to bring down rising deficits would likely hit low- and middle-income Americans the hardest. That means that most families with children would likely be worse off after spending cuts are made to offset the cost of the tax cuts.

Consider, for example, a low-income family that loses Medicaid coverage due to cuts in the program along the lines of those in the Trump budget and in various bills to repeal and replace the Affordable Care Act. If a family member — parent or child — is uninsured and faces a serious medical problem, their health and financial stability could be at risk. At that point, a meager \$20 tax cut (the average under the GOP framework for families with children and incomes under \$75,000) would provide no meaningful help.

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<sup>6</sup> CBPP calculations using the Census Bureau's Current Population Survey and Supplemental Poverty Measure. We correct for households' underreporting of benefits using data from the Department of Health and Human Services/Urban Institute TRIM model. We use TRIM's data for SNAP, Supplemental Security Income, Temporary Assistance for Needy Families, and housing subsidies.

<sup>7</sup> Robin Cohen, Emily Zammitti, and Michael Martinez, "Health Insurance Coverage: Early Release of Estimates from the National Health Interview Survey, 2016," Centers for Disease Control and Prevention, May 2017, <https://www.cdc.gov/nchs/data/nhis/earlyrelease/insur201705.pdf>.

<sup>8</sup> Arloc Sherman and Tazra Mitchell, "Economic Security Programs Help Low-Income Children Succeed Over Long Term, Many Studies Find," Center on Budget and Policy Priorities, July 17, 2017, <https://www.cbpp.org/research/poverty-and-inequality/economic-security-programs-help-low-income-children-succeed-over>.

Even if the tax bill included a somewhat more favorable Child Tax Credit expansion, a tax-cut bill that significantly increases the deficit will very likely lead over time to harmful cuts in assistance that struggling families need to make ends meet and to obtain health care, as well as to cuts in a broad set of investments important to children's future prospects.

Ultimately, to be fiscally responsible and to be beneficial for children, a tax bill must, at a minimum, be revenue neutral — that is, it must pay for its tax cuts by closing unproductive or low-priority tax breaks or otherwise raising revenues. And any tax cuts that are provided should benefit those who most need help: struggling low- and modest-income families, not those at the top of the economic ladder.