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The 7 Myths of the GOP Tax Bill

It will supercharge growth, help the middle class, and boost workers' pay. Or will it?

President Trump, before speaking on tax reform in St. Louis, Missouri.

Kevin Lamarque / Reuters

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Republicans are making some heady claims about their hastily constructed, historically unpopular tax legislation. "If we do this, then America will win again like never, ever before," President Trump said in a speech touting the legislation this week. "A vote to cut taxes is a vote to put America first again. We want to do that. We want to put America first again. It's time to take care of our workers, to protect our communities, and to rebuild our great country."

But a bipartisan group of leading economists have expressed some deep skepticism about many of the central claims the White House and congressional Republicans are making about the potential effects of the legislation. Below are the top seven myths they have put forward—and the evidence that disproves them.

1. The tax bill will pay for itself.

The Tax Cuts and Jobs Act remains a moving target, with congressional Republicans horse-trading different provisions into and out of the bill and work not yet done to reconcile differences between the House and the Senate versions. Still, the basic parameters are clear. On the household side, the bill would lower the rates charged in each tax bracket, expand the child tax credit, eliminate personal exemptions, and expand the standard deduction. On the business side, it would lower the corporate income tax rate dramatically, and create a big deduction or a special rate for "pass-through" businesses that pay individual income tax rates. It would also let businesses bring back foreign profits at a very low rate, and likely move the country to a territorial tax system, wherein companies pay taxes on profits generated in the United States, not worldwide.

All those rate reductions would mean that the Treasury would be taking in far less money from individuals and businesses. But Republican officials have insisted that the tax cuts would improve growth so much that they would pay for themselves, offsetting the revenue losses. "Not only will this tax plan pay for itself, but it will pay down debt," Treasury Secretary Steven Mnuchin promised recently.

Not so, one of the country's most respected, nonpolitical economic scorekeepers has said. The Joint Committee on Taxation (JCT) this week found that the Senate proposal would increase output by 0.8 percent over ten years. Because that extra output would get taxed like anything else, it would indeed mean additional money going to government coffers—but not nearly enough to cover the losses from the tax cuts. The JCT estimated that the bill would add $1.4 trillion dollars to federal deficits over a decade, ignoring any dynamic effects on the economy. Taking into account improved growth, it would add $1 trillion to federal deficits—more than President Obama's stimulus bill, passed to save the economy during the Great

Recession. A University of Chicago poll of some of the country's top economists came to the same conclusion. Not a single one of the experts surveyed said that the kind of legislation under consideration would lead to a falling debt-to-GDP ratio.

2. It will supercharge growth.

Still, Republicans have insisted that the legislation would supercharge American growth. "These massive tax cuts will be rocket fuel—Little Rocket Man—rocket fuel for the American economy," Trump said this week, referencing Kim Jong Un of North Korea. "Remember I used to say, we can hit 4 [percent growth] and we can hit 3? And they were all saying, forget it, forget it. It was 1.2. It was doing terribly. We were flat. We were even. In all fairness, the stock market was going this way. And now, we're hitting numbers that nobody thought possible."

But the JCT shows that the tax bill would add less than 0.1 percentage points to the country's annual rate of growth, totaling just 0.8 percentage points of additional growth over ten years. The experts quoted in that Chicago poll said much the same. "Tax policy appears to have little effect at the margin on GDP growth in OECD countries," argued David Autor, a Harvard economist.

Why doesn't the bill do more for the economy's growth rate? In part because the government is passing tax cuts when the economy is already doing well—raising the prospect that the Federal Reserve would move to counteract the stimulative effect of all that deficit spending and would raise interest rates to cool the economy off. And in part because giving tax cuts to rich families and corporations is simply not that stimulative of a thing to do, since they do not tend to put the money toward buying new goods and services.

3. Cutting the corporate tax rate will lead businesses to give raises to regular workers.

The Republican legislation would slash the corporate tax rate from 35 percent to 20 percent, along with eliminating a number of deductions for businesses and tinkering with what gets taxed and when. "It is great for companies, because companies are going to bring back jobs. And we're lowering the rates, very substantially. But right now, we're bringing the rates down from 35 percent—which is totally noncompetitive. The highest industrialized nation in the world, by far, and we're bringing it all the way down to 20 percent," Trump said this week. "But that's good for everybody in the room, whether you have company or whether you want a job."

The idea is that the lower tax rates would encourage businesses to stop using tax shelters overseas and would provide companies with more money to shunt to their workers. Trump's Council of Economic Advisers has suggested that the corporate tax reform would boost the average family's income by $4,000 a year, "conservatively." But that number does not hold up to scrutiny, with most nonpartisan budget scorekeepers and many economists contending that businesses would provide a far smaller bump to average workers. That White House analysis assumes that workers would get 70 percent of the benefit of the rate cut, with shareholders getting the remainder. The Tax Policy Center, a Washington-based think tank, for instance, estimates that workers would get about 20 percent of the value of corporate rate cuts, with the JCT, the Congressional Budget Office, and the Treasury all estimating that workers would get around a quarter of the benefit too. The rest would go to shareholders. Plus, of the money going to workers, much of it would flow to managers and executives, not minimum-wage or average employees.

The Center on Budget and Policy Priorities, a respected left-of-center think tank, has said that researchers view the White House's analysis "with considerable skepticism due to its methodological weaknesses," and describes its assumptions as "unrealistic."

4. Corporations will invest more.

A second argument the White House and prominent Republicans have made is that businesses will use their bolstered earnings to invest here in the United States, helping the economy as a whole. "Last year, American multinational companies left more than 70 percent of their foreign profits overseas," Trump said this week. "They actually get penalized. Our plan switches to a territorial tax system that encourages companies to return their profits to America—right here to the United States."

One thing is certain: Companies will bring hundreds of billions of dollars home, to take advantage of the tax holiday. But it seems unlikely that most, or even much, of the money would flow to workers and investment, rather than to shareholders. To wit, a Bank of America/Merrill Lynch survey found that companies were eagerly anticipating what they would do with their cash. They were most likely to respond that they would pay down debt and buy up their own shares—neither of which would help workers much. Other executives have indicated that they would use the money for dividends.

Recent history also suggests that companies would do more to improve shareholder returns than to invest in their businesses or expand and enrich their workforces. Back in 2004, Congress let companies repatriate their earnings, much as Congress is planning to do now. "While empirical evidence is clear that this provision resulted in a significant increase in repatriated earnings, empirical evidence is unable to show a corresponding increase in domestic investment or employment," a Congressional Research Service report found.

Economists think the same thing would happen this time around. Companies are already highly profitable and borrowing costs are already low, after all: Businesses do not really need the government to induce them to invest. Moreover, though the United States has high statutory corporate tax rates, few companies pay high effective tax rates. The Institute on Taxation and Economic Policy has found that 258 big corporations paid an average effective tax rate of 21.2 percent in recent years, with 18 companies—among them General Electric and Priceline.com—never paying federal income taxes during the time period studied.

5. The rich are not going to benefit from the bill.

Trump has repeatedly promised that rich families like his do not stand to benefit from the Republican legislation. "We're also going to eliminate tax breaks and complex loopholes taken advantage of by the wealthy. Who are they? I don't know," he said this week. “I think my accountants are going crazy right now. It’s all right. Hey, look, I’m president. I don’t care. I don’t care anymore. I don’t care. Some of my wealthy friends care. Me? I don’t care. This is a higher calling. Do we agree?”

This is false: As a general point, the richer the family, the more they benefit from the legislation, particularly over time. The Tax Policy Center has found that the biggest benefits would go to families in the top 5 percent as of 2019, with the smallest benefits going to those in the lowest income quartile. By 2027, families in the lowest two income quartiles would be receiving, on average, no benefit at all, with the biggest gains accruing to families in the top 0.1 percent of the income distribution. Moreover, the richest-of-the-rich families would exclusively benefit from initiatives like the reduction in or an elimination of the estate tax, which would let individuals like Trump pass millions and millions of dollars more to their heirs.

5, cont. Trump himself would not benefit.

“This is going to cost me a fortune, this thing—believe me,” Trump said this week. “Believe me, this is not good for me. Me, it’s not—so, I have some very wealthy friends, not so happy with me, but that’s okay.”

This is not true. In fact, Trump stands to benefit to the tune of hundreds of millions, if not billions, of dollars, according to tax analysts, though it is hard to know with much specificity, given that he refuses to release his tax returns and House and Senate Republicans keep tinkering with the legislation. The elimination of the alternative minimum tax. The changes to the estate tax. Abbreviated depreciation schedules. Deductions or special rates for pass-through businesses. All these provisions stand to benefit Trump directly. Indeed, tax experts have said that as a real-estate developer he seems uniquely positioned to benefit from tax reform.

6. The plan is designed for the middle class.

“The beating heart of our plan is a tax cut for working families,” Trump said this week. “That’s what it is. We’re going to make sure that you keep more of your hard-earned money. We’re going to make sure, also, that you have a job that you want.”

This is not true. Indeed, families in the middle of the income distribution would on average see no benefit from the plan as of 2027, whereas families at the top would be paying far less in taxes and many families at the bottom would actually be paying more. One reason is that the legislation changes the way that the tax brackets get adjusted year after year to account for the effect of inflation. More families would get pushed into higher tax brackets sooner under the Republican plan, so they would end up paying more in taxes, even though the marginal rates would be lower. In addition, Republicans have gone after a number of provisions in the current code —the state and local tax deduction and the medical expense deduction, for instance —that help many middle-class and upper-middle-class families.

Republicans have countered some of these claims by saying that it is impossible to cut income tax rates without primarily benefiting the rich: The rich make more money, so inevitably they get big reductions when you cut taxes, the theory goes. But this argument is silly. It is mathematically simple to design tax cuts whose benefits go exclusively to lower-income and middle-income families. It just requires making the code more progressive—something that Republicans do not want and have chosen not to do.

7. It will help small businesses.

"We'll also cut taxes for the millions of small businesses that file as individuals, and that's going to come out of the hopper," Trump said this week. "It's getting there and it's going to be better and better. We're reducing the tax burden on businesses of all sizes and of every, single kind."

Here, the Republican rhetoric is more a distortion than an outright falsehood. The plan, as it stands in the Senate, allows "pass-through" businesses—accounting for hundreds of thousands of businesses that pay under the individual rather than the corporate code—to deduct 22 percent of their income before paying taxes, up to a certain limit. In the House, it allows those pass-throughs to pay taxes at a special low rate. The pool of pass-through businesses includes any number of cookie shops and bodegas and corner stores, but also law firms, hedge funds, consulting firms, real-estate development companies, investment partnerships, and lobbying businesses. An estimated 70 percent of the benefits for such pass-through firms go to the top 1 percent of income earners—meaning this benefit is more about helping rich families than it is about helping small local businesses.

Moreover, such changes to the way pass-through businesses are taxed complicate the code and create a preferential category for rich individuals to try to work their income into—something contrary to the very spirit of tax reform. The new provisions have "the potential to become the single greatest inducement to tax arbitrage ever enacted by a single Congress," the tax expert Daniel Shaviro of New York University Law School has written, also saying that they "might end up being the single worst structural change in the history of the U.S. federal income tax."

Of course, the Trump administration has promised that what it says is true, and that it would produce evidence of how much good its tax plan would do for the American people. Then again, *The New York Times* reports that a Treasury document purportedly showing that the Trump tax cuts would pay for themselves has not been forthcoming because it does not—and presumably cannot—exist.

ABOUT THE AUTHOR

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