

OCTOBER 2019

ANSWERING AMERICA

QUESTION 3: ARE TRUMP'S TAX CUTS
HELPING THE MIDDLE CLASS?

**THE BUSINESS CASE
AGAINST TRUMP'S AGENDA**



BUSINESSFORWARD
FOUNDATION

QUESTION 3:

ARE TRUMP'S TAX CUTS HELPING THE MIDDLE CLASS?

ANSWER: NOT REALLY.

MOST OF TRUMP'S \$1.9 TRILLION IN CUTS BENEFIT WEALTHY FAMILIES (BY DESIGN), AND TRUMP WANTS TO PAY FOR IT ALL BY CUTTING SOCIAL SECURITY AND HEALTH CARE.



Q3
TAX

THE
ARGUMENT

TRUMP TAX
CUT

MIDDLE CLASS
TAX CUT

TAX CUT
BENEFITS

HOW TRUMP
DID IT

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TAX CUT

ESTATE TAX

PASS-THROUGH
DEDUCTION

PAY FOR
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STOCK
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PROPOSED
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THE ARGUMENT

1 Chances are, you got a tax cut. Chances are, you also got screwed. The top 5% took more than half of the pie and left you to pay the check.

2 How did Trump do it? By favoring the types of income that the richest people earn: cutting corporate tax rates, doubling the estate tax exemption, and allowing deductions for pass-through income.

3 In other words, the Trump tax cuts skipped the middle class by design.

4 Trump sold his tax cuts with promises that helping the rich would trickle down to middle-class families. It hasn't.

5 Trump promised his tax cuts would pay for themselves by generating massive economic growth. They haven't.

6 To pay for his tax cuts, Trump now wants to cut health care and Social Security by \$1.65 trillion.

“

Our framework ensures that the benefits of tax reform go to the middle class, not to the highest earners.¹

”

- PRESIDENT DONALD TRUMP
OCTOBER 2017



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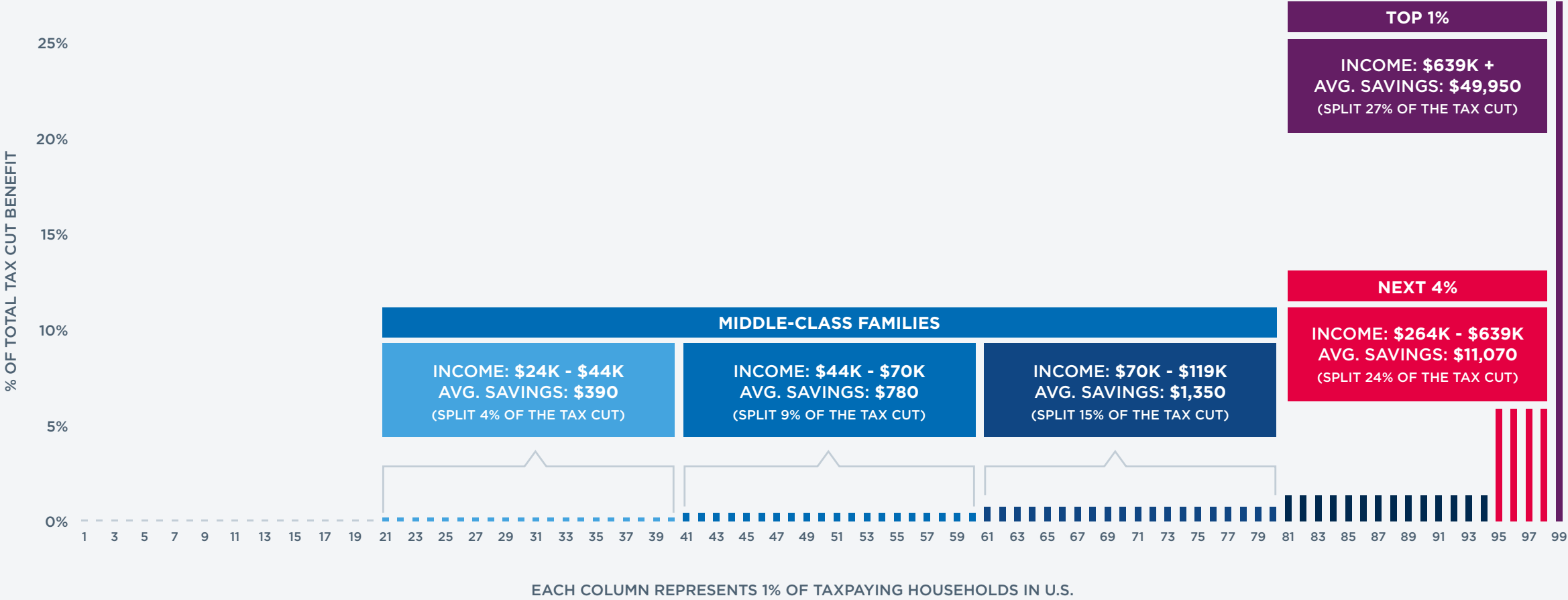
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TRUMP'S "MIDDLE-CLASS" TAX CUT: THE TOP 5% TOOK MORE THAN HALF OF THE TOTAL BENEFITS

AVERAGE SHARE OF TRUMP TAX BENEFIT PER INCOME PERCENTILE²



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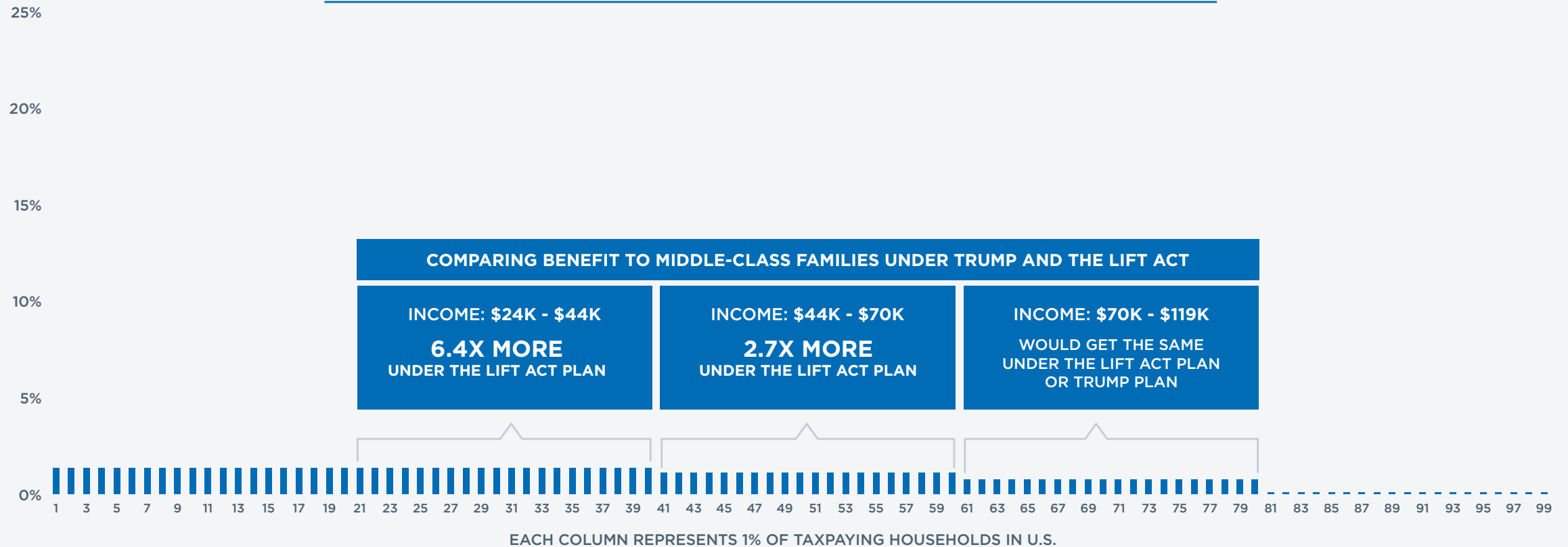
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HERE'S WHAT A MIDDLE-CLASS TAX CUT ACTUALLY LOOKS LIKE

Several federal lawmakers have proposed tax cuts and credits, each of which gives substantially more to the middle class than President Trump's Tax Cuts and Jobs Act. One example (highlighted below) is the LIFT the Middle Class Act, which provides up to a \$6,000 refundable tax credit for families earning under \$100,000 annually. This proposal and other plans, including the Cost-of-Living Refund Act, American Family Act, Working Families Tax Relief Act, and the Rise Credit, would distribute the majority of benefits among the middle class.³

AVERAGE SHARE OF THE LIFT THE MIDDLE-CLASS ACT TAX BENEFIT PER INCOME PERCENTILE



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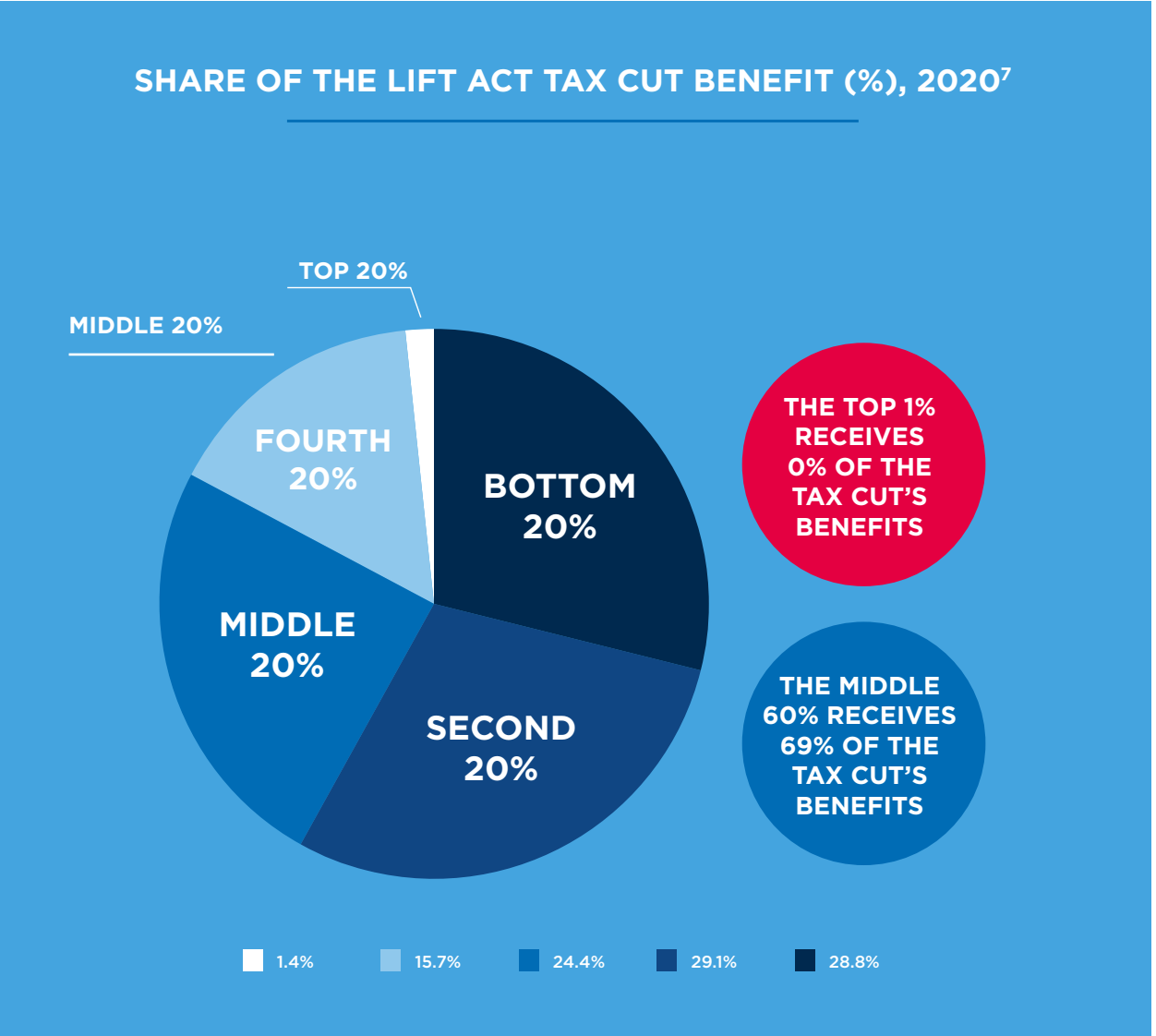
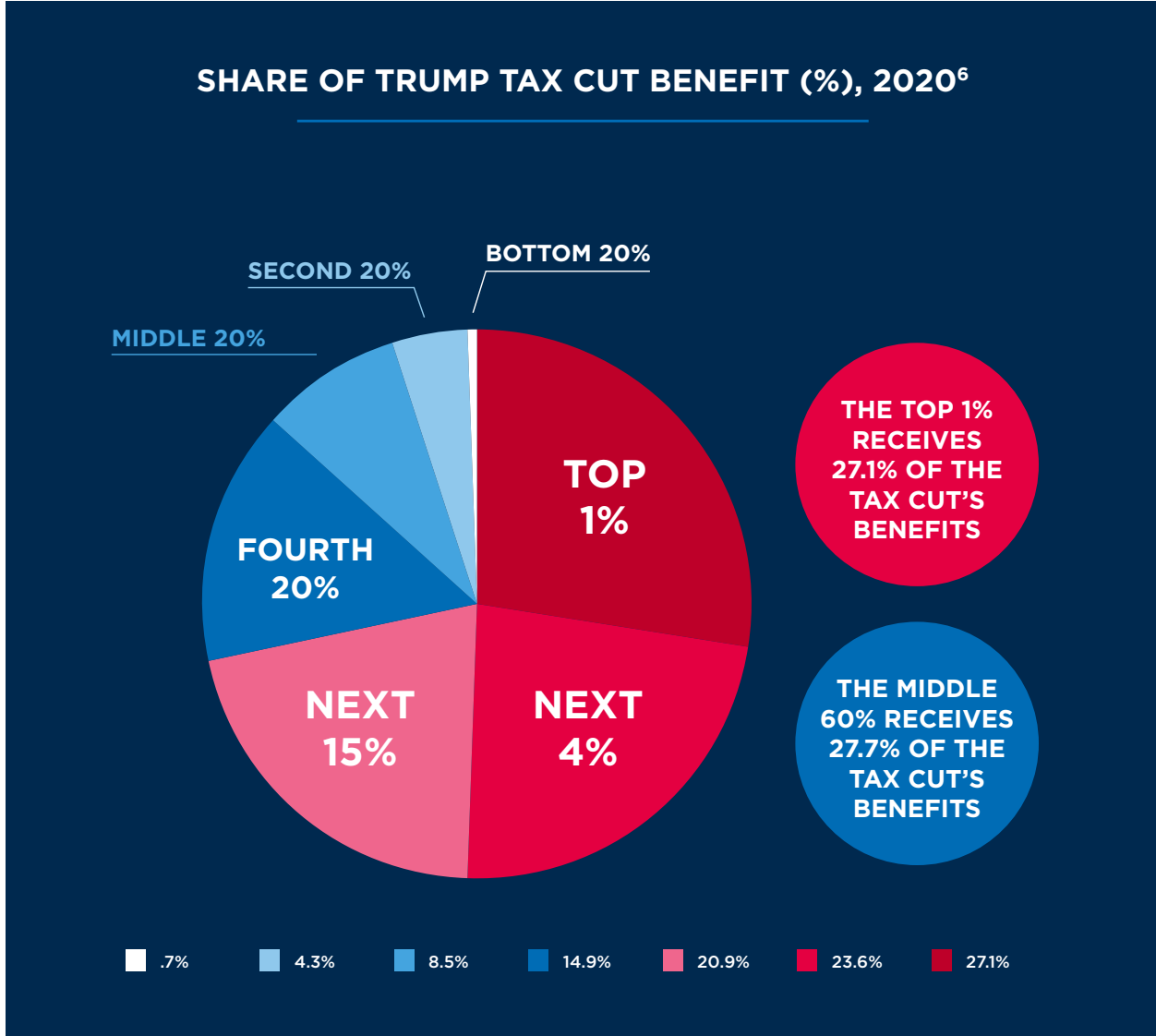
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TRUMP CUT YOU A SLIVER OF THE PIE; HE GAVE MORE THAN HALF TO THE RICHEST AMERICANS



HOW TRUMP DID IT: TRUMP'S TAX CUTS FAVOR THE WEALTHY BY TARGETING TYPES OF INCOME THE RICHEST AMERICANS EARN

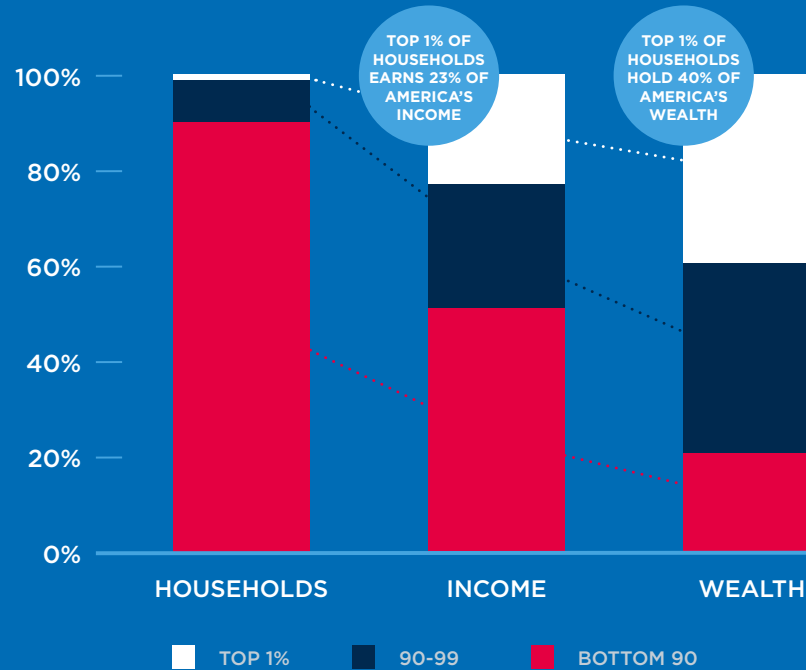
THE RICH DON'T JUST EARN MORE MONEY. THEY EARN IT DIFFERENTLY.

If Trump wanted to give all of the cut to middle-class families, like he promised, he could have cut them checks or handed out tax credits on ordinary income.

Instead, Trump dedicated 14% of his tax cuts to reducing rates for pass-through businesses, doubled the estate tax exemption, and reduced the corporate tax rate (which benefits the companies' stock holders).

WHAT THEY HAVE

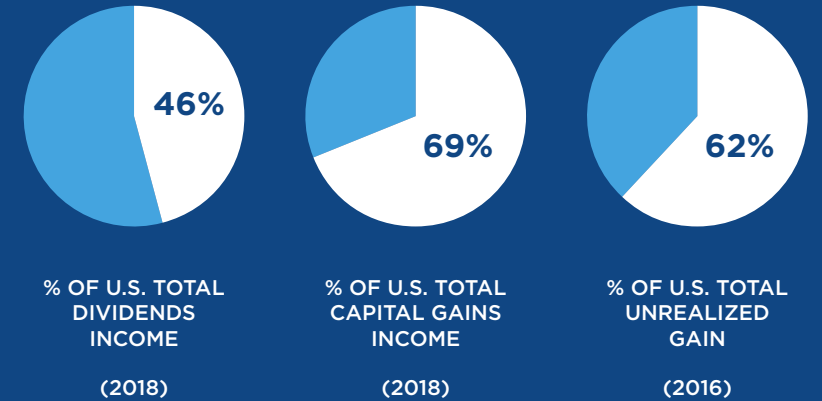
INCOME AND WEALTH DISTRIBUTION⁸



IN 2020, TO QUALIFY FOR THE TOP 1%, YOU WILL NEED TO MAKE AT LEAST \$639K IN ANNUAL INCOME. THE AVERAGE HOUSEHOLD INCOME FOR THE 1% WILL BE \$1.95M.⁹

TYPES OF INCOME THEY DOMINATE

SHARE OF WEALTH/INCOME OWNED BY THE TOP 1%¹⁰



OVER 50% OF WEALTH IN THE U.S. IS INHERITED.¹¹



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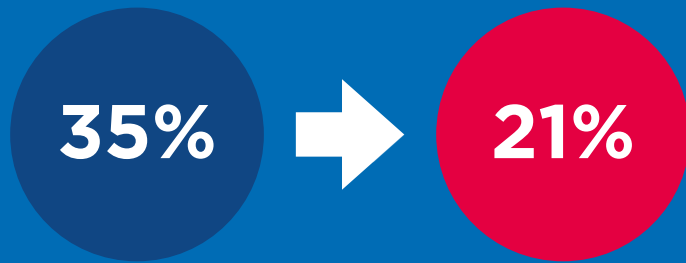
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BY DESIGN, HALF OF AMERICA'S FAMILIES MISSED OUT ON THE CORPORATE TAX CUT BECAUSE THEY OWN LITTLE TO NO STOCK

CORPORATE TAX CUTS' BIGGEST, MOST IMMEDIATE BENEFICIARIES ARE STOCKHOLDERS

CORPORATE TAX RATE BEFORE AND AFTER TAX REFORM



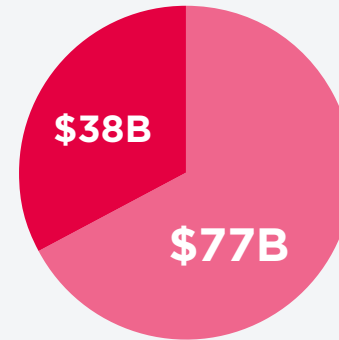
Congress' official revenue estimator, the Joint Committee on Taxation, assumes all corporate tax cuts go to shareholders in the first year, and only a small fraction goes to workers over time.



HALF OF AMERICANS OWN NO STOCK¹⁴

ONE-THIRD OF U.S. STOCKS ARE HELD BY FOREIGN INVESTORS, SO ONE-THIRD OF THE BENEFITS WILL LEAVE THE U.S.¹²

CORPORATE TAX CUT PAYOFFS, 2020

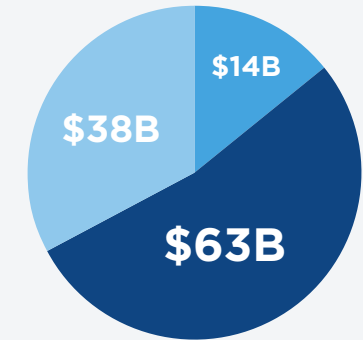


FOREIGN INVESTORS ALL AMERICAN INVESTORS

FOREIGN INVESTORS WILL RECEIVE \$38 BILLION OUT OF \$115 BILLION TOTAL CORPORATE TAX CUTS

THE RICHEST 20% WHO OWN THE BULK OF STOCKS RECEIVE 81% OF THE BENEFITS¹³

CORPORATE TAX CUT PAYOFFS, 2020



TOP 20% OF AMERICANS BY INCOME LEVEL BOTTOM 80% OF AMERICANS BY INCOME LEVEL

FOREIGN INVESTORS

U.S. TAXPAYERS WILL RECEIVE \$77 BILLION IN BENEFITS; THE RICHEST 20% WILL SPLIT \$63 BILLION WHILE THE BOTTOM 80% WILL SPLIT THE REMAINING \$14 BILLION



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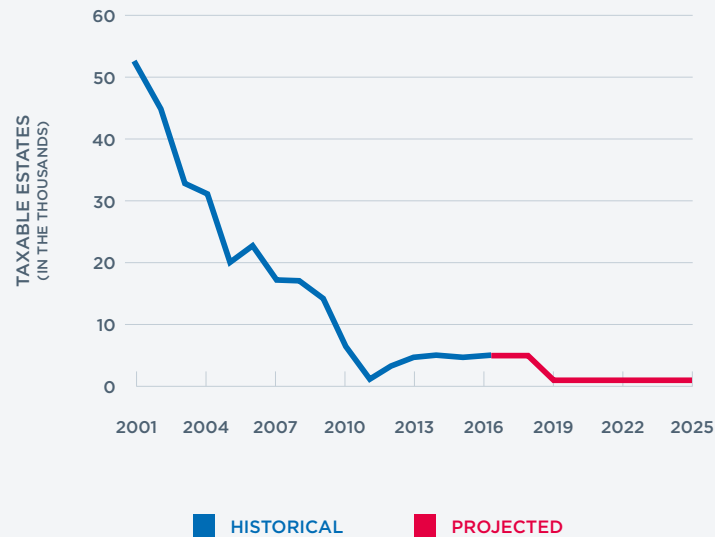
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BY DESIGN, ESTATE TAX CHANGES GIVE MILLIONS OF DOLLARS TO WEALTHY ESTATES VALUED AT OVER \$11 MILLION

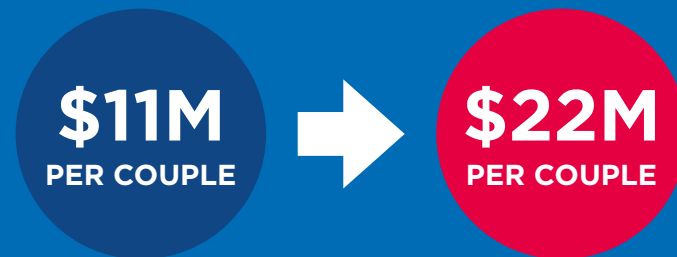
THE ESTATE TAX IS DESIGNED TO LEVEL THE PLAYING FIELD BETWEEN MIDDLE-INCOME AND ULTRA-WEALTHY FAMILIES

BUT, ACCORDING TO THE CENTER ON BUDGET AND POLICY PRIORITIES, "UNDER 2017 TAX LAW, NUMBER OF ESTATES FACING ESTATE TAX WILL CONTINUE TO PLUMMET"¹⁵



TRUMP GUTS THE ESTATE TAX BY DOUBLING EXEMPTION

Heirs that receive under \$22 million worth of property do not pay anything with the higher estate tax exemption. The high exemption means that most heirs pay a relatively low tax rate; the average tax rate in 2018 was 16.5%.¹⁶



ULTRA WEALTHY BENEFIT¹⁷

Reduces share of estates facing tax to

1 IN 1,000

1,800 of the richest estates (those worth more than \$22M per couple) each received a tax break of

\$4.4M

According to the Joint Committee on Taxation, the tax break costs:

\$83B



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BY DESIGN, THE PASS-THROUGH DEDUCTION PROVIDES ANOTHER TOOL FOR THE WEALTHY TO REDUCE THEIR TAXES

PASS-THROUGH DEDUCTION

20%

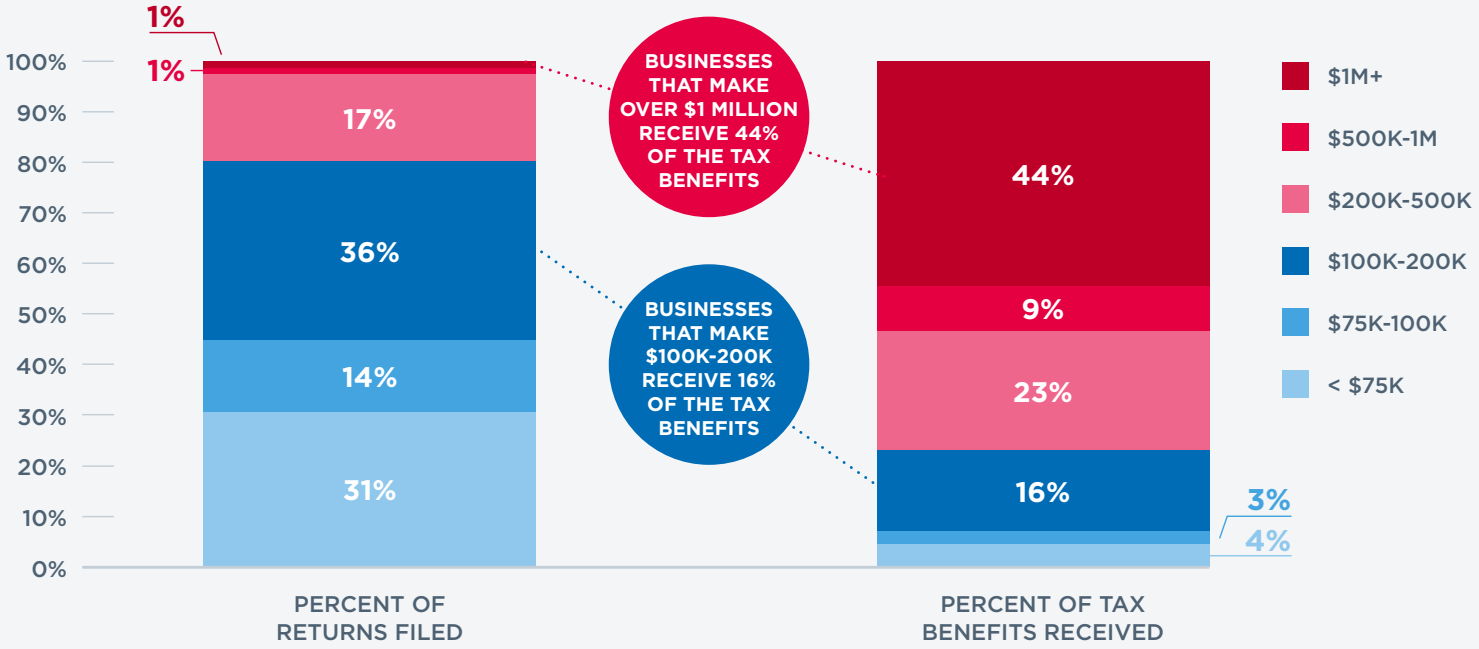
Allows select LLCs, sole proprietorships, and S corporations to use the individual tax rate less a 20% deduction for “pass-through” income.

Households in the highest tax brackets can deduct more per each dollar of pass-through income earned.

ADVERTISED FOR SMALL BUSINESS; DESIGNED FOR BIG BUSINESS

Of Trump’s pass-through tax deduction, 44% goes to people earning \$1M+ per year — that’s an average break of \$89,000 per household.¹⁸ And other wealthy Americans can game the system by re-organizing their businesses to reclassify their income.

DISTRIBUTION OF RETURNS FILED VS. DISTRIBUTION OF TAX BREAK FOR PASS-THROUGH BUSINESSES, 2018¹⁹



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TRUMP SAID HIS \$1.9 TRILLION TAX CUTS WOULD PAY FOR THEMSELVES; THEY AREN'T

THE CLAIM

“ We are totally confident this is a revenue-neutral bill and probably a revenue producer.²² ”

- MITCH MCCONNELL
SENATE MAJORITY LEADER

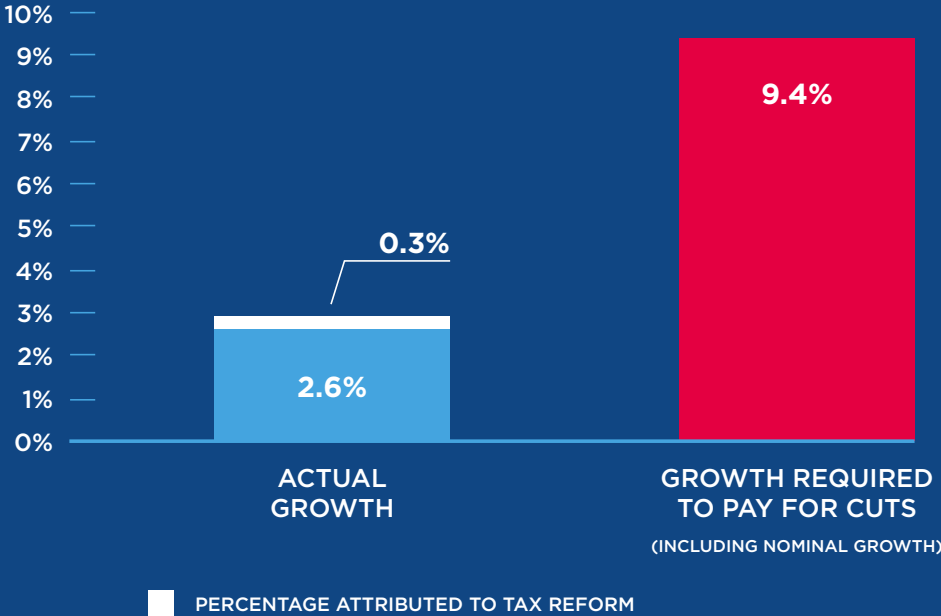
THE CONCEPT

Tax cuts create additional economic activity (spending), which generates new tax revenue. Economists call this the “feedback effect,” while some politicians call it the “trickle down effect.”

THE REALITY

Last year, our economy grew by 2.9%. According to the CRS, the economic feedback effect of Trump’s tax cuts was 0.3% of GDP. That’s less than 5% of the growth needed to make up the revenue lost in the first year.²³ To pay for itself, the tax cuts would have had to increase GDP growth by nearly 4X. The IMF forecasts that GDP growth will slow and hit 1.6% by 2024.²⁴

GDP GROWTH RATES (PERCENTAGE CHANGE), 2018²⁵



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TRUMP SAID CORPORATIONS WOULD USE THE TAX CUT TO INCREASE WORKER WAGES; THEY BOUGHT THEIR OWN STOCK INSTEAD

THE CLAIM

“ I would expect to see an immediate jump in wage growth.²⁶ ”

- KEVIN HASSETT
CHAIR, COUNCIL OF ECONOMIC ADVISERS

THE CONCEPT

The White House Council of Economic Advisors projected Trump’s tax cuts would boost household income by \$4,000 — and up to \$9,000 over time. The idea was that corporations would share their savings with workers.²⁷

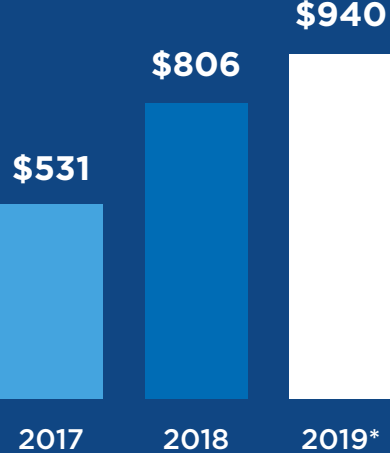
THE REALITY

“ There is no indication of a surge in wages in 2018 either compared to history or relative to GDP growth. This finding is consistent with the CBO projection of a modest effect.²⁸ ”

- JANE GRAVELLE & DONALD MARPLES
CONGRESSIONAL RESEARCH SERVICE
MAY 22, 2019

THE CAUSE

Corporations spent \$806 billion on buybacks – 52% more than they did in 2017. And they are projected to buy back another \$940 billion in 2019.²⁹



Buybacks lower the supply of shares, increasing demand and raising the value of each share.

* GOLDMAN SACHS PREDICTION³⁰



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TRUMP SAID CORPORATIONS WOULD BRING BACK MONEY AND INVEST IT IN THE U.S.; THEY HAVEN'T

THE CLAIM

“

I would expect capital spending to really take off if the tax bill passes.³³

”

- KEVIN HASSETT
CHAIR, COUNCIL OF ECONOMIC ADVISERS

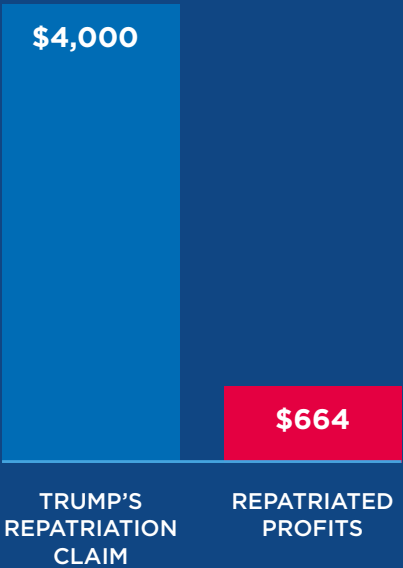
THE CONCEPT

Republicans argued that reducing the corporate tax rate and offering a tax break for repatriated profits would lead to increased investment in the U.S.

THE REALITY

In total, companies brought back only \$664 billion in profits, far below Trump’s \$4 trillion claim. And there is no evidence that the change in record-keeping to repatriate profits has increased investment in the U.S.

FOREIGN PROFITS (IN BILLIONS OF DOLLARS)³²



“A YEAR AFTER THE MIDDLE-CLASS TAX CUT, THE RICH ARE WINNING”

“There’s no sign of a spending spree... Earnings reports suggest big companies have mostly used their tax savings to protect profit margins squeezed by tariff-related uncertainty and cooling global demand... Some of the law’s new rules may even end up providing some incentives to keep or move operations overseas.”³⁴

BEN STEVERMAN
DECEMBER 18, 2018

Bloomberg



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TRUMP WANTS TO PAY FOR HIS \$1.9 TRILLION TAX CUT BY CUTTING YOUR HEALTH CARE AND SOCIAL SECURITY

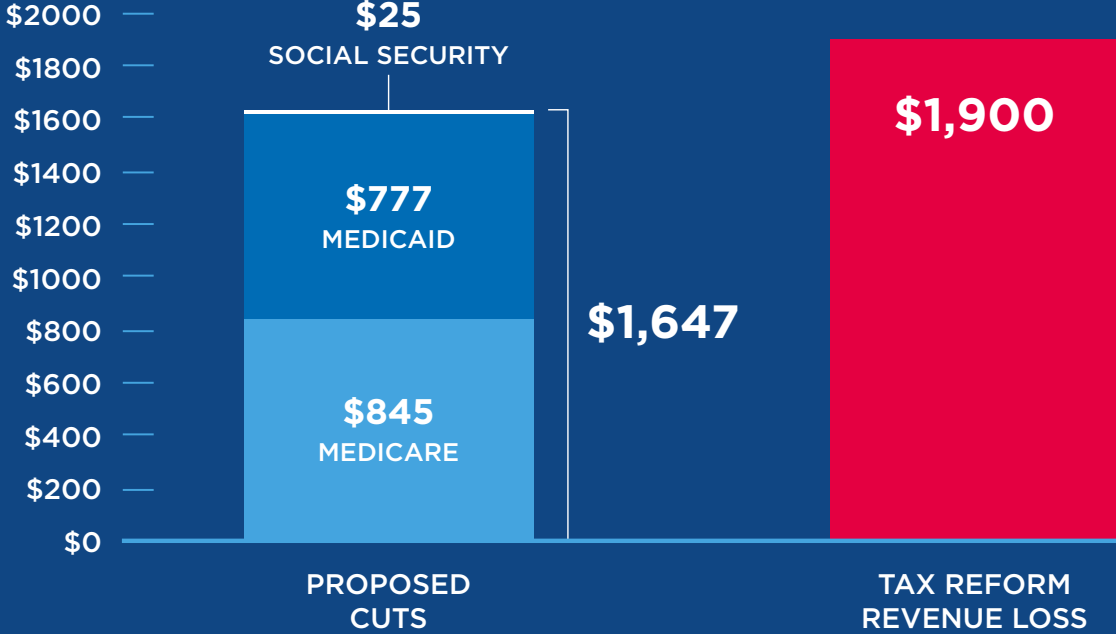
YOU WILL PAY FOR TRUMP'S TAX CUT



Trump proposed massive cuts to Medicare, Medicaid, and Social Security in his budget proposal for fiscal year 2020.

COMPARISON OF TRUMP'S PROPOSED CUTS TO HEALTH CARE AND SOCIAL SECURITY (2020-2029) WITH COST OF TRUMP TAX CUT (2018-2027)³⁵

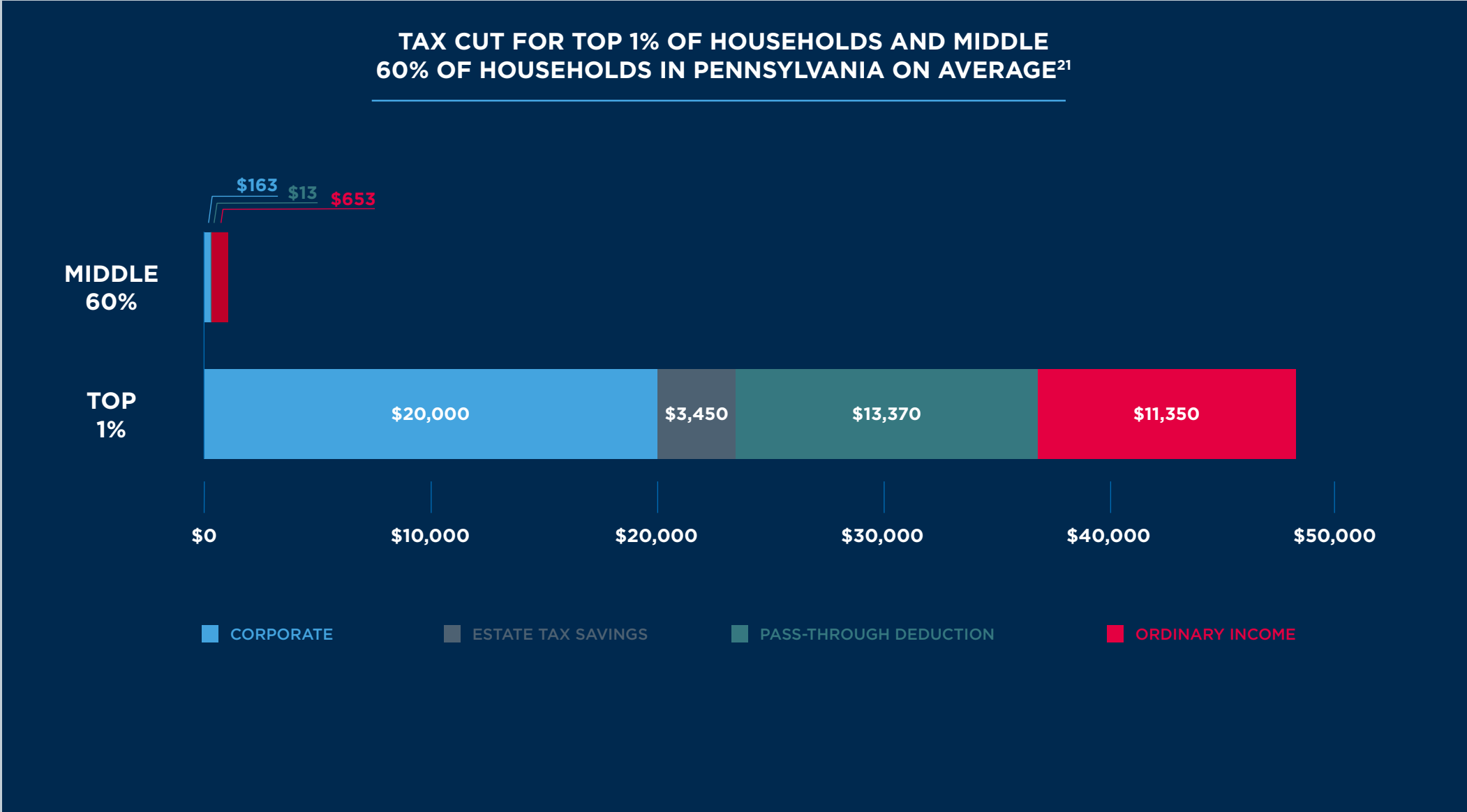
(IN BILLIONS OF DOLLARS)



CASE STUDY: PENNSYLVANIA

THOSE IN THE **TOP 1%** ENJOY AN AVERAGE **\$48,100** TAX BREAK²⁰

THAT IS **58X** MORE THAN THE AVERAGE **MIDDLE 60%** TAX BREAK



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Q3 TAX

THE ARGUMENT

TRUMP TAX CUT

MIDDLE CLASS TAX CUT

TAX CUT BENEFITS

HOW TRUMP DID IT

CORPORATE TAX CUT

ESTATE TAX

PASS-THROUGH DEDUCTION

PAY FOR THEMSELVES

STOCK BUYBACKS

REPATRIATION

PROPOSED CUTS

PENNSYLVANIA CASE STUDY

ENDNOTES

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