
September 29, 2016

House GOP Framework Would Give Millionaires \$2.6 Trillion in Tax Cuts, While Cutting Programs for Low- and Moderate-Income People by \$3.7 Trillion

Middle Class Would Also Lose More Than It Would Gain

By Isaac Shapiro, Chye-Ching Huang, and Richard Kogan

Together, the House GOP's budget plan proposed in March and its "Better Way" tax reform package released in June would significantly raise the incomes of millionaires while sharply cutting programs for low-, moderate-, and middle-income families and individuals. The package would make most Americans significantly worse off and exacerbate income inequality, despite the exceptionally wide divergence between incomes at the top and for the rest of the population that has developed in recent decades.

These findings emerge from an examination of new data on the tax-cut plan from the Urban-Brookings Tax Policy Center (TPC)¹ in conjunction with our previous analysis of the House GOP budget plan.²

One reason a significant increase in inequality would occur is that the House GOP tax plan's \$3.1 trillion in tax cuts over the next ten years are dramatically tilted towards the top, as the Tax Policy Center's analysis shows. By 2025, nearly all of the tax cuts would go to households with incomes over \$1 million; low- and middle-income households would gain only slightly. Over the next decade, millionaires would receive an estimated \$2.6 trillion in tax cuts.

The increase in inequality also reflects the magnitude and composition of the \$6 trillion in program cuts over the next ten years envisioned in the House GOP's budget plan, which aims to balance the budget over this period. The plan's spending cuts would hit programs for low- and moderate-income people much harder than other programs, denying health insurance to tens of

¹ James R. Nunns, *et al.*, "An Analysis of the House GOP Tax Plan," Tax Policy Center, September 16, 2016, <http://www.taxpolicycenter.org/publications/analysis-house-gop-tax-plan>; and TPC Tables T16-0196, T16-0197, T16-0198, and T16-0199, <http://www.taxpolicycenter.org/simulations/house-gop-tax-plan-sep-2016>.

² Richard Kogan and Isaac Shapiro, "House GOP Budget Gets 62 Percent of Budget Cuts From Low- and Moderate-Income Programs," Center on Budget and Policy Priorities, March 28, 2016, <http://www.cbpp.org/research/federal-budget/house-gop-budget-gets-62-percent-of-budget-cuts-from-low-and-moderate-income>.

millions of people and reducing food assistance and other basic aid to millions more. Over the next decade, the plan would cut programs assisting low- and moderate-income households by approximately \$3.7 trillion, dwarfing the very small gains these households would receive from the House GOP tax cuts. Middle-class households likewise would lose far more from the House GOP's planned budget cuts than they would gain from the modest tax cuts they would receive from the tax plan.

These findings, moreover, underestimate the adverse impact these proposals would have on low- and middle-income households. That's because the budget cuts in the House GOP budget plan, which predated the Better Way tax plan, do not reflect the *additional* budget cuts that would be needed to offset the tax cuts' cost; offsetting their cost would be necessary if the House GOP wished to adhere to its goal of balancing the budget over ten years. (The House GOP budget plan issued in March assumed *no* revenue loss from changes in tax policies.) Were the House GOP to put forth additional program cuts to offset the large cost of the House GOP tax plan, then programs serving low- and middle-income households almost certainly would be cut still more deeply.

The Distribution of the Tax Cuts

On September 16, TPC issued its analysis of the House GOP's tax plan, which was released earlier this year as part of its Better Way agenda. No matter how it's measured, the tax plan is extremely regressive.³

- In 2017 alone, the TPC analysis indicates millionaires would receive an average tax cut of \$330,000 apiece, with their after-tax incomes rising by 15 percent. In contrast, the middle fifth of households would receive an average tax cut of \$260, boosting their after-tax income by just one-half of 1 percent. (Appendix Tables 1 and 2 provide detailed breakouts of the distribution of the tax cuts in 2017 and 2025, the years for which TPC has made this information available.)
- The total size of the tax cut diminishes somewhat over time, but it remains quite large for millionaires while virtually disappearing for the middle class. In 2025, TPC estimates, the tax cuts would still raise average after-tax incomes by 11 percent among millionaires but by only 0.1 percent among the middle fifth of households.
- Millionaires' share of the total tax cuts would be extreme to begin with and then grow even larger over time; millionaires would receive 71 percent of the total benefits from the tax cuts in 2017 and 97 percent of the tax cuts in 2025.⁴
- By combining TPC's estimate of the tax cuts' distribution with its estimates of the total size of the tax cuts, we estimate that millionaires would receive \$2.6 trillion in tax cuts over the next

³ For an analysis of the specific provisions in the plan, see Chuck Marr and Chye-Ching Huang, "House GOP 'A Better Way' Tax Cuts Would Overwhelmingly Benefit Top 1 Percent While Sharply Expanding Deficits," Center on Budget and Policy Priorities, September 16, 2016, <http://www.cbpp.org/research/federal-tax/house-gop-a-better-way-tax-cuts-would-overwhelmingly-benefit-top-1-percent>.

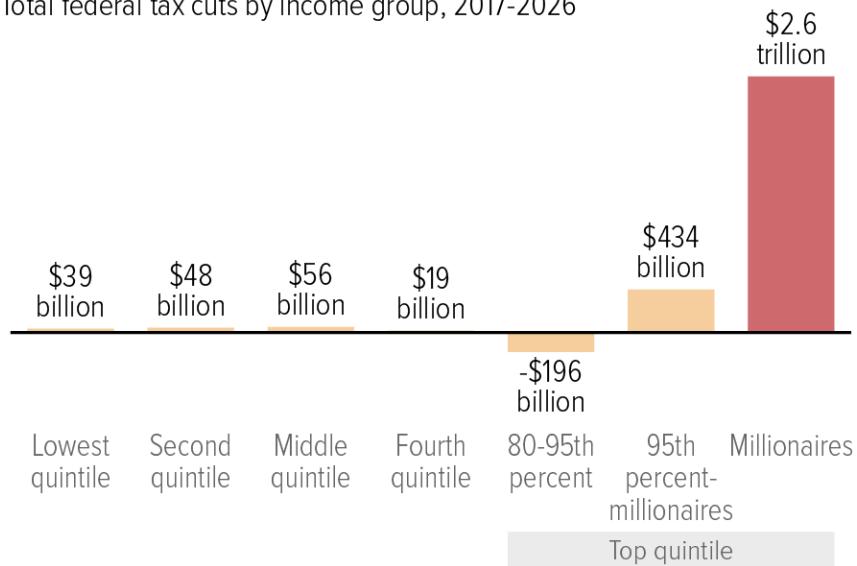
⁴ As context, in 2025 only a projected 0.8 percent of the population will live in households with incomes exceeding \$1 million. The TPC data also project that millionaires will receive 14 percent of the nation's total after-tax income in 2025, *before* considering the effects of the House GOP tax plan.

decade, compared to \$56 billion for the middle fifth of taxpayers.⁵ Other categories of low- and middle-income households also would gain little (see Figure 1).⁶

FIGURE 1

Vast Majority of Total House GOP Tax Cuts Go to Millionaires

Total federal tax cuts by income group, 2017-2026



Note: Some households experience an increase in taxes under the House GOP plan (see footnote 6).

Source: CBPP analysis of Tax Policy Center data

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Of those with incomes exceeding \$1 million a year, the biggest winners would be *multimillionaires*. TPC finds that for the top 0.1 percent of the population — households whose annual incomes will

⁵ TPC only estimates the distribution of the tax cuts for 2017 and 2025. To estimate the tax cuts that millionaires would receive over the decade as a whole, this analysis averages the share of the tax cuts they would receive in those two years and multiplies the result by \$3.1 trillion (TPC's ten-year estimate of the plan's total tax cuts). TPC found that millionaires would receive 71.2 percent of the tax cuts in 2017 and 96.5 percent in 2025, yielding an average of 83.9 percent. Multiplying that figure by \$3.1 trillion produces a total tax cut for millionaires of \$2.6 trillion. The middle fifth of taxpayers would receive 2.8 percent of the tax cuts in 2017 and 0.8 percent in 2025, yielding an average of 1.8 percent; $\$3.1 \text{ trillion} \times .018 = \56 billion .

⁶ The TPC data also indicate that over the next decade, as a group households with incomes between \$75,000 and \$500,000 — whose incomes mostly place them in the 80-95th percentile of households — will experience a tax increase under the House GOP plan. This likely results from a combination of the elimination of certain deductions that benefit these households (such as the ability to deduct state and local tax payments) and the elimination, after 2017, of the deductibility of certain interest expenses on loans (this disallowance likely has the most effect on business owners somewhat below the very top cash income levels, who may be more highly leveraged than those at the very top). TPC estimates indicate that for this group, changes such as these outweigh the value of cuts to their tax rates and other provisions that benefit them.

exceed \$3.7 million in 2017—the tax cuts would increase after-tax incomes by 17 percent in 2017, the most of any group. Their tax cuts would average *\$1.3 million per household* in that year alone. Over the next decade, the top 0.1 percent would receive *more than half* of the House GOP tax cuts, or *\$1.7 trillion in tax cuts*, by our estimate.⁷

House GOP Spending Cuts Mostly Target Low- and Middle-Income Households

While low- and middle-income households would gain little from the House GOP's tax cuts and millionaires would gain tremendously, the reverse is true for the budget cuts the House Budget Committee's GOP majority approved in March. Low- and moderate-income households would be hit to an inordinate degree, and middle-income households would be hit hard, while millionaires would be little affected.⁸

The goal of the House GOP's budget plan is to balance the budget in ten years without raising revenues and while essentially holding Social Security and defense funding harmless. The plan would cut other programs by \$6 trillion over the next decade.

- The plan would cut programs for low- and moderate-income people by about \$3.7 trillion. Altogether, it would secure 62 percent of its budget cuts from these programs, even though they account for just 28 percent of non-defense program spending (and just 24 percent of total program spending, including defense). By 2026, programs for low- and moderate-income people would shrink by an unprecedented 42 percent, causing tens of millions of people to lose health coverage and millions to lose basic food or other support.⁹
- Middle-income households would also lose significantly. The remaining \$2.3 trillion in budget cuts would substantially reduce spending on programs that affect people across the income spectrum, such as infrastructure, education, natural resources and environmental protection, and community development.
- Only a tiny fraction of spending cuts would affect millionaires. As noted, the effects of the \$2.3 trillion in other program spending would likely be dispersed fairly evenly across the population, and less than 1 percent of people live in a household headed by a millionaire.¹⁰

⁷ The top 0.1 percent of taxpayers would receive 46.5 percent of the tax cuts in 2017 and 61.0 percent in 2025, yielding an average of 53.8 percent. $\$3.1 \text{ trillion} \times .538 = \1.7 trillion .

⁸ Although this budget was not voted on by the full House of Representatives, the Republican House majority passed budgets with similar priorities several years in a row.

⁹ Kogan and Shapiro, March 28, 2016.

¹⁰ Given the lack of specificity in the House GOP budget plan, and the inherent difficulty in allocating the impact of reductions in programs such as infrastructure spending or medical research that are not direct transfer programs, it is impossible to measure the precise effects of the \$2.3 trillion in spending cuts on millionaires. But ballpark estimates, using two approaches suggested by the Congressional Budget Office, indicate these negative effects would be quite modest relative to the size of their tax cuts. One method is to allocate the spending reductions “in proportion to each household’s share of the population”; by this approach, millionaires would lose just \$16 billion over the decade. A second method is to allocate spending reductions “in proportion to each household’s share of total market income”; by this approach, millionaires would lose about \$370 billion from the \$2.3 trillion in spending reductions. Congressional Budget Office, *The Distribution of Federal Spending and Taxes in 2006*, November 2013, pp. 8-9.

https://www.cbo.gov/sites/default/files/113th-congress-2013-2014/reports/44698-Distribution_11-2013.pdf

House GOP Framework Implies Far More Than \$6 Trillion in Spending Cuts

The House GOP's budget plan aims to balance the budget over ten years entirely through program cuts, with no change in revenues. But the House GOP's tax proposal would reduce revenues by \$3.1 trillion under TPC's conventional estimate (and by \$2.5 trillion under its dynamic estimate that seeks to assess the long-run effect of the tax cuts on the economy; this is the first time TPC has released a dynamic estimate, and its dynamic estimating approach is expected to be developed more fully in coming months). This means that, on top of the \$6 trillion in cuts in the House GOP budget, further budget cuts — up to half again as large — would be needed to pay for the tax cuts.¹¹

The Combined Effect

It is impossible to estimate precisely the net effect of the House GOP budget and tax plans. The budget plan lacks detail about the specific programs that would bear many of its cuts, and one can't distribute comprehensive spending-cut plans with the same precision that TPC's model distributes tax-cut plans. In addition, the House GOP has not described how it would offset deficits caused by its tax plan.

Nonetheless, the extraordinary degree to which the House GOP tax plan benefits millionaires (while providing little tax reduction to others), as well as the severe tilt of its budget plan against programs benefiting low- and moderate-income people, make clear that millionaires would gain enormously while most of the rest of the population would lose significantly. Consider the following comparisons. Over the next decade, even without accounting for any additional spending cuts to pay for the tax cuts:

- The House GOP budget plan would, as noted, cut programs for low- and moderate-income people by \$3.7 trillion — or about *40 times* the estimated \$87 billion in tax cuts for the bottom two-fifths of the population that the House GOP tax plan would provide.

¹¹ Using TPC's conventional cost estimate of the tax plan, the total spending cuts needed to balance the budget after accounting for the GOP's tax plan would be 52 percent larger than those required under the House GOP budget plan, amounting to a total of \$9.1 trillion. Using TPC's dynamic revenue estimate, the total spending cuts would be 42 percent larger than those required under the budget plan.

The model that TPC uses for its dynamic estimate (known as an “overlapping generations” or “life-cycle” model) is especially sensitive to problematic assumptions about people’s expectations of future tax and spending policy. As TPC notes, there is substantial uncertainty in its estimates because changing assumptions can greatly alter its results. In addition to this type of model, the Congressional Budget Office (CBO) and the Joint Committee on Taxation (JCT) also use alternative models known as “Solow” models, which typically produce smaller dynamic effects that more closely reflect available empirical estimates of the relationship between changes in the tax system and changes in economic behavior. TPC intends to add a Solow model for its future estimates of dynamic effects, but the model isn’t yet complete. Former CBO Director Douglas Elmendorf discusses the complexity of the assumptions underlying the overlapping generations model and his general (though not universal) recommendation that CBO and JCT should emphasize results from the Solow model at <https://www.brookings.edu/wp-content/uploads/2015/09/ElmendorfTextFall15BPEA.pdf> (paper page 124-125, pdf page 34-35).

- The program cuts in the budget plan would take some hundreds of billions of dollars from the middle fifth of households¹² — or far more than the \$56 billion they would receive under the House GOP tax plan.
- Meanwhile, millionaires would receive \$2.6 trillion in tax cuts while being touched little by the budget cuts. They would be big net winners, gaining significantly north of \$2 trillion over the next ten years.

In short, most households would be significant net losers under these budget and tax policies. At a time when many Americans believe income inequality has grown unacceptably large, the House GOP budget and tax framework would further widen this divide significantly.

APPENDIX TABLE 1

Distribution of Federal Tax Change Under House GOP Tax Plan, 2017

Percentile, using expanded cash income*	Percent change in after-tax income	Share of total federal tax change	Average federal tax change
Lowest quintile	0.4%	0.8%	-\$50
Second quintile	0.4	1.4	-120
Middle quintile	0.5	2.8	-260
Fourth quintile	0.5	3.7	-410
Top quintile	4.6	89.0	-11,760
All	2.5	100.0	-1,810
80-90	0.2	1.2	-310
90-95	0.2	0.7	-370
95-99	2.5	11.0	-7,690
Top 1 percent	13.4	76.1	-212,660
Top 0.8% (millionaires)	14.7	71.2	-329,530
Top 0.1 percent	16.9	46.5	-1,262,530

*"Expanded cash income" is a broad measure of pre-tax income used by TPC that includes, for instance, fringe benefits and cash and near-cash transfers.

Source: Urban-Brookings Tax Policy Center, Tables T16-0196 and T16-0197

¹² For instance, if the \$2.3 trillion in cuts in programs not targeted on low- and moderate-income people were distributed evenly across the population, the middle fifth of the population would lose \$460 billion. In addition, some middle-class households would be affected by the cuts to programs targeted on low- and moderate-income people.

APPENDIX TABLE 2

Distribution of Federal Tax Change Under House GOP Tax Plan, 2025

Expanded cash income* percentile	Percent change in after-tax income	Share of total federal tax change	Average federal tax change
Lowest quintile	0.5%	1.7%	-\$100
Second quintile	0.3	1.7	-120
Middle quintile	0.1	0.8	-60
Fourth quintile	-0.2	-2.5	230
Top quintile	3.2	94.2	-10,710
All	1.7	100.0	-1,550
80-90	-1.1	-8.9	1,930
90-95	-1.1	-5.7	2,650
95-99	1.4	9.1	-5,480
Top 1 percent	10.6	99.6	-239,720
Top 0.8% (millionaires)	11.2	96.5	-302,770
Top 0.1 percent	13.5	61.0	-1,399,270

*"Expanded cash income" is a broad measure of pre-tax income used by TPC that includes, for instance, fringe benefits and cash and near-cash transfers.

Source: Urban-Brookings Tax Policy Center, Tables T16-0198 and T16-0199