



Trump takes one step forward, one step back on tax reform

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President Ronald Reagan signed his first tax cut bill in August of his first year in office. President George W. Bush signed his first tax cut in June of his first year. Like those two leaders, Donald Trump campaigned on tax reform, and he is pushing Congress to deliver, but his signing of a bill is still months away.

Some progress was made this week. In a ["joint statement,"](#) Republican leaders of the House, Senate, and White House dropped their support of a "border adjustment" tax. Finally! It has been clear for months to everyone except GOP leaders that this idea to raise \$1 trillion by a hidden tax on consumers would not pass Congress and was rejected by the Republican base.

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So that was a step forward, but then President Trump took both forward and backward steps in [comments](#) this week to the Wall Street Journal.

In a step forward, the president reiterated his support for slashing the corporate tax rate from 35 to 15 percent. That would be a huge boost to the economy since roughly half of the nation's output is produced by the big companies that pay the tax.

Trump's corporate tax cut is easy to understand. The central goal of big companies is to earn profits. So if the government reduces its profit-grab by half, then firms will have a strong incentive to build more factories and hire more workers since those are the factors of production that generate profits.

It is strange that Trump-the-populist is focusing on cutting taxes for corporations. He really seems to get that U.S. companies and jobs are being pushed offshore by our absurdly high corporate tax rate, which is the highest in the world. So his goal is straightforward: cut the corporate tax so that tens of millions of middle-class workers and their companies can better compete in the global economy.

Alas, Trump then stepped backwards in the same interview by veering into class warfare. On individual taxes, he said, "If there's upward revision it's going to be on high-income people."

But high-earners in this country already face a punitive tax burden.

IRS data show that the average tax rate on the top 1 percent of earners is 27 percent, which is far higher than the 11 percent average rate the rest of us pay. The top 1 percent pay an enormous 39 percent of all federal income taxes. So the notion peddled by the left—that is apparently influencing Trump—that the rich don't pay their fair share is nonsense.

Trump went on to say, "I have wealthy friends that say to me, 'I don't mind paying more tax.'" His implication is that tax hikes on high earners would not be damaging because those folks would not take defensive actions.

That suggestion is false. The economic research is clear that the highest earners have the strongest responses to tax changes. Raise their tax rates, and they will work less, invest less, and engage in more wasteful tax avoidance.

Entrepreneurs and other high earners have more flexibility than the rest of us with their working and investing options.

Consider neurosurgeons, whose average salary of \$500,000 or more puts them squarely in the top 1 percent. If the government hikes their already-high taxes, some share of them will respond by taking fewer patients and retiring earlier. Why kill yourself working 60 hours a week if the damn government is going to grab half the earnings from your marginal efforts?

Such highly-skilled people add to all of our lives, so when they reduce their productive efforts, we all lose.

Hopefully the Trump comments about the wealthy are just a sideshow. The Republican joint statement yesterday did not mention high-earners, but it did adopt some sound goals for tax reform: cutting business tax rates, allowing more generous write-offs of capital investment, and repatriating some of the vast cache of dollars that U.S. companies are holding abroad.

The joint statement was progress, but now the congressional tax committees need to get cracking and produce detailed bills. Then the House and Senate need to agree on a budget resolution that allows a tax bill to move through the upper chamber with 50 votes.

There are still hurdles, but where there is a will there is a way, and the GOP is showing a strong will to get major tax reform done this year.

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