COALITION ON HUMAN NEEDS

The Human Needs Report

November 3, 2017

Subscribe to our blog, **Voices for Human Needs**, and follow the Coalition on Human Needs on **Facebook** and **Twitter** for the latest information. Visit our **Calendar of Events** for upcoming conferences, briefings, and meetings and our **job announcements page** for employment opportunities.

House Tax-Writing Committee to Take Up Multi-Trillion Dollar Tax Cut Plan on November 6

After passing a budget resolution allowing Congress to take up a tax cut bill that would increase the deficit by $1.5 trillion over 10 years, the House Committee on Ways and Means released a tax package that does that. H.R. 1, the Tax Cuts and Jobs Act, cuts taxes far more than $1.5 trillion. There are $3.3 trillion in individual income tax cuts, $2.2 trillion in business tax cuts, and $172 billion in cutting, and then repealing, the estate tax. That nearly $5.7 trillion tax cut total is offset by $3 trillion in individual income tax increases and $1.2 trillion in business tax increases, leaving a net deficit of the allowed $1.5 trillion. While the analysis showing how taxpayers at various income levels fare is not yet done, it is clear that corporations and high-income individuals will be the primary beneficiaries. While there are some tax cuts for middle class families, some will actually see increases. And even those whose taxes are lowered may find their expenses rising because of cuts in government services. Some of those cuts will happen quickly, with even greater service reductions coming in the next few years. In this sense, low- and moderate-income people will pay in one or two ways for trillions of dollars of tax cuts for high-income individuals and businesses: through tax increases that leave them worse off, and through cuts in education, Medicaid, Medicare, and many other services.

House Tax Cut Bill (H.R.1)	Cost/Savings (10 years)
Individual Income Tax Cuts	-$3.3 T
Business Tax Cuts	-$2.2T
Estate Tax Cut/Repeal	-$172B
Total Tax Cuts	-$5.7T
Individual Income Tax Increases	$3.0T
Business Tax Increases	$1.2T
Total Tax Increases	$4.2T
Net Unpaid-For Tax Cuts	-$1.5T

Timing: The House Committee on Ways and Means will start considering H.R. 1 on Monday, November 6. They hope to finish work on the bill by late Wednesday, November 8, and to bring it to the House floor the following week. The Senate is not moving as quickly, but the Senate Finance Committee may work on its version of a tax cut bill starting the week of November 13. While they hope to finish and get it to the Senate floor before Thanksgiving, floor debate could easily slip until after the Thanksgiving recess. The Senate's bill is subject to reconciliation rules, as provided in the budget resolution: it cannot be filibustered, and therefore can pass with only a simple majority (not the 60 votes needed to stop a filibuster). If tax cut bills pass in both chambers, they must work out the differences between the two. The leadership hopes to get a bill to President Trump's desk before Christmas. However, many parts of the bill are controversial, so the schedule just described could stall.

Impact on Individuals: Again, the expected analyses showing gains or losses for different income levels are not yet done. But here is what is known so far:

Tax Rates: Under current law, there are 7 tax brackets, with the lowest income taxpayers (up to $18,650 for joint filers) paying 10 percent and the highest income (over $470,700 for joint filers) paying 39.6 percent. The bill creates 4 brackets, from 12 percent (up to $90,000 for joint filers) to 39.6 percent (for joint filers with over $1 million). The increased amount for each bracket is favorable to those with high incomes, since more of their income will now be taxed at a lower rate.

Deductions/Exemptions: H.R. 1 doubles the standard deduction, to $12,200 for single individuals and $24,400 for married couples. The exemptions for the taxpayer, spouse, and dependents are eliminated. Larger families would not do as well under this plan, but if they have children under age 17, some will benefit from an increase in the Child Tax Credit.

Child Tax Credit/Earned Income Tax Credit/American Opportunity Tax Credit: The bill increases the Child Tax Credit from $1,000 per child to $1,600. There are also $300 credits if the family is caring for someone who is not a child, and for each person in the family who is not a child, the latter only lasting for 5 years. Families with much higher incomes will be able to qualify for some of the Child Tax Credit (phasing out at $230,000 for 2-parent families). The increases in the non-refundable part of the Child Tax Credit will cost about $640 billion over 10 years. The refundable part of the Child Tax Credit remains at a maximum of $1,000, but it will rise with inflation until it reaches $1,600. The Child Tax Credit is changed to deny the benefit to about 5 million children in immigrant families, whose parents currently do not have Social Security numbers and pay taxes through the use of an Individual Taxpayer Identification Number (ITIN). The Child Tax Credit helps children escape poverty. Denying it despite their parents' work punishes children and jeopardizes their future. The bill also newly requires college students making use of the refundable portion of the American Opportunity Tax Credit to have a Social Security number, preventing the young Dreamers from getting this help (some of whom have lost their Deferred Action for Childhood Arrivals (DACA) legal status). Similar restrictions are also likely to deny the Earned Income Tax Credit to about 50,000 families. Together, these changes are estimated to deny $23.1 billion in tax credits over 10 years to the affected families. That increase in revenues will go to pay for the tax cuts.

Repeal of Other Tax Credits and Deductions: A credit for families that adopt a child is eliminated, estimated to increase revenues by $3.8 billion over a decade. A small credit for elderly and disabled people is terminated. Most deductions are eliminated, except for charitable donations, mortgage interest (that is reduced), and property tax (see below). Deductions for medical expenses and for dependent care assistance are among those ended.

State and Local Tax Deduction: The deduction for state or local income or sales tax is ended. Taxpayers may still deduct their property taxes, up to a total of $10,000. There has been strong opposition to this change for its effect on states with higher taxes, both because of the tax increase that families will experience and the losses in revenue anticipated in states and local communities that will affect schools, public safety, and transportation, and many other services.

Treatment of Education: Certain education tax credits are eliminated; a deduction for interest on student loan debt is ended; teachers will no longer be able to claim a deduction for purchasing supplies for their classrooms. Ending a number of education credits or deductions will bring in about $50 billion over 10 years. Certain colleges will have to pay taxes related to their endowments. The tax bill favors support for private schools, extending such support to elementary and secondary schools.

Repeal of Alternative Minimum Tax: This has been in place to ensure that high-income individuals cannot utilize deductions sufficient to wipe out all their tax obligations. In the one tax return made public by President Trump, he paid $31 million because of the Alternative Minimum Tax. The bill eliminates it, providing a tax break of $695.5 billion to upper-income individuals.

Estate Tax: Under current law, estates from individuals were exempt from the tax if they are worth less than $5.5m (or $11.2 million for couples). The exemptions would double under this bill; in 2024, the estate tax would be eliminated. Over the ten year period, reducing/eliminating the estate tax would cost about $172 billion. Before full repeal, the estate tax change would leave less than 2,000 estates nationwide subject to the tax.

Corporate/Business Taxes: The rates would decline from a maximum 35 percent to 20 percent, a tax break for corporations of nearly $1.5 trillion. Unincorporated businesses (such as partnerships) that pay taxes through the individual income tax would be able to pay at a maximum 25 percent rate for about 30 percent of their income, saving them about $448 billion, much less than the maximum 39.6 percent tax rate for individuals. The Trump Organization is said to include about 500 such "pass-through" businesses in Donald Trump's individual tax returns. There would also be favorable treatment of businesses sheltering income in overseas tax havens. In order to gain short-term revenue, companies with foreign income would have to pay a one-time 12 percent tax, which would bring in $223 billion (far less than the $750 billion such companies actually owe on their offshore holdings). Aside from the one-time tax, corporations with offshore income would then be subject to a territorial tax system, so they would not owe taxes on earnings outside the U.S., saving them $207 billion. Among other business tax breaks, there is full expensing of investments, but only for 5 years, costing $25 billion. Some are skeptical that Congress would allow this to expire; if it were continued, the increase in the deficit would of course be greater. As with the individual income tax, most corporate tax deductions are eliminated. Among them are deductions for employer-provided transportation or child care subsidies (totaling about $11 billion), the Work Opportunity Tax Credit (a tax break for employers who hire low-income workers, worth $3.6 billion), and a credit for clinical testing expenses for drugs for rare diseases (worth $54 billion).

Non-profit Organizations: The tax bill would significantly weaken the Johnson Amendment, which now requires that non-profits that are tax-exempt under IRS rules do not support or oppose candidates for public office. The change in H.R. 1 opens the door to churches engaging in electoral activity. Many non-profits oppose this change, believing it will lead to a lessening of trust in these institutions and ultimately reduce their support. In addition, although the charitable deduction is retained, fewer taxpayers will itemize because of the increase in the standard deduction. Non-profits worry that this will reduce the number of donations. One estimate is that taxpayers with incomes below $280,000 will not find it advantageous to itemize, and therefore will not have the tax incentive to make charitable contributions.

The Upshot: Corporations and rich individuals will make gains worth trillions of dollars. An earlier estimate by the Tax Policy Center based on a Framework agreed to by Republican leaders and President Trump found that after 10 years, 80 percent of the tax breaks would go to the wealthiest 1 percent. That isn't likely to change substantially. Some low-income people may receive a small tax cut, but that benefit would probably be wiped out by near-term losses in services such as education. Others, such as children in immigrant families losing the Child Tax Credit or families adopting children, will lose out. And the long-term looks grim, as members of Congress who have long sought major cutbacks in programs like SNAP, Medicaid, housing, education, etc. will use the growing deficits to strengthen their hand in pressing for cuts. Some of the more right-wing House members who were disappointed that this year's budget did not fast-track cuts in programs like Medicaid and SNAP feel that they have been promised by their leadership that next year's budget will include such cuts to these programs. If the massive tax cuts proposed in H.R. 1 are enacted, over time they will be paid for by cuts to low-income programs.

For more information, see CHN's website, www.chn.org, including its Tax Policy issue page. Or contact Deborah Weinstein, dweinstein@chn.org

---