OCTOBER 2019

ANSWERING AMERICA

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

THE BUSINESS CASE AGAINST TRUMP’S AGENDA
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.
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.

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.

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

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

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

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
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 PERCENTILE

INCOME: $264K - $639K
AVG. SAVINGS: $11,070
(SPLIT 24% OF THE TAX CUT)

INCOME: $639K +
AVG. SAVINGS: $49,950
(SPLIT 27% OF THE TAX CUT)

MIDDLE-CLASS FAMILIES

INCOME: $24K - $44K
AVG. SAVINGS: $390
(SPLIT 4% OF THE TAX CUT)

INCOME: $44K - $70K
AVG. SAVINGS: $780
(SPLIT 9% OF THE TAX CUT)

INCOME: $70K - $119K
AVG. SAVINGS: $1,350
(SPLIT 15% OF THE TAX CUT)

NEXT 4%

INCOME: $264K - $639K
AVG. SAVINGS: $11,070
(SPLIT 24% OF THE TAX CUT)

TOP 1%

INCOME: $639K +
AVG. SAVINGS: $49,950
(SPLIT 27% OF THE TAX CUT)

EACH COLUMN REPRESENTS 1% OF TAXPAYING HOUSEHOLDS IN U.S.
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
TRUMP CUT YOU A SLIVER OF THE PIE; HE GAVE MORE THAN HALF TO THE RICHEST AMERICANS

**SHARE OF TRUMP TAX CUT BENEFIT (%), 2020**

- **TOP 1%** receives 27.1% of the tax cut’s benefits.
- **THE MIDDLE 60%** receives 27.7% of the tax cut’s benefits.
- **NEXT 15%**
- **SECOND 20%**
- **BOTTOM 20%**

<table>
<thead>
<tr>
<th>Income Group</th>
<th>Share of Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top 1%</td>
<td>27.1%</td>
</tr>
<tr>
<td>Middle 60%</td>
<td>27.7%</td>
</tr>
<tr>
<td>Next 15%</td>
<td>6.4%</td>
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<tr>
<td>Second 20%</td>
<td>8.5%</td>
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<tr>
<td>Bottom 20%</td>
<td>4.9%</td>
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**SHARE OF THE LIFT ACT TAX CUT BENEFIT (%), 2020**

- **TOP 1%** receives 0% of the tax cut’s benefits.
- **THE MIDDLE 60%** receives 69% of the tax cut’s benefits.
- **SECOND 20%**
- **FOURTH 20%**
- **BOTTOM 20%**

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<tbody>
<tr>
<td>Top 1%</td>
<td>0%</td>
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<td>Middle 60%</td>
<td>69%</td>
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<tr>
<td>Second 20%</td>
<td>24.4%</td>
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<tr>
<td>Fourth 20%</td>
<td>15.7%</td>
</tr>
<tr>
<td>Bottom 20%</td>
<td>1.4%</td>
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</table>
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).

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.

Over 50% of wealth in the U.S. is inherited.
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**

- Before: 35%
- After: 21%

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 Stock**

**One-Third of U.S. Stocks Are Held by Foreign Investors, So One-Third of the Benefits Will Leave the U.S.**

**Corporate Tax Cut Payoffs, 2020**

- **$77B**
  - **$38B** Foreign Investors
  - **$38B** 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 Benefits**

**Corporate Tax Cut Payoffs, 2020**

- **$77B**
  - **$38B** Top 20% of Americans by income level
  - **$38B** Bottom 80% of Americans by income level
  - **$14B** 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.

- **$63B**
  - **$38B** **$14B**

Foreign investors will receive $38 billion out of $115 billion total corporate tax cuts.
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”

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%.

ULTRA WEALTHY BENEFIT

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

**PASS-THROUGH DEDUCTION**

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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.

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**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. And other wealthy Americans can game the system by re-organizing their businesses to reclassify their income.

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**DISTRIBUTION OF RETURNS FILED VS. DISTRIBUTION OF TAX BREAK FOR PASS-THROUGH BUSINESSES, 2018**

- **BUSINESSES THAT MAKE OVER $1 MILLION RECEIVE 44% OF THE TAX BENEFITS**
  - 44%
  - $1M+
  - 17%
  - $500K-1M
  - 36%
  - $200K-500K
  - 14%
  - $100K-200K
  - 14%
  - $75K-100K
  - 31%
  - < $75K

- **BUSINESSES THAT MAKE $100K-200K RECEIVE 16% OF THE TAX BENEFITS**
  - 16%
  - $100K-200K

- **BUSINESSES THAT MAKE $75K-100K RECEIVE 3% OF THE TAX BENEFITS**
  - 3%
  - $75K-100K

- **BUSINESSES THAT MAKE <$75K RECEIVE 4% OF THE TAX BENEFITS**
  - 4%
  - < $75K
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

- 10%
- 9%
- 8%
- 7%
- 6%
- 5%
- 4%
- 3%
- 2%
- 1%
- 0%

ACTUAL GROWTH

GROWTH REQUIRED TO PAY FOR CUTS (INCLUDING NOMINAL GROWTH)

PERCENTAGE ATTRIBUTED TO TAX REFORM

0.3% 2.6% 9.4%
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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CHAIR, COUNCIL OF ECONOMIC ADVISERS
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

<table>
<thead>
<tr>
<th>TRUMP’S REPATRIATION CLAIM</th>
<th>REPATRIATED PROFITS</th>
</tr>
</thead>
<tbody>
<tr>
<td>$4,000</td>
<td>$664</td>
</tr>
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“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 STEVERMANN
DECEMBER 18, 2018

Bloomberg

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

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)

<table>
<thead>
<tr>
<th>Proposed Cuts</th>
<th>Tax Reform Revenue Loss</th>
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<tbody>
<tr>
<td>Social Security: $25</td>
<td>$1,900</td>
</tr>
<tr>
<td>Medicare: $777</td>
<td>$1,647</td>
</tr>
<tr>
<td>Medicaid: $845</td>
<td>$0</td>
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CASE STUDY: PENNSYLVANIA

THOSE IN THE TOP 1% ENJOY AN AVERAGE $48,100 TAX CUT AN AVERAGE $48,100 TAX BREAK

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

TAX CUT FOR TOP 1% OF HOUSEHOLDS AND MIDDLE 60% OF HOUSEHOLDS IN PENNSYLVANIA ON AVERAGE

- TOP 1%
  - $0 - $10,000: $20,000
  - $10,000 - $20,000: $3,450
  - $20,000 - $30,000: $13,370
  - $30,000 - $40,000: $11,350

- MIDDLE 60%
  - $0 - $10,000: $163
  - $10,000 - $20,000: $13
  - $20,000 - $50,000: $653

Corporation estate tax savings: pass-through deduction: ordinary income


