Five Reasons to Hate the Republican Tax Plan

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November 21, 2017

The **Republican tax reform plan** is advancing with surprising speed. Sure, it's **wildly unpopular**, probably because **it benefits mainly** the rich and corporations while hurting some middle- and working-class people. But the GOP's desperate need to score a major legislative win by year's end, **combined with a procedurally greased path** and political scandals diverting popular attention, are driving the plan forward. This trajectory makes it seem the GOP could—**contrary to experts' expectations** when tax work started in earnest—get something passed, perhaps by year's end.

"This does seem to be moving towards an actual enactment," said Chris Edwards, a tax policy expert at the libertarian Cato Institute. "I'd give it 70-30 at this point, maybe."

But though a bill passed out of the House last week, the apparent Republican unity and progress on the tax plan to this point is deceptive. There *is* wide agreement within the GOP on permanently chopping corporate taxes. When it comes to individual cuts, though, there are **vast differences between the House and Senate bills**, even on the number of tax brackets there should be. As negotiations between Republicans approach and the public pays more attention to the proposals, there are many provisions that could trigger internal debates or cause a swell of disruptive grassroots outrage.

As William Gale, the co-director of the nonpartisan Tax Policy Center told me, "the Republicans are trying to push so much, so fast, that it's just hard to keep track of it all."

To prepare for the fights that will almost inevitably break out as Republicans try to reconcile their scattered positions after the Thanksgiving break, here's a quick rundown of the five most controversial elements of the current House and Senate bills. These are far from the only arguments taking place in DC over taxes, but they are probably the most important:

Cutting State and Local Tax (SALT) Deductions

Republicans are paying for their tax cuts in large part by slashing deductions people can take on their taxes. Edwards referred to this as "chair shuffling" that will leave most in roughly the same shape as they are now, albeit with a simpler tax form. But if you rely on these deductions you will likely end up worse off, especially when it comes to SALT.

Currently, residents of states and cities with high taxes—these are mostly blue states like New York and California—can reduce their tax burden by writing off a portion of what they pay for local services on their federal filings. The Senate bill eliminates this deduction entirely, while the House bill still lets people deduct up to $10,000 in local property taxes (this obviously doesn't help those who don't own property). Gale argued this move is anti-growth "since it would raise marginal tax rates, by up to 4 percentage points, on the highest earners in many of the most productive states and areas in the country." It's also regressive, he added, because states **may feel pressured** to lower their own tax rates to limit those effects, in turn making it harder for them to fund public services, which "is going to hurt low- and middle-income families, not to mention the economy as a whole."

Republicans in states that rely on SALT deductions are faced with the tough choice of having to vote against the bill or vote to effectively raise taxes on some constituents. Granted, there was **less dissent in the House than many expected**. But **two Republican senators**, Susan Collins and Rand Paul, have expressed their concerns about killing SALT deductions, and more House members may defect as the plan moves forward.

Killing the Affordable Care Act's (ACA) Individual Mandate

The mandate that everyone must buy insurance or else face a tax penalty has always been the most unpopular element of the ACA. The Senate bill eliminates it, which Republicans are **selling to the public** as working-class tax relief because most people who get hit with the penalty make under $50,000 a year. It also frees up $300 billion to use on other cuts. However those savings come because millions will likely drop or lose their coverage if the mandate is axed, reducing the amount the government pays in subsidies. **It will also likely** lead to thousands of preventable deaths per year and an increase in premiums as those will opt to drop their coverage will probably be the young and healthy, leaving the remaining pool sicker, older, and costlier. Though this piece wasn't included in the House bill, surprisingly **the provision triggered almost no outcry in the Senate**, despite that chamber's yearlong reputation as the graveyard for anti-ACA legislation. But Collins, who has voted against previous ACA repeal measures, has come out hard against ditching the mandate. Most analysts **expect this to become a larger flashpoint** as liberal activists play up the coverage loss and premium increases and as Republicans debate the issue among themselves.

Cutting Taxes on "Pass-Through" Businesses

This bit has received far less attention than others in large part because it's esoteric. "*My* eyes sometimes glaze over when people start talking" about it, said Gale. But it's one of the clearest and biggest intra-Republican fault lines.

"Pass-throughs" are any businesses whose profits are processed as personal income for their owners. Because some tax brackets are higher than the current 35 percent corporate tax rate, and many are much higher than **the average 18.6 percent effective post-deduction corporate tax rate**, pass-through owners, who **run most of the businesses in America today**, often protest that they shoulder an unfair and uneven tax burden. So cutting corporate rates functionally required Republicans to cut pass through-rates as well.

The House bill chops the highest pass-through rates by 25 to 30 percent on a certain amount of business income, and stipulates that only some types of firms should get that lower rate. **The Senate offers a deduction** of up to 17 percent of business income from overall individual taxes.

Pass-through reforms get sticky fast. They triggered the first Republican public "no" on the Senate plan, **from Ron Johnson**, a pass-through owner himself. He and his allies, including some small business organizations, **argue that these are paltry cuts** that actually widen the tax gap between big corporations and small businesses. They're also outraged that cuts to the corporate rate are permanent, unlike the pass-through cuts.

Republicans sell pass-through cuts as a break for small businesses, said T.J. Helmstetter of Americans for Tax Fairness, because we think of them as sole proprietors like handymen or tiny mom and pop shops. **But pass-throughs include** firms like hedge funds, law offices, and real estate companies. Actual small businesses already pay lower-than-corporate income tax rates, Helmstetter argued; critics on the other end of the spectrum also make the case that most pass-through cuts just benefit the wealthy.

Most observers also agree that special pass-through cuts can be abused. The wealthy may try to "reclassify themselves as pass through entities to lower their individual tax rate," said Helmstetter.

Senator Johnson has made it clear that this is a hill some in the GOP are willing to let tax reform die on. Even White House Budget Director **Mick Mulvaney had to admit** on Sunday that "Johnson has sort of honed in on one thing that we knew was sort of the last big substantive piece of the puzzle and that's how do you deal with these pass through entities." He offered no solutions.

Peeling Back the Alternative Minimum and Estate Taxes

The estate tax takes a one-sixth cut out of an individual's wealth after they die—but only if they have over $5.49 million in assets The alternative minimum tax (AMT) prevents people making over $130,000 a year from using tax engineering to cut their rates to next to nothing. Neither makes up a huge chunk of federal revenue, and **there are cases** to be made against both taxes. But cutting them benefits, by definition, only the wealthy, which **Donald Trump and his legislative allies have promised** their tax plan would not do.

Both bills double the amount of wealth you would need to have to be affected by the estate tax, and the House plan phases it out entirely over time. Both kill the AMT. These cuts, like all the bills' individual cuts, **would be temporary**. Republicans seem to all agree that these cuts should be part of tax reform, but the optics are terrible—it looks like a giveaway to the Trump children and other wealthy heirs. This move, said Gale, "is obscene, given our need for revenue and given the widening distribution of wealth and income over the past 40 years."

"Without the AMT," Helmstetter said, "Trump would have paid a 4 percent tax rate on the $153 million in income that we know about for the one year that we have his taxes. Thanks to the AMT, he paid about $38 million… Without the AMT, he's giving himself a huge tax cut."

Raising the Tax Burden on Students

For decades, tuition waivers **have not been taxed as income**. Though you may not think about them if you aren't a grad student, these waivers allow many to pursue otherwise unaffordable degrees in research-heavy fields, particularly science, technology, engineering, and math. Waived tuition can be in the tens of thousands of dollars, and were it taxed as income a lot of grad students simply couldn't afford to stay in their fields.

The House bill would do exactly that, though, raising tax burdens on some grad students by **up to 400 percent**. It would also axe deductions for student loan interest and lifetime learning expenses. And both bills slap a new 1.4 percent tax on large university endowments, claiming they want to see the institutions spend on students rather than stockpile cash.

However, **observers argue** that this will just undermine the security of programs like need-based financial assistance.

These policies aren't just controversial, they're asinine. **They are an effective block** on the upward mobility of low-income individuals and on the development skills employers say they need the most in today's American workforce. **As Vox pointed out last week**, they only really make sense if Republicans want to stick it to "elite" institutions, which many of them view with increasing ideological suspicion.

Public outrage over this has been mounting in recent weeks. And it will only grow as the bills move forward.