820 First Street NE, Suite 510
Washington, DC 20002

Tel: 202-408-1080
Fax: 202-408-1056

center@cbpp.org
www.cbpp.org

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# Vast Majority of Americans Would Likely Lose From Trump Tax Cuts, Once They're Paid For

By Isaac Shapiro and Chye-Ching Huang

If President Trump's proposed tax cuts are paid for through the types of spending cuts in his budget proposal, the vast majority of Americans — including more than 90 percent of households in the middle fifth of the income spectrum — would be net losers, a new Tax Policy Center (TPC) analysis indicates.[1] The spending cuts and tax increases needed to offset the cost of the tax cuts would cause their incomes to fall much more than they would gain from the tax cuts themselves. (See Figure 1.)

This finding reflects the well-documented reality that the Trump tax cuts skew overwhelmingly to the very wealthy. But it also reflects a frequently overlooked reality of a plan that includes net tax cuts of at least $3.5 trillion over the next decade: sooner or later, the cost will need to be offset through some combination of spending cuts and tax increases. The TPC analysis is unique because it examines the potential ultimate effects of the tax plans, taking into account the tax cuts' full costs.

The TPC results underscore the importance of the debate over the House budget resolution, now expected to occur in early September. Congress is far more likely to avoid effectively transferring income from low- and middle-income people to the rich if the resolution requires, at minimum, that tax legislation be *revenue neutral*; that is, all tax cuts should be fully offset by other tax increases, such as closing tax loopholes.[2] If the resolution instead facilitates tax cuts that can be paid for by cutting critical programs like Medicaid right away, or by adding to budget deficits that would result in damaging spending cuts down the road, then the tax cuts would likely leave low- and middle-income people worse off. Reductions in investments and in basic assistance in nutrition, health, education, and other areas vital to the broad population would be made to pay for large tax cuts for the wealthy. The question is whether those cuts are made now, or in the future.

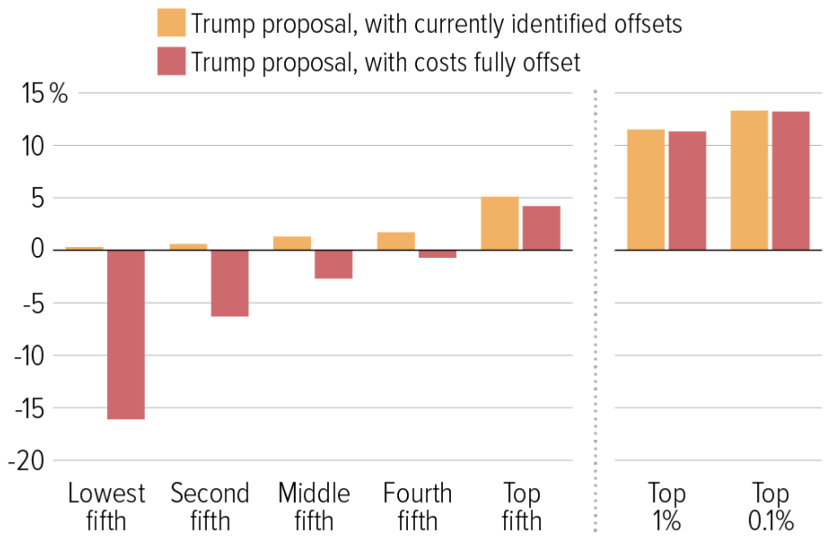
[1] William G. Gale, Surachai Khitatrakum, and Aaron Krupkin, "Cutting taxes and making future Americans pay for it: How Trump's tax cuts could hurt many households," Tax Policy Center, August 15, 2017, https://www.brookings.edu/research/cutting-taxes-and-making-future-americans-pay-for-it-how-trumps-tax-cuts-could-hurt-many-households/.

[2] Chye-Ching Huang, "Decoding 'Deficit Neutral' Tax Bill: Low-Income Program Cuts Pay for Tax Cuts for Wealthy," Center on Budget and Policy Priorities, June 15, 2017, https://www.cbpp.org/blog/decoding-deficit-neutral-tax-bill-low-income-program-cuts-pay-for-tax-cuts-for-wealthy.

FIGURE 1

**Bottom Four-Fifths of Households Would Lose Under Trump Tax Approach, Once Fully Financed**

Percent change in after-tax income by income group, 2018




Note: the tax plan proposed by the Trump Administration does not fully offset the costs of its proposed tax cuts with revenue-raising provisions. The Tax Policy Center analysis considers three scenarios for fully offsetting the tax cuts, including the scenario shown here, "equal dollar financing," which means that each household pays an equal dollar amount each year to finance the tax cut.

Source: Tax Policy Center

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## As Currently Outlined, the Trump Plan Overwhelmingly Benefits the Top

Even counting all the revenue-raising measures mentioned during President Trump's campaign and by the Trump Administration — including many that the campaign and Administration have embraced inconsistently — the TPC analysis finds that the Trump tax plan presented so far would have a net cost of $3.5 trillion over ten years.[3] Half of the tax cuts would go to the top 1 percent of households and a fifth to the top 0.1 percent. That top 0.1 percent (whose annual incomes exceed $3.4 million) would get tax cuts totaling more than $900,000 a year on average, boosting their after-tax incomes by more than 13 percent. Low- and moderate-income families would see tax cuts that are much smaller in both dollar terms and as a share of their after-tax incomes.

[3] The Trump budget assumes that unspecified revenue-raising provisions would offset the cost of its proposed tax cuts, even though the Administration has not proposed tax policies that could plausibly offset that cost. The TPC analysis estimates that the tax cuts that have been discussed by the Trump Administration or campaign would cost $7.8 trillion over the first decade, and that if all the possible tax offsets they have alluded to are taken into account, the net cost would be about $3.5 trillion over the period.

## TPC Analysis Illustrates the Tax Cuts' Hidden Costs

The TPC analysis makes explicit the reality that, sooner or later, someone must pay for the tax cuts, even if the costs are initially funded through increased borrowing.[4] It illustrates the net effect of the Trump plan on households across the income distribution taking into account three hypothetical ways of fully paying for, or "financing," its tax cuts.

The first scenario is labeled the "equal costs per household" approach; that is, the costs of the additional offsets necessary to fully finance the Trump plan are assumed to be borne equally by each household (technically "tax units" in the TPC analysis) in the country. We emphasize this scenario as it most closely reflects the budget priorities of the Trump administration and the Republican Congress. Under the equal-dollar financing scenario, in 2018 (see Figure 1):

- Essentially every household in the bottom two-fifths of the income spectrum would be "net losers," losing more from the offsets than they would gain from the tax cuts. On average, they would lose more than $2,000 in after-tax income.
- Households in the middle fifth of the income spectrum would lose an average of $1,500 once the full financing costs are considered. Nearly all — 94 percent — of these households would be net losers; only 6 percent would be "net winners."
- Even once the tax cuts are fully offset, the highest-income households would reap enormous gains. The top 1 percent would gain $175,000 on average; the top 0.1 percent would gain *$937,000* on average. Their after-tax incomes would rise by 11.5 percent and 13.3 percent respectively. Nine in ten households in the top 1 percent would be net winners; virtually every household in the top 0.1 percent would gain.
- Altogether, 84 percent of households would be net losers. This proportion greatly exceeds the 19 percent of households that are shown to lose when the costs of the tax cuts are only partly offset, underscoring how figures that show the effects of tax cuts that aren't fully paid for are unduly positive.

In fact, unless the proposed tax cuts primarily benefiting those with the highest incomes are scaled back dramatically, this scenario could very well *understate* the Trump plan's ultimate negative effects on low- and moderate-income households, for two reasons:

1. Noting the depth of the cuts to low- and moderate-income programs in the Administration's and congressional Republican budget and health reform proposals, the authors of the TPC analysis observe: "A scenario more regressive [hitting low- and moderate-income Americans even harder] than equal-per-household financing would most accurately characterize the policy preferences embedded in recent proposals by the Trump Administration and Congressional Republicans…."
2. TPC's analysis focuses on a scenario under which they include all the possible revenue raisers mentioned during and after the presidential campaign — including many that the Administration has embraced inconsistently or has hinted at without providing the details

[4] For further discussion of how the costs of tax cuts cannot be postponed indefinitely, see William G. Gale, Isaac Shapiro, and Peter R. Orszag, "Distribution of the 2001 and 2003 Tax Cuts and Their Financing," *Tax Analysts*, June 21, 2004, http://webarchive.urban.org/publications/1000663.html.

needed to truly assess them. The analysis is therefore generous in assuming that much of the cost of Trump's specific and costly tax cut proposals will be offset by revenue provisions rather than by cuts to spending that would fall more heavily on low- and moderate-income households.

TPC also examines two other financing scenarios, both of which reflect far more progressive financing alternatives (relying more on financing that hits higher-income households) than are reflected in the deep spending cuts prioritized by the Trump and House Republican budgets. TPC's second scenario is labeled "proportional-to-income financing," with each household paying "the same percent of its income to cover the added burdens created by the tax cuts." Under this scenario, the vast majority of households (82 percent) would still be net losers, while the highest-income households would still gain greatly.

The analysis' third scenario is labeled "proportional-to-income-taxes financing," in which "each household pays the same percentage increase in its federal income taxes." TPC explains that "this policy can be thought of as fairly close to what an across-the-board increase in income tax rates would generate." Only under this scenario are the distributional effects relatively evenly balanced (though the top 1 percent would remain net winners). The scenario essentially reflects a decision to offset the regressive nature of the Trump's tax cuts by financing them fully through progressive tax increases. A commitment to a tax plan that meets the standards of revenue- and distributional-neutrality is the only possible path towards this outcome. In other words, such tax policy would ensure that any tax cuts are offset by tax increases, and that the cuts and increases are designed in a manner that leaves the current distribution of after-tax income unchanged. (Indeed, given the current fiscal course, in which the federal debt and deficits are already high into the future, driven in part by factors such as the aging of the population, the preferred policy outcome is for government to adopt policies that increase revenues.[5])

## TPC Analysis an Important, Timely Reminder as Congress Considers 2018 Budget Resolution

The TPC analysis is an important and timely reminder of the perhaps most-used economic maxim: there is no free lunch. A tax proposal that is not fully paid for should not be judged solely on what a standard distributional table might show about its effects, because such a table doesn't consider the income reductions that will occur due to the combination of tax increases and spending cuts ultimately required to offset its costs.

The TPC analysis is also a cautionary note. If the Administration and congressional Republicans put forward a tax plan that isn't fully financed, one shouldn't be misled by information that suggests nearly everyone wins. A full accounting of such a plan that considers necessary offsets would likely show most households — including most middle-class households — would lose more from the plan than they would gain.

[5] See Paul N. Van de Water, "Tax Reform Must Not Lose Revenues – and Should Increase Them," Center on Budget and Policy Priorities, April 20, 2017, https://www.cbpp.org/research/federal-tax/tax-reform-must-not-lose-revenues-and-should-increase-them.

Congressional Republicans will soon decide whether they will set off down a path to such a transfer from low- and middle-income families to the wealthy. Republican leaders have said they plan to use budget "reconciliation" to pass tax legislation, as they did in attempting to repeal the Affordable Care Act. Reconciliation bills can pass the Senate with a simple majority — that is, with only Republican votes. To use reconciliation, the House and Senate first must pass a budget resolution for fiscal year 2018 that creates a "reconciliation instruction" for tax legislation, setting out deficit or revenue targets for that legislation for the budget period. Two reconciliation options under consideration could lead directly to tax cuts for the rich but harm low- and moderate-income families in broadly similar ways to what the TPC analysis shows:

1. The budget resolution could allow cuts to mandatory programs — such as Medicaid and other programs that provide assistance to meet basic needs or strengthen communities and the economy — to pay for the cost of tax cuts by adopting a "deficit neutral" reconciliation instruction for taxes: Congress could pass a tax bill through reconciliation so long as it doesn't increase deficits. A bill including large net tax cuts could meet a deficit-neutral requirement if the cuts in mandatory programs are at least as large as the tax cuts.
2. Alternatively, the budget resolution could allow tax cuts to *lose* revenues and add to the deficit in the timeframe specified in the budget plan (usually ten years). But as the TPC analysis highlights, such deficits must be paid for eventually. Even if policymakers do not specify spending cuts immediately, the higher deficits would create fiscal pressure for future cuts in critical programs like Social Security and Medicare (which prior Republican budgets have targeted), in other mandatory programs such as Medicaid, SNAP food assistance, and education aid, and in key discretionary investments.

Under either option, as the TPC analysis illustrates, typical Americans would likely end up paying the tab — and be made considerably worse off — for tax cuts for the wealthy and profitable corporations. Instead of these options, tax reconciliation instructions should require that tax legislation, at an absolute minimum, does not lose revenues. Any tax legislation must be at least revenue neutral, such that any tax cuts are offset by closing tax loopholes and raising other sources of revenue.[6]

[6] Any tax bill should also meet other key policy standards, such as not delivering net tax cuts to the wealthy; see Chuck Marr and Chye-Ching Huang, "ACA Repeal, Trump Tax Plan, and Ryan's 'Better Way' Tax Plan All Fail Mnuchin Test," Center on Budget and Policy Priorities, January 18, 2017, https://www.cbpp.org/research/federal-tax/aca-repeal-trump-tax-plan-and-ryans-better-way-tax-plan-all-fail-mnuchin-test.