PENNSYLVANIA
Budget and Policy Center

WHY THE GOP HOUSE TAX PROPOSAL IS BAD FOR PENNSYLVANIANS

Overview

While the tax cuts proposed in the House of Representative plan may not be the largest in American history, they are very likely the ones most weighted to benefit the very richest Americans. The House plan will tilt the tax system to taxing wages far more and capital far less. At a time when there is no supply-side barrier to new business investment, there is no economic justification for this transformation in our tax system. This is a plan that is only justified by greed on the part of the richest Americans who have already received most of the benefits of economic growth in the last forty years, and on the part of members of the Republican Party who expect to be rewarded for acting on their behalf.

The Basic Flaws: A Summary

- **Overall Inequity in Tax Cuts:** The tax cuts in the House plan are heavily weighted towards the top 1% of Pennsylvanians.
  - By 2027 The top 1% with an average income of $2.45 million will receive 44% of the total tax cut, with an average cut of $66,120 per family.
  - The bottom 60% of families with an average income of $46,900 will receive 14% of the total tax with an average cut of $290 per family.
  - The plan reinforces rather than counters the trends of the last 40 years by cutting taxes deeply for those whose incomes have been growing.

- **Undermining of state and local budgets.**
  - Limiting the deductibility of state and local taxes will make it more difficult even for states with state and local taxes that fall in the middle of the 50 states, like Pennsylvania, to raise taxes.
  - At a time when it is already almost impossible to raise state and local taxes, this will make it even harder for Pennsylvania to balance its budget and make necessary public investments in education, infrastructure, and health care.

- **Tax increases for Many:**
  - Despite the overall cut, 15% of mainly upper middle-class Pennsylvanians will see their taxes go up an average of $1,810 by 2027.
  - Even if one thinks that their taxes should be higher to pay for public investments or to reduce the deficit, it is unjust to raise taxes for families in order to reduce taxes on the top 1%.

- **Unfair and Unnecessary Corporate and Pass-through Entity Tax Cuts:**
  - Over 75% of the tax cuts go to corporations and businesses. They cost 1.4 trillion over ten years. The plan includes deep cuts in corporate taxes and also allows pass-through businesses — including wealthy investment advisors, real estate developers, small business owners, and professionals — to pay far less than those with similar wage income.
  - The plan gives corporations that currently have huge 2.6 trilion in overseas profits to save avoid $530 billion in taxes when they repatriate those funds while creating a new loophole that will lead to even larger corporate tax avoidance while encouraging corporations to move jobs overseas.
  - At a time when the economy continues to grow, business profits are near record highs and interest rates near record lows, these cuts are unnecessary and unlikely to stimulate additional business investment. Additional investment is more likely to be generated by more consumer demand, which can be created if working families, rather than the 1%, receive an increase in post-tax income.

- **Deficits and Cuts to Health Care and other Critical Programs:** These massive tax cuts will lead first to a $1.5 trillion increase in the federal deficit in the first ten years. New deficits in turn will lead to GOP pressure to cut federal spending on health care, and other programs that benefit millions of Pennsylvanians.

Inequity in Tax Cuts

The overall impact of the tax cuts are highly inequitable in Pennsylvania and reinforce growing economic inequality. Since 1979, the income of the top 1% of Pennsylvanians has increased by 125% while the income of the other 99% has increased by only 12%.[1] The inequity generated by this tax plan will increase as more provisions of the program go into effect. Indeed, the tax cut for families in the 20th through 60th percentile actually declines between 2018 and 2027

- In 2018
  - The top 1% with an average income of $1.8 million will receive 30% of the total tax cut, with an average cut of $46,000 per family.
  - The middle 20% with an average income of $52,500 will receive 9% of the total tax cut, with an average cut of $700.
  - The bottom 20% with an average income of $13,900 will receive 1% of the total tax cut, with an average cut of $110.
- In 2027
  - The top 1% with an average income of $2.45 million will receive 44% of the total tax cut, with an average cut of $66,120 per family.
  - The middle 20% with an average income of $75,300 will receive 9% of the total tax cut, with an average cut of $540.
  - The bottom 20% with an average income of $19,400 will receive 2% of the total tax cut, with an average cut of $110.

Impacts of the House Tax Plan in 2018 in Pennsylvania

Income					All Taxpayers			
Income Group	Income Range			Average Income	Tot. Change ($1000s)	Avg. Tax Change $	Change as a % of Pre-Tax Income	Share of Tax Change
Poorest 20%	Less than		$23,100	$13,900	-$140,100	-$110	–0.8%	1%
Second 20%	$23,100	to	$41,850	$32,600	-$390,100	-$310	–0.9%	4%
Middle 20%	$41,850	to	$65,870	$52,500	-$888,000	-$700	–1.3%	9%
Fourth 20%	$65,870	to	$108,550	$83,600	-$1,704,800	-$1,350	–1.6%	18%
Next 15%	$108,550	to	$226,410	$149,000	-$2,286,300	-$2,420	–1.6%	23%
Next 4%	$226,410	to	$562,540	$337,800	-$1,403,900	-$5,540	–1.6%	14%
Richest 1%	$562,540	and	higher	$1,837,500	-$2,919,100	-$46,000	–2.5%	30%
ALL				**$89,900**	**$ –9,732,500**	**$ –1,530**	**–1.7%**	
Bottom 60%	Less than		$65,870	$33,000	$ –1,418,200	$ –370	–1.1%	15%

[1] Estelle Sommeiller, Mark Price, and Ellis Wazeter, Income inequality in the U.S. by state, metropolitan area, and county. Economic Analysis Research Network (EARN) Report, 2016

Impacts of the House Tax Plan in 2027 in Pennsylvania

Income					All Taxpayers			
Income Group	Income Range			Average Income	Tot. Change ($1000s)	Avg. Tax Change $	Change as a % of Pre-Tax Income	Share of Tax Change
Poorest 20%	Less than		$33,400	$19,400	-$155,100	-$110	–0.6%	2%
Second 20%	$33,400	to	$59,850	$46,200	-$330,900	-$230	–0.5%	4%
Middle 20%	$59,850	to	$93,260	$75,300	-$758,700	-$540	–0.7%	9%
Fourth 20%	$93,260	to	$148,380	$116,100	-$1,083,500	-$870	–0.8%	13%
Next 15%	$148,380	to	$303,300	$201,900	-$1,339,500	-$1,450	–0.7%	16%
Next 4%	$303,300	to	$753,590	$461,700	-$1,142,200	-$4,620	–1.0%	13%
Richest 1%	$753,590	and	higher	$2,454,400	-$3,775,000	-$66,120	–2.7%	44%
ALL				**$115,300**	**$ –8,585,300**	**-$1,260**	–1.1%	**100%**
Bottom 60%	Less than		$93,260	$46,900	$ –1,244,700	-$290	–0.6%	14%

The overall inequity in the tax plan arises even though rates for individual taxpayers with the highest incomes are not reduced. The inequity results from:

- Deep cuts to corporate and small business taxes whose benefit mainly flow to the very wealthy (see below.)
- Retention of a lower tax rate for stock dividends and capital gains/
- Retention of the carried interest tax loophold candidate Donald Trump promised to eliminate.
- Elimination of the alternative minimum tax which benefits wealthy taxpayers including Donald Trump.
- Elimination of the estate tax, with 70 percent of the benefit going to families with estates of $20 million or more.
- Elimination of the personal exemption which raises taxes more heavily on those with lower incomes and which is not compensated for by an increase in the standard deduction. Because the standard deduction is increased by a chained-consumer price increase (CPI), rather than the traditional CPI, it will increase more slowly and thus become less valuable over time.
- A skewed child care tax credit that benefits those with higher incomes far more than those with lower incomes, and that excludes 315,000 children in Pennsylvania and provides another 409,000 Pennsylvania children with less than the maximum benefit.
- Elimination of tax deductions for families with large medical bills, a provision that mostly benefits the middle class.

Undermining of state and local budgets

The original House tax bill ends the federal deduction for state and local income and sales taxes and limits the deduction for state and local property taxes to taxes under $10,000

- Limiting the deductibility of state and local taxes will make it more difficult for states to raise taxes, even for states like Pennsylvania whose state and local taxes roughly fall in the middle of the 50 states.
- The recent compromise in the House Ways and Means Committee partially restores the deductibility of

property taxes but not of state income and sales taxes. It still reduces deductible state and local tax taxes by 88%.

- Pennsylvania recently had a four-month budget impasse after a nine-month budget impasse two years ago, which were both created by unwillingness of the General Assembly to raise taxes. Opposition to state tax increases will increase if they are no longer deductible on federal taxes. At a time when public spending has been declining as a share of state government, the tax plan will make it even harder for Pennsylvania to close its structural deficit in the future and make needed public investments in PreK and K-12 education, higher education, health care, and infrastructure. Prosperity in Pennsylvania will suffer as a result.

Tax increases for Many

Despite cutting taxes a great deal for the very rich many Pennsylvanians who work for wages will see their taxes go up as a result of the House plan.

- This is mainly due to the end of the deductibility of state and local taxes. Overall, by 2027, 15% of Pennsylvanians will have higher taxes as a result of this plan.
- The tax increase will be especially dramatic for upper middle class Pennsylvanians with incomes in the 80^{th} to 95^{th} percentile (making between $108,550 to $226,410 in 2018). By 2027, 27% of Pennsylvanians in this group will be paying an average of $2,780 more in federal taxes as a result of the House bill.
- While there may be some justification for raising taxes on the upper middle class to increase necessary public investments, it is unfair to ask them to pay more in order to reduce taxes for the wealthy.

Unfair and Unnecessary Corporate and Pass-through Entity Tax Cuts

Corporations

- Under the plan the corporate tax rate is cut from 35% to 20% and firms are allowed to immediately expense capital investments for five years. These cuts cost the treasury $1.5 trillion
- While Republicans often say that American corporations face higher tax rates than those in other countries, the existence of huge loopholes in the corporate tax system means that the effective tax rate American corporations pay is on par with, or even lower, than corporations in other advanced countries
  - A 2016 study produced by the Government Accountability Office found that the effective tax rate paid by large profitable American corporations from 2008 through 2012 was just 14 percent. It found that the share of these corporations paying no federal income tax at all was 19.5 percent in 2012 and 24.1 percent in 2011.
  - Since 1952 corporate taxes as a share of all taxes have fallen from 5.9% to 1.9%. At the same time corporate profits as a share of the economy has risen from 5.5% to 8.5%,

Pass-through entities—partnerships, sole proprietorships, LLCs and S-corporations

- Currently the owners of these enterprises pay taxes at their individual tax rate. Under the House bill they will be taxed at a 25% rate.
- Pass-through businesses are not necessarily small businesses. Investment firms, real estate development firms, medical and legal firms and even huge companies like Bechtel are organized as pass-through entities and their owners receive very high incomes that, under the House plan, will be taxed at substantially lower rates than currently.
- Over 90% of pass-through business owners already pay at a rate of 25% or less. So the benefits of this proposal will mainly flow to the very richest Americans who currently pay at a 39.6% rate. They receive half of all pass-through income. (About 70% of partnership and S corporation income now goes to the top 1%.)
- The pass-through provision is unfair in that it allows professionals and others organized as pass-through entities who do the same work as wage earners to pay substantially less in taxes.
- The pass-through provision creates the potential for substantial abuse as it will encourage very high wage earners to organize pass-through entities that contract with their current employer.

Treatment of Foreign Earnings of American Corporations.

- American corporations have a total of $2.6 trillion in profits stashed offshore. They have not paid a dime in U.S. taxes on those profits. Based on a 35% tax rate, they owe $767 billion in US taxes.
- The House tax plan will let Apple, Microsoft, Pfizer, ExxonMobil and Wall Street banks bring those profits home and pay just 12% on their earning, that is $220 billion, not the $767 billion they owe.
- Under the territorial plan for corporate taxes in the House plan, American multi-national corporations including banks, oil, gas, and mining companies, technology companies and many others would not be taxed at all for profits earned overseas. This proposal is problematic in three ways:
    - It exempts American multi-national corporations from taxation on a substantial amount of their earnings.
    - It encourages American multi-national corporations to shift operations and jobs overseas.
    - It encourages American multi-national corporations to arrange their books to show minimal profits at home and most of their profits overseas. This is similar to the Delaware Loophole that has allowed 71% of corporations operating in Pennsylvanian to avoid paying any corporate tax in our state. Recent revelations from the Panama and Paradise Papers indicate that multi-national corporations are already cheating other countries of corporate taxes with such accounting devices.

Corporate and Business Tax Cuts and Economic Growth

- The American economy continues to grow as the effects of the Great Recession move into the past. While additional investment might lead to faster growth, there is little reason to think that tax cuts for business will spur such investment.
- Business profits are near record highs, as are corporate savings while interest rates are near record lows which means that there are few supply-side barriers to additional business investment.
- The real barrier to additional business investment is slow growth in consumer demand. Even very large tax cuts for the richest Americans is not likely to increase consumer demand as they are likely to save much of the additional, post-tax income.
- What would increase consumer demand is a substantial increase in the post-tax income of working and middle class families either as a result of targeted tax cuts or increased wages brought about by a higher minimum wage; support for labor organizing; new infrastructure spending; expansion of programs that benefit working people; or reductions in health care premiums and out of pocket expenses.

Deficits and Cuts to Health Care and other Critical Programs

The House GOP plan will add 1.5 trillion to the deficit over ten years.

- It is hard to understand how Republicans who berated President Obama for a high deficit can justify adding to the deficit so dramatically now. How can Pennsylvania Senator Pat Toomey, who has repeatedly claimed the Medicaid is growing at an unsustainable rate allow deficits to grow so much faster?
- While Republicans seem willing to accept additional deficits now, they will undoubtedly soon claim that spending must be cut to reduce the accumulating deficits. Indeed House Republicans are considering a plan to eliminate the individual mandate in order to fund their tax cut, by reducing federal spending by $338 million. This plan would reduce the insured population by 13 million, raise health insurance premiums by 10% and destabilize the individual health care market.
- The budget resolution under which the GOP tax cut plan is taking shape also allows the House and only 50 Senators to repeal the ACA, restructure traditional Medicaid, as well as make cuts to Social Security, Food Stamps, and other programs.
- We can't estimate how many Pennsylvanians will be hurt because until there is detailed legislation we won't know how cuts will be apportioned between reductions in beneficiaries and cuts in benefits. But we know how many Pennsylvanians are at risk.

PA Beneficiaries of Federal Programs Threatened by Trump-GOP Budget	
Food Stamps (SNAP) - Fiscal Year 2017 Monthly Average	1,837,088
Medicare – Total Persons Enrolled in 2017	2,627,447
Medicaid - Total Persons Enrolled in July 2017	2,600,280
CHIP - Total Children Enrolled in July 2017	342,268
HUD - Persons Living in HUD-assisted Households - 2016	385,783
Supplemental Security Income (SSI) Beneficiaries - December 2016	363,735
Social Security Disability (SSDI) Beneficiaries - December 2016	404,049
Earned Income Tax Credit (EITC) Tax Filers - Tax year 2014	922,682
Child Tax Credit (ACTC)Tax Filers - Tax year 2013	585,308
Number of Subsidized Student Loan Recipients, 2015-16	318,433

Sources

Except where otherwise noted, basic information about the House Republican tax plan is provide by the Institute for Tax and Economic Policy. Basic information on the program as a whole can be found here. Pennsylvania state data can be found here.

SNAP	U.S. Department of Agriculture
Medicare	Centers for Medicare and Medicaid Services]
Medicaid	Kaiser Foundation
CHIP	Kaiser Foundation
HUD-assisted households	Center for Budget and Policy Priorities analysis of HUD administrative data, unpublished
SSI and SSDI	Congressional Statistics, Social Security Administration
EITC and ACTC	Brookings Analysis of 2014 IRS data
Student Loans	Handsoff.org