VOICES FOR HUMAN NEEDS

Fighting Poverty and Expanding Opportunity for All

Head-Smacking in the Election Season: The Election, Tax Policy and the Economy

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October 2016

As you may know, the Coalition on Human Needs is the kind of tax-exempt organization that cannot take any positions on candidates for public office. While the campaign season has provided no shortage of opportunities for head-smacking, the best we can do for most of these is to urge you to consult your physician for signs of concussion. Otherwise, you're on your own.

That's okay. You don't need us to opine about all this.

But there are some critical issues that have not gotten much attention. We're allowed to talk about issues and policy proposals; you will have to draw your own conclusions about how to assess candidates based on their proposals.

Today's critical issue: TAX POLICY AND THE ECONOMY

Both the Clinton and Trump campaigns have released tax plans. Secretary Clinton has recently added details to her plan, proposing to increase tax credits to low-income families with children, especially those with children age four and younger.

For those of us who care about making the economy work better for all, there are three central questions to ask about tax proposals:

1. How much do they cost?
2. Who benefits; who pays more?
3. Will they result in broadly shared economic growth?

Bear in mind how interconnected these three questions are. If a tax plan costs a lot and targets its benefits largely to high-income people, we might favor it if it results in job creation that improves incomes for most Americans. But if the evidence from past experience does not show broad economic gains from high-income tax cuts, the revenue loss and resulting deficits and service cuts cannot be justified.

How much do the Trump and Clinton tax proposals cost?

Estimates for the Trump proposals vary, since not everything is spelled out. But the plan released by the campaign in September would reduce taxes by more than $6 trillion over 10 years; adding in interest costs from borrowing to pay for the tax cuts, the Tax Policy Center would up the cost to over $7 trillion. The Clinton plan would increase taxes by about $1.4 trillion over the next decade. Because the net increase in revenue would reduce borrowing and therefore lower interest costs, the Tax Policy Center estimates a $1.6 trillion reduction in the deficit over ten years. Neither estimate takes into account spending priorities of the campaigns.

Who benefits; who pays more?

There is a narrow and broader way of looking at this. Obviously, tax cuts reduce tax payments for certain groups, which helps them. Harder to quantify are changes that result from loss of federal revenue. If the deficit balloons up because the tax take has declined, there will be further pressures to cut programs. If a moderate income family gains something from a tax cut, but then loses access to college aid or child care or health insurance subsidies, they will almost certainly lose more than they gain. But sticking to the more direct impact for the moment, the **Trump tax plan** would provide an average tax cut of $214,690 for the richest 1 percent in 2017, according to the Tax Policy Center. The tax cut for the top one-tenth of 1 percent, whose incomes in 2016 exceed $3.7 million, would average more than $1 million in 2017. For the middle 20 percent, whose incomes range from about $48,000 up to $83,000, the average tax cut would be $1,010. For the lowest 20 percent (with incomes up to $24,800), their tax cut would average $110. Those in the top 1 percent would get almost half (47.3 percent) of the total tax cut; everyone in the bottom 20 percent would split 1.1 percent of the total tax reduction.

As noted, the **Clinton plan** would produce a net revenue gain. The Tax Policy Center estimates that 92 percent of the raised revenue would be paid by the top 1 percent, whose average increase would be about $117,760 in 2017. Because the Clinton campaign has newly proposed to increase the Child Tax Credit, there are reductions in average tax payments by low- to middle-income taxpayers. In 2017, the lowest quintile would see an average tax reduction of $100; the middle 20 percent would pay $110 less.

-$7 trillion cost of Trump tax plan over 10 years

+$1.4 trillion increase in taxes under Clinton plan over 10 years

Average Tax Changes for Richest 1%

Trump	Clinton
-$214,690 Get 47% of all tax cuts	**+117.760** Pay 92% of the tax increases

That is not the full story for either campaign's plan. While on average, the Trump plan would reduce taxes to some extent for each income fifth, and some families with children would see greater tax reductions, there are groups that would see their taxes rise because certain current tax deductions would be eliminated. And the new Clinton Child Tax Credit proposal would reduce taxes far more than the average cited above for low- and middle-income families with children, especially young children.

Trump tax plan's impact on families with children: The Trump plan would allow families with children up to age 13 to exclude the cost of child care from their income tax, and would allow a similar deduction if a parent or other relative is providing unpaid care. This would provide a tax reduction to families with incomes too high to benefit from the current child care credit, as well as those without child care expenses. For families with lower incomes, the Trump plan offers a new refundable credit likely to max out at around $1,000. ("Refundable" means receiving a tax refund check even if the amount exceeds what a low-earning family owes in federal income taxes.)

However, the Trump proposal would increase the tax rate for the lowest tax bracket from 10 percent to 12 percent, which would increase taxes on the first $9,000 to $18,000 for all taxpayers. The plan would also replace the current standard deduction plus personal exemptions in the federal income tax with a single standard deduction. This would tend to result in lower deductions for families with three or more children. The plan would also eliminate the "head of household" filing status, which results in reduced taxes for single taxpayers with dependents.

Taking all these provisions into account, single-parent households, families with three or more children, and families without child care expenses would be expected to see their taxes increase. One analysis estimates this would lead to a tax increase for 7.8 million families with minor children, 20 percent of all households with minor children. Some examples, under the Trump plan:

- A single parent earning $50,000, with 3 school-aged children and no child care costs would see their taxes rise by $1,188.
- A married couple with $50,000 in earnings, 3 children, and $8,000 in child care costs would receive a tax increase of almost $450. (With two children, that family would get a tax cut $93 larger than they would under current law.)
- A single parent earning $75,000, with two school-aged children and $8,000 in child care costs would see a tax increase of $1,640.

The new Clinton Child Tax Credit proposal: The Clinton plan would double the size of the Child Tax Credit for children four years or younger (to $2,000 per child). (The CTC starts to phase out at $75,000 in adjusted gross income for single parents and at $110,000 for married parents filing jointly.) The proposal also allows the lowest-earning parents of children under age 17 to get a higher Child Tax Credit. Now, the first $3,000 in earnings does not count in calculating the credit received by low-income families. The Clinton plan would start counting from the first dollar of earnings, and would make it far more likely that low-earners with young children would receive the full credit. For example:

- Under current law, a parent earning $15,000 with 2 children under age 4 would receive $1,800 as a refundable credit, $200 less than the full $1,000 per child available to middle-income families. Under the Clinton proposal, that family would receive a refundable credit of $4,000 – the proposed maximum for two young children.

- The Clinton plan would more modestly increase the CTC received by parents with older children. Instead of getting $1,800, as noted in the first bullet, they would get the full $1,000 per child age 5 and up, or $2,000.

This proposal would be strongly targeted to help the lowest-income families, lifting 1.5 million people out of poverty, of whom 400,000 are children under age 5, according to the Center on Budget and Policy Priorities. It would raise 1.1 million children under 5 out of the ranks of the most deeply poor, pushing income up for a total of 5.2 million people who would otherwise be living below ***half*** the poverty line (for a three-person family, that was below about $9,400 in 2015).

How do the plans affect broadly shared economic growth?

Proposals that reduce taxes for the highest income groups claim that tax reductions concentrated at the top will result in job creation and economic growth. Those proponents also contend that increasing taxes on the wealthy and corporations will strangle economic growth. This is not just a matter for speculation, though. There is evidence about what really happens, both from looking at tax cuts and economic growth over time, and from looking at states within the U.S. that have tried tax reduction strategies.

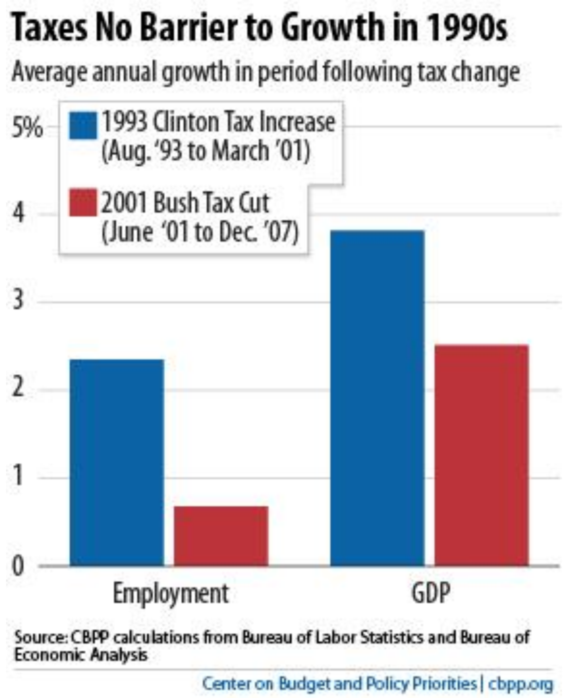
What does the evidence show?

Tax cuts can spur some economic growth, but looking at a truckload of findings, it stands out that tax reductions are no guarantee of a better economy, and higher tax rates do not hold back economic growth.

The Congressional Research Service compiled growth rates over time, and found that from 1950 – 1970, the top marginal tax rate on labor income was 84.8 percent, and the top marginal rate on capital gains was 25.6 percent. During those two decades, the economic growth rate (GDP) averaged 3.86 percent. By 1987 – 2010, the top rate on labor income had plunged to 36.4 percent, and the capital gains top marginal rate was 23 percent. Economic growth was lower, not higher – it was 2.85 percent for this period.

A lot of things were going on over these long periods. We don't claim that high top tax rates caused the higher growth. But they didn't get in the way of it, and reducing top rates did not spur economic gains.

That's true when you look at more recent experience. See this comparison of the Bill Clinton tax increases of the 1990's and the George W. Bush era tax cuts in the early 2000's, courtesy of the Center on Budget and Policy Priorities:



The graph above is particularly helpful because it uses an important measure of ***shared*** economic growth: employment levels. GDP can rise, with all the gains going to people at the top. That's what happened in the first years of the recovery from the Great Recession. But employment is a measure of how all of us are doing, and all of us did much better after the Clinton tax increase than we did after the Bush tax cuts.

One more example: the experience in Kansas. Kansas, under Governor Sam Brownback, enacted large tax cuts starting in 2013, in which the top income tax rate dropped from 6 percent to 4.5 percent, and the tax on income earned by small businesses that was formerly reported on individual income tax forms was cut to zero. There was growth in Kansas from 2013 to 2016, a period of national recovery from the 2008-2009 recession. But Kansas grew far less than the national average. Employment rose by 2.6 percent in Kansas, but 6.5 percent across the nation. GDP in Kansas grew 4.8 percent, but rose nationally by 11.9 percent.

And this gets us to another point: proponents of big tax cuts say that the economic growth they spark will lead to more taxes being paid, so revenues will not drop as much as you'd think. Well…no. In Kansas, revenues plummeted, with the tax take in 2016 $570 million lower than in 2013, even after counting increases enacted in sales and cigarette taxes. The economic growth that did occur from cutting taxes was estimated to bring in about $30 million, leaving the state very deeply in the hole.

The Take-Away:

When you look at a candidate's tax proposals, bear in mind that big tax cuts favoring those at the top have in the past ***not*** paid off in terms of increased employment or economic growth. They lose revenue, and therefore increase the pressure to cut programs. That is why we have been cutting education, job training, housing, and many other federal programs that can help prepare people to share in economic growth. That is why we have been failing to maintain and modernize our roads, bridges, public transit and public buildings.

Early analyses of the full Clinton and Trump economic plans (tax and spending) by Moody's Analytics found that the Trump plan would cause a recession and the Clinton plan would create 10.4 million jobs over ten years, or 3.2 million more than by continuing current law. Admittedly, Moody's look at Trump's plan was before he drastically reduced the size of his proposed tax cuts. But the tax cuts are still very large, and Moody's analysis includes the scenario that Congress would scale back the massive extent of Trump's initial plan.

Mr. Trump is not alone in proposing large tax cuts targeted to the highest income groups. This year, House Republicans proposed a $3.1 trillion tax cut over the next decade. This plan would in 2017 provide three-quarters of its tax reductions to the top one percent, whose average tax cut would be $212,660. The top one-tenth of one percent would average $1.26 million in tax reductions. The House plan also calls for giant spending cuts, of which $3.7 trillion are estimated by the Center on Budget and Policy Priorities to affect low- and moderate-income people.

Proponents of large tax cuts for those at the top content they will generate economic growth, and will trot out economic projections to boost their claims. But projections are not the same as evidence from actual past performance. And the real world evidence – whether from decades of national economic data or from the current tax cut experiments in Kansas – tells us that tax cuts at the top ***do not*** unleash economic growth and jobs, and ***do*** lead to massive revenue loss. On the other hand, revenue increases at the top, combined with investments in infrastructure, education, housing, health care, etc. as well as reductions in family child care and other costs, have created jobs and boosted income in the past, and can do so again.