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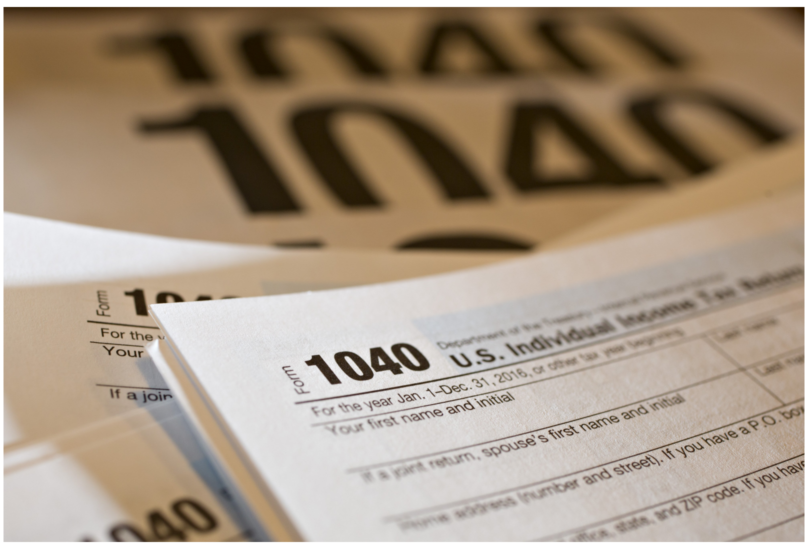
TAX REPORT

Bad News If You Make $150,000 to $300,000: Higher Taxes for Many

Study from the Tax Policy Center finds nearly a third of those households could see tax increases averaging from $3,000 to $4,000 a year



The issue of tax reform's winners and losers has resurfaced after top congressional Republicans and the Trump administration released a set of broad principals for tax policy on Thursday containing few details. PHOTO: DANIEL ACKER/BLOOMBERG NEWS

By Laura Saunders

July 28, 2017 5:30 am ET

If President Donald Trump sticks to what he has said, Americans earning between $149,400 and $307,900 are most likely to see an increase in their taxes as a result of tax reform.

Those figures come from a recent study by the Tax Policy Center, a nonpartisan group in Washington, and are based on Mr. Trump's statements and proposals. The study concludes that nearly one-third of about 19 million households in that income range could see tax increases averaging from $3,000 to $4,000 a year.

By contrast, less than 10% of households earning the least or the most—below $25,000 or above $733,000—would owe more after a tax overhaul. Over all, the study found that about 20% of taxpayers would owe more after tax reform than before it.

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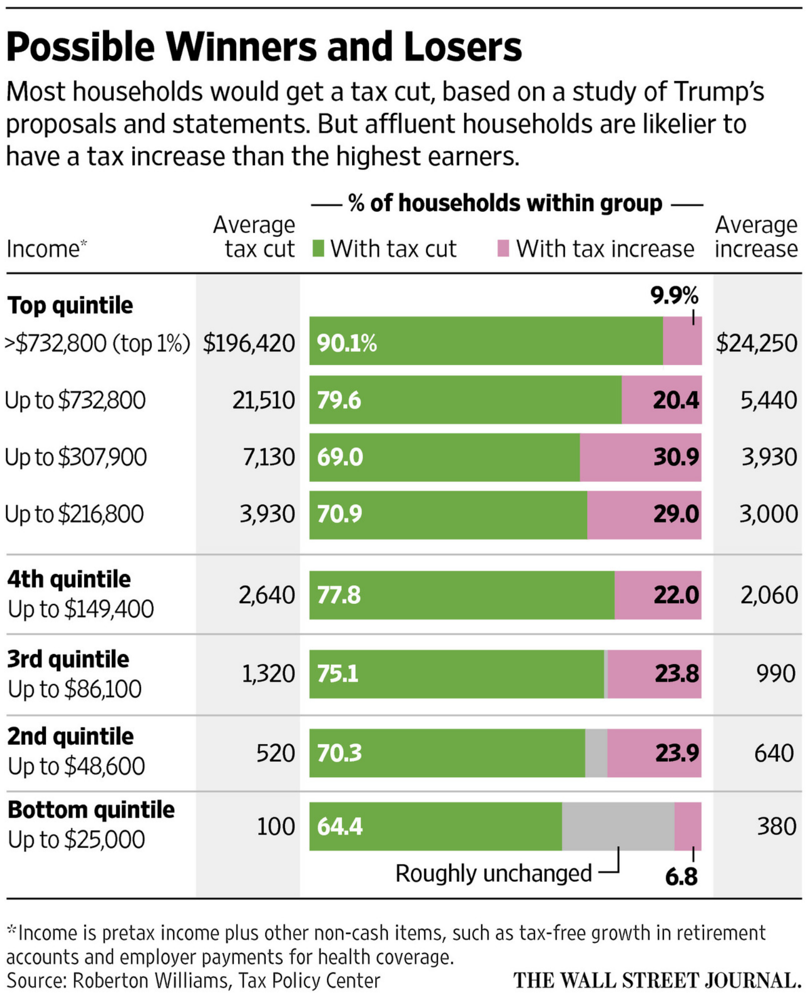

In an interview with The Wall Street Journal this week, Mr. Trump affirmed that a major overhaul could bring "upward revisions" that raise taxes for some people. He also struck a new tone, stating that he doesn't like it that a "rich guy who made...$25 million last year is going to pay less" after tax reform than before.

But based on his proposals and statements, that is exactly what would happen.

It's important to note that the one-page tax proposal released by the White House in April omitted many important details. And the Big Six, a small group of Republican law- and policy makers now working on an overhaul plan, are meeting in secret.

A final deal, if any, could include many changes. But the Tax Policy's Center's estimates provide a useful marker in the interim.

"The broad conclusions are likely to be stable because they are based on the tax cuts Trump has promised," says Joe Rosenberg, an economist with the Tax Policy Center.

The study assumed a tax plan that loses revenue overall but has tax increases to stem losses. The provisions that would hurt revenue include changing individual income-tax rates to 10%, 25% and 35%; doubling the "standard deduction"; repealing the alternative minimum tax; reducing to 15% the tax rate on corporate income and business income of "pass-through" entities such as partnerships; and repealing the estate tax.

The provisions that would boost revenue include repealing "itemized" deductions other than for charitable giving and mortgage interest; repealing personal exemptions; repealing the head-of-household filing status; taxing payouts of large pass-through entities as dividends; and taxing capital gains at death above an exemption of $5 million a person.

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The effects of these changes aren't constant across income tiers, so the percentage of tax reform's net losers varies greatly among people with different incomes.

The affluent are at the greatest risk of owing more for several reasons. Compared with the working poor, they have more ability to pay higher taxes. Compared with the highest earners, they often derive a large chunk of their tax benefits from a host of deductions and exclusions that could be cut back.

The highest earners are more likely to reap additional benefits from favorable rates on investment income, such as long-term capital gains, than the affluent are. Unlike in the 1986 tax reform, which raised rates on capital gains, there are no current plans to do that this time. The highest earners also stand to gain greatly from provisions taxing business income at lower rates.

The Tax Policy Center didn't break out which changes would contribute most to tax increases for the affluent. But it's a good bet that a big one is eliminating deductions for state and local taxes. These write-offs currently cost Uncle Sam $103 billion a year, far more than the mortgage-interest deductions at $64 billion and charitable deductions at $61 billion.

Loss of the state and local tax deduction could raise taxes for many even if the alternative minimum tax, or AMT, is repealed, according to a different study by Tax Policy Center economist Frank Sammartino.

This result might seem surprising because currently the AMT curtails the benefit of deducting state and local taxes for taxpayers who owe AMT. Because of complex interactions in the two provisions, however, about three-quarters of those who owe AMT and also deduct state and local taxes would see a net tax increase if both provisions are repealed.

In this case, the affluent taxpayers at risk of owing more after an overhaul are especially likely to live in high-tax states such as California, Connecticut, Illinois, Maryland, Massachusetts, New Jersey and New York.

With luck, we'll learn more about the actual plan soon—and see if the losers have changed.

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