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TRUMP'S TAX CUTS AND JOBS ACT.

Since assumption of office as president, one of the Trump administration's agenda in addition to repealing ObamaCare - though unsuccessfully, and many others, has been to review the American Tax code. Now in this fourth quarter of 2017, the tax reforms are at the center of his bucket list as one of the goals to accomplish before the end of the year. Hence, it is no news that heated controversy and debates have trailed the GOP tax bill since its proposal. In this piece my objective is to probe the key provisions of this tax plan so as to help people understand the potential effects that this tax bill could have on the American taxpayers, as well as on long run economic growth, unemployment, inequality and inflation in the United States.

First, It is important to note that although the GOP tax plan has varying specifics in its provision, for both the senate and the house bill, the broad outlines are basically the same. The broad provisions of the GOP tax plan includes the following for all income groups: permanent and massive reduction of corporate tax rate to 20% up from 35%, which is the highest in the industrialized economies or OECD - the Organization for Economic Cooperation and Development countries, plus the reduction of tax rates on wealth transfer from overseas to 12% against the current 35%; repeal of federal estates tax otherwise known as the "death tax" for estates worth over $5.49 million and temporary tax cuts for individuals and "pass through" businesses with an expiration date of 2025. Going by these provisions, it is obvious that corporate tax breaks is what is at the centerpiece of this act; though the republicans have made this seem largely about the middle and low income Americans.

From the republican perspective, this tax reform would be a stimulus for economic growth and Job creation. And that is it titled the “tax cuts and Jobs Acts” in the first place, makes that more intuitive. In other words, it is to cut taxes and enable a suitable job creating environment for the business community, which according to republicans is what the United States economy really needs: more jobs for the American, reduction in unemployment and America is great again. In almost all of president Trump's speeches regarding this tax bill, a constant mention has been that it will boost economic growth, make the United States more globally business competitive, and incentivise a repatriation of capital to the tune of about $4trillion dollars back to the United States by companies overseas. But If any of the tax bill as proposed became law, none of it would significantly add to long term economic growth. Instead, they both would marginally add to the national deficit and load of debt.Unfortunately, the tax writers have a different opinion.

Initially, the economy might see growth improvement as a result of deficit-financed tax cuts being a fiscal stimulus. However, given that the economy is currently operating at near full employment, stronger inflation and higher interest rates will follow. Eventually, the economic benefits of lower tax rates for businesses will be cancelled out by the rise in interest rates, making the economy no better than it was prior to the tax cuts. So what’s the point then? Now, regarding unemployment, this plan will likely decrease employment, because companies might end up transferring jobs overseas. Yes there have been increasing job openings but companies have been complaining about the inadequacy of qualified skilled workers to fill them. This perhaps points to the fact that wages are rising at a slower pace compared to the growing number of jobs.

Inequality in the United States is among the highest of the developed countries of the world. What is proposed in this bill alludes to a juxtaposition of both expansionary and contractionary policies but sadly, one that works against itself. For the high income earners and somewhat, "pass through" businesses and corporations, the decrease in taxes is expansionary, but for individual low income earners, workers and college students, this policy would be contractionary as the tax breaks are mostly temporal and lots of provisions for deductions like the ObamaCare Mandate would also repealed. This would widen the gap between the rich and the poor, further exacerbating inequality. To prevent any economic downturn, the Federal Reserve Bank (Fed) which has the mandate of keeping inflation and unemployment in check will be able to keep the economy afloat by activating monetary policy measures by increasing the interest rates and federal reserve requirement.

It has been an echoing claim by the republicans, and president Trump himself that the United States has the highest corporate tax rate in the world or at least among the members of the OECD countries and the short answer to this is yes. Now it would be expected that corporate tax income would constitute a substantial share of the federal tax revenue. Sadly, this is not the case. Corporate tax revenue makes just about 10 percent of the federal tax revenue; while individual income taxes make up about 47 percent of the tax revenue. This then asserts that though it is statutorily high, the corporations have not all been law abiding with regards to tax payment. Under these circumstances of corporate tax evasion through available loopholes, how can it be guaranteed that more jobs will be provided when corporations do not have to worry about high taxation and they are not bound to put their increased profits into job creation as they could as well put them in other channels of investment.

In conclusion, given that his tax reform is a normative economic situation, the objective must be critical to how the bill is designed. If the objective of this tax bill is to grow the economy on a long term sustainable basis, then it is not the road map to actualise that.

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