

NATIONAL REVIEW

The Senate Tax Bill Favors the Middle Class, Not the Rich

Chris Edwards
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Republicans are close to passing the largest federal tax overhaul in decades. The corporate reforms are impressive and promise to lift all boats in coming years with a rising tide of growth. The bill has moved forward despite an unrelenting Democratic effort to smear it as an unfair giveaway to the rich.

The Democratic class warfare will continue even after President Trump signs the bill, and that will create two big problems. The first is that the Democrats will probably pursue a long-term campaign to repeal the pro-growth elements of the bill, as they did with the George W. Bush tax cuts. The second is that if Republicans attempt to cut spending in the coming months and years, the Democrats could make political headway by complaining that tax cuts for the rich led to benefit cuts for everyone else.

So Republicans need to counter biased claims about the tax bill's distributional effects. In reality, middle-income households will receive the largest tax cuts, as a percentage of what they currently pay, under both the House and Senate bills. But that fact is not apparent in reports by the three groups calculating detailed statistical results: the liberal Tax Policy Center (TPC), the congressional Joint Committee on Taxation (JCT), and the conservative Tax Foundation.

The TPC has an expert team, but it presents data on who benefits from tax cuts in a selective way. In its study of the Senate bill, for example, TPC's main distribution table shows that the top quintile of households would receive average tax cuts of \$5,740 in 2019, while the middle quintile would receive only \$850. It also notes that the former see a boost to their after-tax income of 2.2 percent, compared with 1.4 percent for the latter. The rich would get much bigger cuts!

To put those cuts in proper context, you need to dig on TPC's website and do some math. It turns out that the top quintile will pay about \$69,000 in income and estate taxes in 2019 under current law, while the middle quintile will pay just \$3,700. So the top group will pay 8 percent less than they otherwise would, while the middle group will get a much larger 23 percent cut.

The JCT also publishes slanted distributional tables. For 2019, the JCT shows that the Senate bill would cut taxes 7 to 9 percent across income groups, except those earning over \$1 million would get a 5 percent cut. So the cuts seem fairly equal, although a bit smaller at the top.

Those results are skewed, however, because the JCT includes both income and payroll taxes in the denominator in calculating the percentage cuts, even though Congress is not changing payroll

taxes. A much better way to calculate income-tax cuts is as a percentage of current income taxes paid, but neither TPC nor JCT show the results that way.

So I recalculated the JCT results, and found that middle-income groups would get by far the largest cuts as a percentage of current income taxes. For example, households earning between \$50,000 and \$75,000 would get a 24 percent cut in 2019, while those over \$1 million would get just a 6 percent cut.

What about the Tax Foundation? The foundation has done yeoman's work on tax reform, generating timely runs of its simulation model and supporting pro-growth reforms. But even its reports hide the GOP's big cuts for middle earners because it, like the TPC, shows tax cuts as a percentage of after-tax incomes. Tax Foundation reports that the Senate cuts would increase incomes 4 to 5 percent across the board including the economic-growth effects, suggesting that the cuts are equitable.

But they are not. To see why, consider that the top 1 percent earns 21 percent of all income but currently pays 39 percent of all individual income taxes. As a result, a tax cut that reduced every taxpayer's burden by the same exact proportion — say, a quarter — would boost after-tax income by a higher percentage for the rich, simply because the rich pay a higher percentage of their income in taxes to begin with. For middle and lower earners, the opposite statistical effect occurs.

So while the Senate tax cut might look equitable measured against each group's income, the bill would actually make the tax code more progressive. Higher earners will pay a bigger share of the overall tax load if the tax cuts are passed and extended in future years. Republicans need to set the record straight on tax distribution.

The JCT and TPC tables show similar patterns of tax cuts across income groups until 2025, excluding the Obamacare reduction in subsidies. After that, the Senate bill would end most individual cuts, and policymakers would decide whether to extend them. But in the near term, the GOP tax cuts heavily favor middle earners over higher earners, at least relative to how much they currently pay in income taxes.

I view that as a negative feature of the bill because the tax code is already too progressive. But the Democrats will continue to say the opposite, and they will push for repeal of the pro-growth elements of the Republican legislation, pointing to high budget deficits as an excuse.

So Republicans need to set the record straight on tax distribution. They also need to cut spending and deficits, or else everybody's taxes will be going up as the growing budget redistributes ever more earnings through the government.

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