



The media keep saying the GOP tax bill is best for rich families. They're wrong.

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December 14, 2017

There is one thing the mainstream media agrees on about the Republican tax cuts. The “GOP Plan Evolved into a Windfall for the Wealthy,” said a Washington Post [headline](#). An Associated Press [story discussed](#), “How GOP Tax Plans Would Reward Rich Families.” And a New York Times [editorial called it](#), “A Tax-Cut Bill to Make Scrooge McDuck Proud.”

That narrative is everywhere, and it is false. The GOP’s tax proposals would give the largest relative cuts to the middle class, increase subsidies to low-income households, and make the tax code more progressive. Those are misguided policies, but that is what Republicans will likely deliver even with some final tweaks this week.

Let’s look at [data on the Senate tax bill](#) from the Tax Policy Center. In 2019 the middle-income quintile (or one-fifth) of U.S. households would receive an average tax cut of \$840, while the top quintile would receive \$5,420. At first blush, the top group seems to do better.

However, the top group currently pays far more in income and estate taxes, so its relative cut would be smaller. The tax cut for the top quintile would be 8 percent of current taxes, while the cut for the middle quintile would be a huge 23 percent. The Senate bill trims the top income tax rate and the rate on small businesses, but it cuts rates, doubles the standard deduction, and increases child credits for the middle class.

Let’s look at other TPC data. The Senate bill would give 62 percent of the overall tax cut to the top quintile in 2019. But that [group pays](#) 84 percent of individual income taxes and 67 percent of all federal taxes. Since the tax cut percentage for that group is smaller, it would pay a larger share of overall federal taxes going forward.

What about the middle quintile? It currently pays 10 percent of all federal taxes, but would receive 13.5 percent of the Senate bill’s tax cuts in 2019. Thus, middle earners would gain an extra-large share of the tax cuts.

As for lower-income households, they would receive a subsidy increase. Currently, the bottom two quintiles of households do not pay any federal income taxes on net. Yet those groups would receive substantial tax “cuts,” which would be largely an increase in refundable tax credits.

The bottom line is that the GOP tax cuts would make the tax code more “progressive,” which is not a good idea because we [already have the most progressive](#) individual tax system of any major industrial country.

Increased progressivity, or redistribution, undercuts the growth potential of tax reform. The key to growth is cutting marginal tax rates because that encourages working and other productive efforts, yet the House and Senate bills only modestly trim individual rates.

News reports say the final tax deal cuts the top individual rate from 40 to 37 percent, which is good news because the top rate creates a lot of economic damage. A basic rule is that damage rises with the square of the marginal tax rate, so a 40 percent rate is four times more damaging than a 20 percent rate. The upshot is that every percentage point cut in the top rate matters.

Consider also that high earners, such as doctors and executives, are productive people who have flexibility in their working and investing decisions. They will respond relatively strongly to tax rate cuts. So for individual tax reforms, high earners are the key to boosting growth.

The GOP's individual reforms produce only modest growth benefits because the rate cuts are small. Tax Foundation simulations find that the GOP's business tax cuts would boost the economy twice as much as the individual cuts, even though the revenue losses from the latter are much larger. If the final bill cuts the top individual rate, that would boost the growth benefits.

Whatever the final bill looks like, many news articles are likely to call it "tax cuts for the rich." Unfortunately, that will embolden Democrats to try and undo the pro-growth elements of the GOP tax reforms in the years ahead.

Republicans will need to set the record straight. The truth about their plan is that the largest relative tax cuts go to the middle class, while the business tax reforms will benefit all income groups from stronger economic growth.

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