



Congress moves one step closer to giving American taxpayers relief

Andrew Whilford

December 11, 2017

With the Senate's passage of tax reform legislation, the country moves one major step closer to much-needed tax relief. Though significant issues remain to be ironed out in conference, Congress can take pride in passing what is on balance pro-growth, pro-taxpayer legislation.

The Senate's bill will allow you to keep more of your own money. The doubling of the standard deduction, lowering of tax bracket rates, and significant expansion of the child tax credit mean almost all Americans will see a tax cut. Though a great deal has been made of the "temporary" nature of individual tax cuts, not making these cuts permanent was merely an accounting gimmick to comply with the Byrd rule. It is highly unlikely that a future Congress will fail to extend these cuts for the middle class. After all, President Obama signed legislation making permanent the Bush tax cuts for all but the wealthiest Americans.

Just as importantly, the bill will spur economic growth by lowering high business tax rates to competitive levels. Both the House and Senate bills reduce the corporate tax rate from 35 percent to 20 percent, more in line with rates for other industrialized nations. This will reduce the incentive for corporations to relocate overseas, as well as provide a substantial boost to worker incomes. Corporate taxes tend to get passed on to labor, which is one reason that many economic experts suggest that the boost to annual incomes could be well above the \$4,000 suggested by the White House.

Nor are small businesses neglected by the tax reform effort. Both the House and Senate bill provide substantial cuts to so-called "pass-through businesses," or businesses whose income "passes through" to owners to be taxed at the individual level. This cut recognizes the vital role that small businesses play in the American economy.

Businesses and individuals alike will benefit from the efforts the tax reform effort makes to simplify the tax code. Currently, 94 percent of individual taxpayers and 85 percent of small business owners pay a professional tax preparer or online service to do their taxpayers for them. The National Taxpayers Union Foundation found that tax code compliance cost the economy \$262.2 billion last year alone. Simplifying the tax code will reduce this figure.

Critics of the tax reform legislation often argue that tax cuts will not materialize for those who currently itemize their deductions. However, this is likely not the case. In tax year 2015, only 30 percent of taxpayers choose to itemize their deductions. Of those taxpayers who did itemize, the vast majority were wealthier than the average taxpayer, as 78 percent reported an adjusted gross

income above \$50,000. With the doubling of standard deduction, the number of taxpayers who would choose to itemize even absent the repeal of certain deductions are expected to drop even further.

Opponents of the legislation have also raised concerns about the effect it would have on the nation's rising debt. Though many of the advocates for higher government spending making this claim appear to be newly concerned about deficit impacts, it is certainly the case that ever-increasing debt is a concern. Yet as Chris Edwards of the Cato Institute points out, the country has a spending problem, not a revenue problem. Even given the tax cut, the long run driver of deficits continues to be overspending.

Issues remain to be addressed in conference. The fate of the alternative minimum tax, exact pass-through business rules, and individual tax brackets remains to be seen. However, the tax reform package that the Senate passed remains a positive package that helps the American taxpayer. Congress should push forward and provide American taxpayers with the tax overhaul they deserve.