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Fundamentally Flawed 2017 Tax Law Largely Leaves Low- and Moderate-Income Americans Behind

Testimony of Chye-Ching Huang, Director of Federal Fiscal Policy, Before the House Budget Committee

Chairman Yarmuth, Ranking Member Womack, and distinguished members of the Committee, thank you for the opportunity to testify. I will first outline the fundamental flaws of the 2017 tax law:[1] 1) it ignores the stagnation of working-class wages and exacerbates inequality; 2) it weakens revenues when the nation needs to raise more; and 3) it encourages rampant tax avoidance and gaming that will undermine the integrity of tax code. I will then explain in more detail how the 2017 tax law largely left behind low- and moderate-income Americans — and in many ways hurts them. Finally, I explain how a restructuring of the law can fix these flaws.

The 2017 Tax Law's Three Fundamental Flaws Mean It Requires Fundamental Restructuring

1. It ignores the stagnation of working-class wages and exacerbates inequality.

Instead of focusing on the challenges of low- and moderate-income people, the 2017 tax law will boost the after-tax incomes of households in the top 1 percent by 2.9 percent by 2025, roughly three times the 1.0 percent gain for households in the bottom 60 percent, the Tax Policy Center (TPC) estimates.[2] The tax cuts that year will average $61,100 for top 1 percent — and $252,300 for the top one-tenth of 1 percent. (See Figure 1.) The top 1 percent will already have after-tax incomes averaging $2.1 million that year, while the average incomes of the bottom 60 percent will be just $41,800.[3]

[1] The law's official name is "Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018." It was originally titled the "Tax Cuts and Jobs Act" but that name was stricken from the bill. This testimony draws substantially on the following report: Chuck Marr, Brendan Duke, and Chye-Ching Huang, "New Tax Law Is Fundamentally Flawed and Will Require Basic Restructuring," CBPP, updated August 14, 2018, https://www.cbpp.org/research/federal-tax/new-tax-law-is-fundamentally-flawed-and-will-require-basic-restructuring.

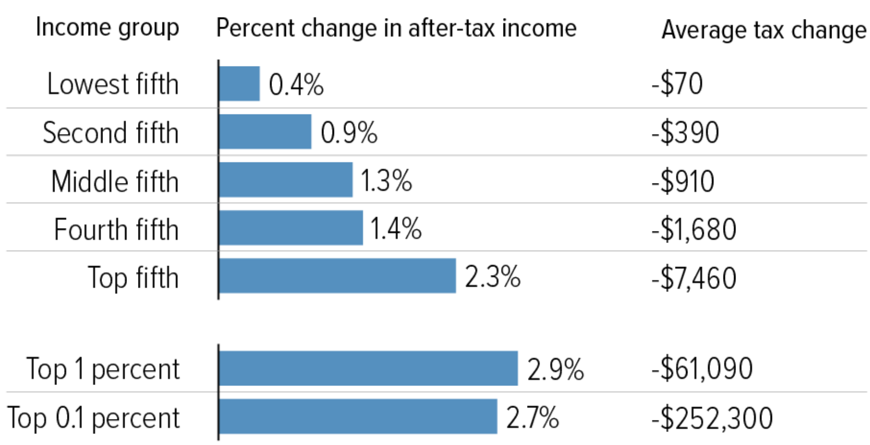
[2] TPC Table T17-0314. 2025 is when the law will be fully phased in and is before many provisions in it are scheduled to expire. The distribution is roughly similar in Tax Policy Center tables for 2018. The law is even more tilted to the top in 2027, when most of the individual provisions expire.

[3] TPC estimates that in 2025, the top 1 percent will have after-tax incomes exceeding $837,800, and the bottom 60% will have incomes below $91,700.

FIGURE 1

New Tax Law Delivers Large Tax Cuts to Most Well-Off

2025



Note: Excludes effect of repeal of health reform's individual mandate, which required most people to buy health insurance or pay a penalty.

Source: Tax Policy Center

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The tax law's tilt to the most well-off exacerbates racial inequities. Decades of policy choices put barriers to economic success in front of households of color, resulting in those households being overrepresented on the bottom rungs of the income ladder, while white households are overrepresented at the top. White families are three times more likely than Latino and Black families to be among the highest-income 1 percent of households. So, while the highest-income white households make up just 0.8 percent of all households, they receive 23.7 percent of the total tax cuts from the 2017 tax law, far more than the 13.8 percent that the bottom *60 percent* of households of all races receives, the Institute for Taxation and Economic Policy estimates.[4]

The law's tilt to the top reflects several large provisions that primarily benefit the most well-off:

- **Cutting corporate taxes**. The 2017 tax law cuts the corporate tax rate from 35 to 21 percent and shifts toward a territorial tax system, in which multinational corporations' foreign profits largely no longer face U.S. tax. These tax cuts overwhelmingly benefit wealthy shareholders and highly paid executives. One-third of the benefits from cutting corporate rates ultimately

[4] Roderick Taylor, "ITEP-Prosperity Now: 2017 Tax Law Gives White Households in Top 1% More Than All Races in Bottom 60%," CBPP, October 11, 2018, https://www.cbpp.org/blog/itep-prosperity-now-2017-tax-law-gives-white-households-in-top-1-more-than-all-races-in-bottom.

flow to the top 1 percent, TPC estimates — assuming that the cost of those tax cuts are ultimately paid for, but without incorporating estimates of who ends up paying.[5]

- **A 20 percent deduction for pass-through income.** The law effectively cuts the marginal individual tax rate on pass-through income (income from businesses such as partnerships, S corporations, and sole proprietorships that business owners claim on their individual tax returns) by one-fifth. The top 1 percent of households will get 61 percent of this tax cut on pass-through income in 2024, while the bottom two-thirds of households will see just 4 percent, according to JCT.[6]
- **Doubling the estate tax exemption.** The law doubles the amount that the wealthiest households can pass on tax-free to their heirs, from $11 million per couple to $22 million, or many times the lifetime earnings of a typical high school graduate. The few estates large enough to remain taxable — fewer than 1 in 1,000 estates nationwide — will receive a tax cut of $4.4 million per couple.
- **Cutting individual income tax rates for those at the top.** The law cuts the top individual income tax rate from 39.6 percent to 37 percent for married couples with over $600,000 in taxable income. By itself, this will give a couple with $2 million in taxable income a $36,400 tax cut. The law also weakens the Alternative Minimum Tax, which is designed to ensure that higher-income people who take large amounts of deductions and other tax breaks pay at least a minimum level of tax. The law raises both the amount of income that's exempt from the AMT and the income level above which this exemption begins phasing out, delivering another tax cut to affluent households.

History, empirical evidence, and how real wages have fared since December 2017 are all reasons to doubt any claims that the large, immediate tax cuts for high-income filers benefit will eventually trickle down to low- and moderate-income households.[7] Instead, the economic circumstances of low- and moderate-income people were largely an afterthought in the law, and the law contains many provisions that will *harm* many such households. I will return to this issue after briefly outlining the tax law's two other major flaws.

2. It weakens revenues at a time when the nation needs to raise more.

The new tax law will cost $1.9 trillion over the next decade, JCT estimates. These large revenue losses are irresponsible given the fiscal challenges the nation will face over the next several decades. These challenges include the retirement of the baby boomers, health care costs that likely will continue to rise faster than the economy, interest rates returning to more normal levels, potential

[5] Chye-Ching Huang and Brandon DeBot, "Corporate Tax Cuts Skew to Shareholders and CEOs, not Workers as Administration Claims," CBPP, August 16, 2017, https://www.cbpp.org/research/federal-tax/corporate-tax-cuts-skew-to-shareholders-and-ceos-not-workers-as-administration.

[6] See Chuck Marr, "JCT Highlights Pass-Through Deduction's Tilt Toward the Top," CBPP, April 24, 2018, https://www.cbpp.org/blog/jct-highlights-pass-through-deductions-tilt-toward-the-top.

[7] Chye-Ching Huang, "Tax Cuts Must Be Judged by Their Effect on Typical Households," CBPP, April 25, 2018, https://www.cbpp.org/blog/tax-cuts-must-be-judged-by-their-effect-on-typical-households; "Large Job Growth Unlikely to Follow Tax Cuts for the Rich and Corporations," CBPP, October 10, 2017, https://www.cbpp.org/research/federal-tax/large-job-growth-unlikely-to-follow-tax-cuts-for-the-rich-and-corporations.

national security threats, and current and emerging domestic challenges such as large infrastructure needs that cannot be indefinitely deferred.

Because of these pressures, CBPP and other analysts project that spending will need to rise as a percentage of gross domestic product (GDP), with most of the spending growth concentrated in a few programs — Social Security, Medicare, and Medicaid — that have widespread public support and whose growth is traceable to demographic and health care cost factors, not to more generous coverage or benefits.[8] But the tax law went in the opposite direction, reducing revenues to a share of GDP to its lowest level in the last 50 years outside of the immediate aftermath of a recession.[9]

3. It encourages rampant tax gaming and risks undermining the integrity of tax code.

True tax reform simplifies the tax code and narrows the gaps between how different types of income are taxed. The 2017 tax law does the opposite, adding complexity to the tax code and introducing new, arbitrary distinctions between different kinds of income. This means that the law has created lucrative new opportunities for the well-advised to try to game the tax code to avoid taxes — including by lobbying to keep the regulations to implement the hastily enacted law as favorable for them as possible. Tax advisors and lobbyists are referring to the law as a "bonanza" and a "giant present to the tax lobbying community."[10]

The creation and widespread abuse of tax shelters could cause the bill to lose even more revenue than current estimates of the law now show — and is likely to increase income inequality even more, since tax avoidance is worth the most to wealthy individuals and profitable corporations, who also are best equipped to take advantage of those opportunities.

Examples of potential sheltering opportunities created by the 2017 tax law include:

- **The law's 20 percent deduction for "pass-through" income.** The deduction effectively means that certain pass-through income will face a lower tax rate than wages and salaries, creating an incentive for high-income individuals to reclassify their salaries as pass-through income. While the law has complex "guardrails" to try to prevent such abuse, they are poorly designed, and invite gaming by tax advisors. For reasons such as this, NYU law professor Daniel Shaviro's has aptly described the pass-through provision as "the worst provision ever even to be seriously proposed in the history of the federal income tax."[11]

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[8] For more, see: Paul Van de Water, "2017 Tax Law Heightens Need for More Revenues," CBPP, November 15, 2018, https://www.cbpp.org/research/federal-tax/2017-tax-law-heightens-need-for-more-revenues.

[9] Dylan Matthews, "Obama's chief economist: Trump's economic projections are 'the most absurd I've ever seen,'" Vox, February 19, 2018, https://www.vox.com/policy-and-politics/2018/2/19/17012288/trump-budget-proposal-obama-chief-economist-jason-furman-interview.

[10] Theodoric Meyer, "It's a giant present to the tax lobbying community: K street lobbyists are banking on years of paydays from the tax overhaul," *Politico,* January 2, 2018, https://www.politico.com/story/2018/01/02/tax-overhaul-paydays-for-k-street-261668.

[11] Daniel Shaviro, "Apparently income isn't just income any more," Start Making Sense, December 16, 2017, http://danshaviro.blogspot.com/2017/12/apparently-income-isnt-just-income-any.html.

The final regulations implementing the deduction have been shaped by heavy industry lobbying.[12] And the provision presents a boon for tax advisors, with one financial advisor telling a conference of such advisors:[13]

> This is, without a doubt, one of the biggest areas of planning that we can have under the new law. This is why, in large part, they should have just renamed the [2017 tax law] the tax professional, lawyer and financial advisor job security act of 2017.
>
> The [pass-through] deduction leaves a gaping hole in the tax code, and the goal by the end of the presentation today is to make you guys the bus drivers, or the truck drivers, to drive right through that hole with your clients.

- **A powerful incentive for wealthy Americans to shelter large amounts of income in corporations.** The law creates a powerful incentive for wealthy Americans to shelter large amounts of income in corporations by slashing the corporate rate to 21 percent, far below the top individual tax rate of 40.8 percent (the new 37 percent top individual income tax rate plus the 3.8 percent Medicare payroll or net investment income tax rate). This will entice wealthy people to shield their labor or interest income from the top individual rate by setting up a corporation and reclassifying their income as corporate profits in order to pay the lower corporate rate.

These new tax avoidance opportunities threaten the integrity of the tax system, particularly coming when the IRS enforcement budget has been drained by *25 percent* in real terms since 2010.[14]

Law Does Relatively Little for Low- and Moderate-Income Americans — and Hurts Many

I have just outlined the three fundamental flaws of the 2017 tax law. Let me now examine in more detail how the 2017 tax largely leaves behind low- and moderate-income Americans — and indeed hurts many.

The 2017 tax law should have placed top priority on raising the living standards of low- and moderate-income households, given decades of stagnant working-class incomes and growing income inequality. The share of after-tax income flowing to the bottom 60 percent fell by 3.8 percentage points between 1979 and 2015, while the share flowing to the top 1 percent rose by 5.6 percentage points.[15] And looking at the "working class" — a racially and geographically diverse group often

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[12] Samantha Jacoby, "Pass-Through Deduction Regulations Reflect Industry Lobbying," CBPP, January 30, 2019, https://www.cbpp.org/blog/pass-through-deduction-regulations-reflect-industry-lobbying.

[13] Emily Horton, "Tax Planner: Drive Wealthy Clients Through 'Gaping Hole' in Tax Code," CBPP, May 31, 2018, https://www.cbpp.org/blog/tax-planner-drive-wealthy-clients-through-gaping-hole-in-tax-code.

[14] Roderick Taylor, "House Bill Leaves IRS Enforcement Depleted," CBPP, May 24, 2018, https://www.cbpp.org/blog/house-bill-leaves-irs-enforcement-depleted. This blog post was written based on the House Appropriation Committee's 2019 funding bill, but the enforcement figure of 25 percent remains the same in the final appropriations bill as well.

[15] The share of income going to the top 1 percent increased from 7.4 to 13.0 percent, while the share going to the bottom 60 percent fell from 36.3 to 32.5 percent. See: Congressional Budget Office, "The Distribution of Household Income, 2015," November 8, 2018, https://www.cbo.gov/publication/54646. Income shares have been recalculated to exclude households with negative income.

defined as families with working-age adults in which no one has a college degree — real working-class median income rose by only about 3 percent from 1979 to 2015.[16]

2017 Tax Law Largely Left Behind Low- and Moderate-Income People

The drafters of the 2017 tax law ignored key tools they could have used to raise living standards for low- and moderate-income people. The Child Tax Credit (CTC) and Earned Income Tax Credit (EITC) are provisions of the tax code that lift the living standards of millions of working families. A growing body of evidence also links income from these tax credits to better infant health, improved school performance, higher college enrollment, and projected increases in earnings in adulthood for children in families that receive them.[17] The 2017 tax law could have substantially helped low- and moderate-income households by boosting these tax credits in ways that would benefit them, but instead it:

1. Increased the CTC in a way that largely left behind millions of working families, while doing much more for high-income families.[18]

The law increased the maximum CTC from $1,000 to $2,000 per child — but denied that full increase to millions of children in low-income working families.

- **11 million children in low-income working families will receive just a token CTC increase of just $1 to $75.** Before the 2017 tax law, the CTC was a maximum tax credit of $1,000 per eligible child under age 17. However, many low- and moderate-income working families could not receive the maximum credit — so increases to the maximum do nothing to help them. That's because working families with children under 17 with incomes too low to owe much or any income tax could get only part of the CTC as a tax refund. Before the 2017 tax law, that refundable amount was limited to 15 percent of a family's earnings over $3,000. The 2017 tax law lowered the threshold so that earnings over $2,500 would count towards earning a CTC. This translates to a CTC increase of just $75 (15 percent of $500) for those families — such as a single mother with two children who works full time at the federal minimum wage and earns $14,500 a year. (See Figure 2.)
- **Another 15 million children in low- and modest-income working families get a CTC increase of more than $75 — but often far less — than the full $1,000-per-child increase.** That's because the 2017 law introduced a new cap on the refundable amount of the credit, at $1,400 per child (indexed for inflation), meaning that for millions of children in moderate-income working families their CTC increase was limited to no more than $400 per child. For example, a married couple with two children making $24,000 will get an $800 increase in their total CTC — well below the $2,000 maximum.

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[16] Chuck Marr, Brandon DeBot, and Emily Horton, "How Tax Reform Can Raise Working-Class Incomes," CBPP, October 13, 2017, https://www.cbpp.org/research/federal-tax/how-tax-reform-can-raise-working-class-incomes.

[17] Chuck Marr *et al.*, "EITC and Child Tax Credit Promote Work, Reduce Poverty, and Support Children's Development, Research Finds," CBPP, updated October 1, 2015, https://www.cbpp.org/research/federal-tax/eitc-and-child-tax-credit-promote-work-reduce-poverty-and-support-childrens.

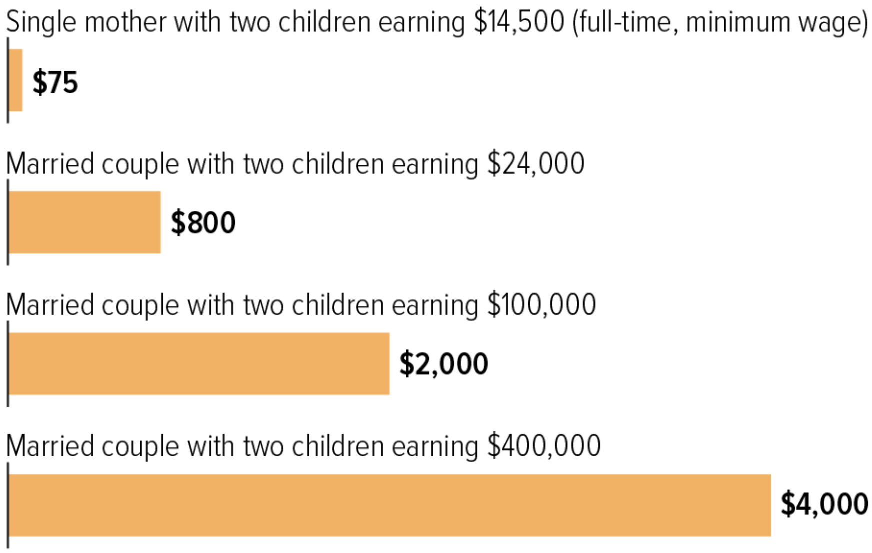
[18] "2017 Tax Law's Child Credit: A Token or Less-Than-Full Increase for 26 Million Kids in Working Families," CBPP, August 27, 2018, https://www.cbpp.org/research/federal-tax/2017-tax-laws-child-credit-a-token-or-less-than-full-increase-for-26-million.

- **The largest CTC increases go to high-income families**. The credit now begins to phase out for married couples making $400,000 a year, compared to $110,000 under prior law. A married couple with two children making $400,000 are now newly eligible for a full $2,000-per-child CTC, a $4,000 increase.

FIGURE 2

Lowest-Income Families Largely Left Out of New Tax Law's Child Tax Credit Increase

Tax credit increase compared to previous law, 2018



Source: CBPP analysis

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This outcome was a deliberate choice by the law's drafters: negotiators agreed last-minute to a deeper cut in the top individual tax rate, but rejected calls to use that same funding source — a slight reduction in the law's cut in the corporate tax rate — to deliver more than a token CTC increase to 11 million children in low-income working families.

2. Ignored the Earned Income Tax Credit, a critical tool for boosting workers' incomes.

Stagnant working-class wages call for a strong policy response, and the EITC is well-designed to be at the forefront of addressing this challenge. It already lifts millions out of poverty and supplements the wages of a diverse group of working-class people who do needed jobs but receive relatively low pay, from truck drivers to cooks to home health aides.[19] And it can be strengthened to do more. But, despite former Speaker Paul Ryan's purported commitment to strengthening the

[19] Jennifer Beltran, "Working-Family Tax Credits Lifted 8.9 Million People Out of Poverty in 2017," CBPP, January 15, 2019, https://www.cbpp.org/blog/working-family-tax-credits-lifted-89-million-people-out-of-poverty-in-2017.

EITC,[20] no boost in the EITC was proposed or included in the 2017 tax law. Indeed, a provision of the law (discussed below) erodes the value of the EITC over time.

Provisions That Hurt Many Low- and Moderate-Income Households

In addition to failing to address the economic challenges that low- and moderate-income people face, the 2017 tax law included provisions that will hurt many such households. For example, it:

1. **Risks harming workers' wages and workplace standards due to its pass-through deduction.** The law's 20 percent deduction for pass-through businesses is overwhelmingly tilted to the highest-income filers. My colleagues have also explained that the deduction may fuel a move towards "fissured workplaces," because it creates an incentive for firms to buy workers' services without employing them directly.[21] Examples include hiring workers as "independent contractors" instead of as employees, or by hiring workers through another firm (such as contracting out janitorial services to another firm). Workers employed in some of these fissured workplace arrangements tend to be paid less than workers that firms employ directly, extensive evidence shows.
2. **Retains and creates incentives for companies to shift profits and investment offshore, which risks weakening workers' wages.** The law moves U.S. international tax system towards a "territorial" system, where most profits that a U.S. parent company earns from its foreign subsidiaries aren't subject to U.S. tax under certain conditions. That risks a big, permanent incentive for U.S. multinationals to shift overseas not just profits on paper, but also actual investment, in ways that could hurt U.S. workers' wages.[22] The law has several provisions to try to limit the damage this basic incentive could cause, but still leaves in place a large incentive to shift profits offshore.[23] Further, one of those anti-abuse measures — a new minimum tax on certain foreign income — is poorly designed and has its own incentives for companies to shift profits and investments overseas.

   Ironically, during the 2016 presidential campaign, then-candidate Donald Trump proposed to immediately tax profits made from overseas investments just like profits from domestic investments are taxed, which would have avoided these problems. But, President Trump dropped his proposal and joined congressional Republicans in pushing for a territorial system.
3. **Leaves millions more people uninsured or facing higher premiums.** The 2017 tax law repealed the Affordable Care Act's requirement that most people enroll in health insurance coverage or pay a penalty. In 2019 alone, eliminating that penalty will raise the number of

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[20] Dylan Matthews, "Obama is testing Paul Ryan's commitment to fighting poverty, and Ryan is failing badly," *Vox,* December 2, 2014, https://www.vox.com/2014/12/2/7320363/eitc-child-credit-ryan.

[21] Brendan Duke, "2017 Tax Law's Pass-Through Deduction Could Encourage 'Workplace Fissuring,'" CBPP, December 20, 2018, https://www.cbpp.org/blog/2017-tax-laws-pass-through-deduction-could-encourage-workplace-fissuring.

[22] Jane Gravelle, "The Need for Comprehensive Tax Reform to Help American Companies Compete in The Global Market And Create Jobs for American Workers," House Ways and Means Committee hearing, May 12, 2011, https://www.gpo.gov/fdsys/pkg/CHRG-112hhrg70882/html/CHRG-112hhrg70882.htm.

[23] Kimberly Clausing, "Profit Shifting Before and After the Tax Cuts and Jobs Act," SSRN, October 29, 2018, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3274827.

uninsured by 4 million and raise premiums in the individual insurance market by about 10 percent, according to the Congressional Budget Office (CBO).[24]

4. **Erodes the EITC for millions of working-class households**. The law uses a slower measure of inflation to adjust tax brackets and other tax provisions each year. Over time, this will raise taxes across the board. And for low- and moderate-income families, it means the maximum EITC will increase more slowly. By 2027, a married couple making $40,000 with two children will see their federal EITC shrink by $283 in 2027 (from $5,025 to $4,742).

5. **Ends the CTC for 1 million children — overwhelmingly "Dreamers."** The law ends the CTC for 1 million children lacking a Social Security number in low-income working families, who are overwhelmingly "Dreamers" with undocumented status brought to the United States by their immigrant parents.[25]

6. **Adds $1.9 trillion to deficits over 2018 to 2027, putting pressure on critical economic security programs and investments**.[26] As noted above, baby boomers are retiring, and the nation needs to address years of underinvestment in priorities like basic infrastructure, child care, job training, and to face new challenges like climate change. More revenues, not less, are needed to face of these challenges.

   Further, even before adding $1.9 trillion to deficits for tax cuts tilted to the top, the law's drafters made clear in their budget proposals and statements that their preferred way of addressing deficits would be to cut programs that help families of limited means afford health care, food, housing, and other basic needs.[27] For example, those budgets have consistently featured large cuts in Medicaid, which provides health and nursing home care to millions of these families. Low- and moderate-income Americans should not now be left holding the tab for tax cuts tilted to the top, through cuts to, or underinvestment in, critical priorities. Instead, lawmakers can reverse course and raise substantially higher progressive revenues to meet national challenges.

The Appendix provides for each state examples the impacts of the 2017 tax law that exemplify how it favors the most well-off instead of low- and moderate-income Americans.[28]

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[24] Tara Straw *et al.*, "Strong Demand Expected for Marketplace Open Enrollment, Despite Administration Actions," CBPP, October 31, 2018, https://www.cbpp.org/research/health/strong-demand-expected-for-marketplace-open-enrollment-despite-administration#_ftn11.

[25] Jacob Leibenluft, "Tax Bill Ends Child Tax Credit for About 1 Million Children," CBPP, December 18, 2017, https://www.cbpp.org/blog/tax-bill-ends-child-tax-credit-for-about-1-million-children.

[26] Proponents of the law such as Treasury Secretary Steven Mnuchin claim that the tax cuts will pay for themselves by increasing economic growth. Yet estimates from CBO that take into account the law's macroeconomic impact as well as increase in interest payments on the added debt still put its 2018-2027 cost at $1.9 trillion.

[27] Robert Greenstein, "Commentary: With Tax Cuts for the Top, GOP Leaders Now Aim Budget Cuts at the Bottom," CBPP, December 21, 2017, https://www.cbpp.org/research/federal-tax/commentary-with-tax-cuts-for-the-top-gop-leaders-now-aim-budget-cuts-at-the.

[28] A more detailed, interactive version of this Appendix can be found at: https://www.cbpp.org/federal-tax/fundamentally-flawed-2017-tax-law-largely-leaves-low-and-moderate-income-americans#mapEmbed.

Conclusion

To undo the damage caused by the 2017 tax law and meet national needs, lawmakers can craft meaningful tax reform that eliminates various loopholes, shelters, and gaming opportunities the tax code now contains, raises much-needed revenue, and is more favorable to working households with low or modest incomes. In heading towards this goal, lawmakers can keep in mind that:

- **Only a basic restructuring of the 2017 tax law can fix its flaws, as they stem from the law's core provisions.** For example, the corporate rate cut and the 20 percent deduction for pass-through businesses contribute to all three of the measure's major flaws: they worsen inequality by disproportionately benefiting the well-off; they lose significant revenue at a time when demographic and other pressures require federal revenue to rise; and they will likely encourage significant tax avoidance by creating major incentives for wealthy individuals to recharacterize their income in search of lower taxes. Minor tinkering cannot solve these problems.
- **Improving the EITC and CTC should be top priorities of any restructuring effort.** Building on the success of these credits for workers and families is a sound way to raising the living standards of the low- and moderate-income Americans who were largely overlooked by the 2017 tax law, and who have faced decades of economic challenges.
    - As noted above, 15 million children in low-income working families received just a token CTC increase from the 2017 tax law, and 15 million children in low- and moderate-income working families were left out of the full increase. To fix these shortcomings and ensure that low- and moderate-income families are not left out, the CTC should be made fully refundable so that low- and moderate-income families receive the full $2,000-per-child credit. At the very least, the CTC should be set to phase in at the first dollar of earnings, at a higher rate, and without a $1,400 refundability cap.
    - In the EITC, a key priority should be fully extending the EITC's pro-work success to childless adults. In contrast to families with children, the EITC for workers not raising children in the home remains extremely small — too small even to fully offset federal taxes for workers at the poverty line. As a result, low-wage workers not raising children are the sole group that the federal tax system taxes into, or deeper into, poverty. After helping childless workers, policymakers should further expand the EITC for families with children since the credit is well placed to feature in efforts to boost working-class Americans' incomes. A substantial EITC improvement for these families would help mitigate decades of working-class income stagnation.
- **In the interim, any true "technical corrections" to fix drafting mistakes in the tax law cannot compound the flaws of the 2017 tax law itself — and should instead start to fix them**. For example, former Ways and Means Chairman Kevin Brady proposed last year a "technical corrections" package that would have helped restaurant and retail owners while doing nothing for millions of their workers. As my colleague has written, "To be sure, the authors of the 2017 tax law omitted full expensing for restaurant and retail business owners inadvertently, while omitting […] CTC and EITC improvements for low-wage workers by design. But if ignoring these workers was a major mistake the first time, as it surely was, then

ignoring them again would compound the error."[29] As was the case in in 2018, no technical corrections package that delivers a valuable fix to business owners or other high-income filers should be passed unless the package *also* starts to make progress for the millions of children and workers who were left out or largely left out of improvements in tax credits for working families. This means starting to make down payments on the EITC and CTC changes mentioned above.

- **Any budget deal should include adequate funding of the IRS, and particularly for IRS enforcement.** IRS enforcement funding overall has been cut by 25 percent since 2010, after adjusting for inflation, and the enforcement division has lost roughly 30 percent of its workforce over that period. The cuts have driven a more than 40 percent decline in the rate of audits — especially for high-income individuals and large corporations. And enforcement needs have only grown as a result of the 2017 tax law.

  Not only is restoring IRS enforcement levels to adequate levels critical for the integrity of the tax code, it is also fiscally sound. CBO estimates that once staff training and computer upgrades are completed, each $1 of additional enforcement funding would generate $5.20 in additional revenue.[30] Moreover, the Treasury Department notes that this return on investment likely is understated because it includes only the amounts directly recovered; it does not reflect the effect that enhanced enforcement has on deterring non-compliance. This deterrence could triple the rate of return on each additional dollar invested in IRS enforcement, the Office of Management and Budget (OMB) has written.[31]

  When Congress negotiates a new budget agreement, it should include a Trump Administration proposal to improve the enforcement of the nation's tax laws by adding IRS enforcement funding that doesn't count against the annual cap on overall funding for non-defense appropriations. There is a lengthy bipartisan history of exempting from the cap certain types of program integrity funding — to reduce errors, overpayments, and fraud in government programs and taxes — that OMB estimates will produce net savings.[32] That approach to IRS enforcement funding is especially timely now, given the IRS enforcement division's depleted personnel and its coming workload increase under the 2017 tax law.

[29] Chuck Marr, "House GOP Tax Fix for Restaurant, Retail Owners Leaves Out Millions of Their Workers," CBPP, December 6, 2018, https://www.cbpp.org/blog/house-gop-tax-fix-for-restaurant-retail-owners-leaves-out-millions-of-their-workers.

[30] Congressional Budget Office, "Options for Reducing the Deficit: 2019 to 2028," p. 307, December 13, 2018, https://www.cbo.gov/system/files?file=2018-12/54667-budgetoptions.pdf.

[31] Office of Management and Budget, FY17 President's Budget Appendix, p. 1047, https://obamawhitehouse.archives.gov/sites/default/files/omb/budget/fy2017/assets/tre.pdf.

[32] For OMB's calculation of the net savings derived from the proposed IRS cap adjustment, see Office of Management and Budget, FY19 Analytical Perspectives Table 10-2, P.110, https://www.whitehouse.gov/wp-content/uploads/2018/02/ap_10_process-fy2019.pdf.

Appendix

TABLE 1

Effects of the 2017 Tax Law by State

	Number of children in working families receiving less than the full CTC increase, 2018	Average tax cut for top 1 percent, 2019	Average tax cut for bottom 60 percent, 2019	Number of estates wealthy enough to benefit from estate tax cut	Increase in individual market premiums for a family of four, 2019
Alabama	440,000	$49,660	-$370	40	$2,230
Alaska	54,000	$73,010	-$510	*	$2,900
Arizona	678,000	$54,250	-$410	90	$2,060
Arkansas	309,000	$42,220	-$410	30	$1,450
California	3,532,000	$26,890	-$580	1,230	N.A.
Colorado	374,000	$62,920	-$490	90	N.A.
Connecticut	182,000	$71,030	-$450	70	N.A.
Delaware	63,000	$40,780	-$470	*	$2,350
District of Columbia	37,000	$81,240	-$530	20	N.A.
Florida	1,658,000	$98,480	-$320	600	$1,860
Georgia	1,047,000	$64,620	-$370	100	$1,930
Hawaii	91,000	$39,420	-$470	30	$1,750
Idaho	159,000	$48,220	-$390	20	N.A.
Illinois	994,000	$58,750	-$540	190	$1,940
Indiana	572,000	$48,840	-$460	60	$1,360
Iowa	209,000	$43,060	-$490	40	$2,850
Kansas	238,000	$60,150	-$510	40	$2,070
Kentucky	386,000	$37,870	-$350	50	$1,690
Louisiana	464,000	$54,230	-$330	30	$1,900
Maine	78,000	$31,900	-$370	20	$2,350
Maryland	337,000	$52,360	-$460	100	N.A.
Massachusetts	317,000	$84,720	-$560	120	N.A.
Michigan	782,000	$57,700	-$430	100	$1,520
Minnesota	336,000	$42,700	-$520	80	N.A.
Mississippi	314,000	$35,970	-$310	20	$2,080
Missouri	483,000	$48,840	-$370	80	$2,120
Montana	79,000	$52,550	-$290	20	$2,100
Nebraska	152,000	$50,750	-$510	40	$3,070
Nevada	272,000	$104,700	-$500	60	$1,730
New Hampshire	56,000	$57,320	-$630	40	$1,900
New Jersey	549,000	$30,440	-$520	160	$1,650
New Mexico	240,000	$38,440	-$410	20	$1,660
New York	1,458,000	$29,890	-$390	420	N.A.
North Carolina	919,000	$44,760	-$360	130	$2,510
North Dakota	41,000	$60,280	-$440	*	$1,510

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	Number of children in working families receiving less than the full CTC increase, 2018	Average tax cut for top 1 percent, 2019	Average tax cut for bottom 60 percent, 2019	Number of estates wealthy enough to benefit from estate tax cut	Increase in individual market premiums for a family of four, 2019
Ohio	924,000	$47,510	-$420	150	$1,480
Oklahoma	375,000	$49,950	-$320	30	$2,630
Oregon	314,000	$33,570	-$430	50	$1,650
Pennsylvania	825,000	$53,580	-$400	160	$2,300
Rhode Island	64,000	$43,400	-$410	20	N.A.
South Carolina	443,000	$48,520	-$380	40	$2,080
South Dakota	66,000	$88,650	-$440	20	$2,080
Tennessee	612,000	$56,820	-$410	70	$2,970
Texas	3,045,000	$80,350	-$460	310	$1,730
Utah	257,000	$68,960	-$540	*	$2,100
Vermont	32,000	$33,400	-$470	*	N.A.
Virginia	516,000	$60,440	-$420	140	$2,140
Washington	472,000	$90,480	-$600	80	N.A.
West Virginia	143,000	$28,120	-$240	30	$2,180
Wisconsin	391,000	$53,430	-$460	60	$2,270
Wyoming	36,000	$108,880	-$420	20	$3,460
Utah	440,000	$68,960	-$540	*	$2,100
Vermont	54,000	$33,400	-$470	*	N.A.
Virginia	678,000	$60,440	-$420	140	$2,140

Source: CBPP Child Tax Credit calculations, Institute for Taxation and Economic Policy analysis of the 2017 tax law, IRS estate tax tabulations, Center for America Progress analysis of repealing the Affordable Care Act's individual mandate. Shows children in families with earnings that are too low to receive the full CTC increase.

A more detailed interactive version of this Appendix can be found online at https://www.cbpp.org/federal-tax/fundamentally-flawed-2017-tax-law-largely-leaves-low-and-moderate-income-americans#mapEmbed.

Note: "*" for estate tax data means that it was deleted by the IRS to prevent disclosure of individual taxpayer information due to small number of estates. CAP premium data are not available for every state.