Center for American Progress

Stop Cutting Taxes for Corporations and the Wealthy

By Harry Stein April 2017

President Donald Trump and House Republicans have championed massive tax cuts for the wealthy and corporations.[1] They will likely try to enact these giveaways into law as part of what they call tax reform, as well as through other measures such as repeal of the Affordable Care Act and infrastructure legislation. While tax policy offers many complicated questions, one thing should be clear: The wealthiest Americans and big corporations do not need any more tax cuts.

Anyone can clearly see whether proposed legislation would cut taxes for the wealthy or corporations, thanks to high-quality, nonpartisan analysis from the independent Tax Policy Center and the legislative branch's Joint Committee on Taxation. Trickle-down tax cuts have repeatedly failed to produce broad-based economic growth. A significant majority of Americans not only oppose such tax cuts but would support higher taxes on the wealthy and big corporations.

Republicans and Democrats should be able to negotiate bipartisan reforms that make the tax code fairer for everyone. Corporations and the wealthy should pay their fair share, and there should be no place in tax reform negotiations for another round of tax cuts for those at the top. If any legislation cuts taxes for corporations or the wealthiest Americans by even $1, lawmakers should vote no.

Passing the test: No tax cuts for corporations and the wealthy

Legislation cuts taxes on corporations if—when considered in its entirety—it would cause a decline in corporate tax receipts. The House Republican tax plan, for example, would reduce corporate taxes by $890.7 billion over 10 years, according to the Tax Policy Center.[2] And tax cuts for big corporations and wealthy investors are at the center of the infrastructure plan released by President Trump's campaign.[3] Legislation should be able to pass this test without dynamic scoring—a method sometimes used to claim that economic growth from tax cuts will lead to higher tax receipts. The evidence is clear: Tax cuts do not pay for themselves.[4]

President Barack Obama's tax reform framework would have passed this test. President Obama advocated for a reform in which reductions in the corporate tax rate were fully paid for by reducing corporate tax breaks. The Center for American Progress has long advocated for corporations to pay more after tax reform.[5] But at least under President Obama's framework the total amount of taxes that corporations pay would remain the same instead of decreasing.[6]

A tax reform bill cuts taxes for the wealthy if high-income households pay less tax as a result of it. Any reasonable definition of high-income households must include individuals making more than $200,000 per year, or married couples making more than $250,000 per year. High-income households also include even more elite groups such as the top 1 percent, who will earn at least $715,400 in 2017 according to the Tax Policy Center.[7] And this also includes the top 0.1 percent, who will earn at least $3,837,300 in 2017.[8]

Both the Tax Policy Center and the Joint Committee on Taxation publish estimates for how tax legislation affects different income groups. These estimates are known as distributional analysis. For taxpayers with the filing status of single and incomes between $200,000 and $500,000, the House Republican tax plan would provide an average tax cut of $8,520 in 2017 according to the Tax Policy Center.[9] The same analysis finds that the House Republican tax plan gives the average household in the top 1 percent a tax cut of $212,660 in 2017, with the top 0.1 percent receiving an even larger tax cut of $1,262,530.[10]

Likewise, repealing the Affordable Care Act—including its taxes on wages and investments for high-income households—would cut taxes by $32,850 for the top 1 percent in 2017. It would cut taxes for the top 0.1 percent by $197,490.[11]

Some broad-based tax cuts also benefit the wealthiest Americans, which means that these proposals would need to be adjusted to pass the test of not providing tax cuts for the wealthy. Increasing the standard deduction, for example, would reduce taxes for low- and middle-income households, but this would also reduce taxes for wealthy households. In order to prevent a needless tax giveaway for the wealthy, a bill that increases the standard deduction would need to be limited to those households in lower tax brackets or include a revenue-raising measure to offset the benefit to the top 1 percent.

In the past, Congress has traded tax cuts for the wealthy and corporations in exchange for continuing important tax benefits for working families.[12] But this has gone far enough. Further tax cuts for the wealthy and corporations do not belong in measures to improve the tax code for working families, because these tax cuts will undermine vital programs for working families.

After the most recent such tax deal in 2015, congressional Republican leaders used the subsequent increase in deficit projections to attack what then-House Budget Committee Chairman Tom Price (R-GA) termed "insolvent Medicare and Social Security programs."[13] Price is now President Trump's Secretary of Health and Human Services.[14] Cutting taxes further will make it easier for majority leaders in Congress and the Trump administration to claim that massive cuts to programs such as Social Security, Medicare, and Medicaid are necessary to avert a fiscal crisis.

This strategy is known as "starve the beast": First cut taxes, and then use the resulting budget deficits to undermine support for effective and popular programs.[15] The starve the beast strategy is meant to obscure the fact that the United States is fully capable of raising additional revenues to support these programs.[16]

The economic failure of trickle-down tax cuts

When politicians cut taxes for the wealthy or corporations, they promise that the benefits will trickle down to everyone else and result in more jobs.[17] Experience has repeatedly debunked this self-serving claim.[18]

Major tax cuts signed into law by Presidents Ronald Reagan and George W. Bush did not increase economic growth, according to research by economists William Gale and Andrew Samwick.[19] And while the 2003 Bush tax cuts slashed the tax rate on dividends from 38.6 percent to 15 percent—which almost exclusively benefited the wealthy—a study by Danny Yagan found no benefits in terms of higher wages for workers or increased corporate investment.[20]

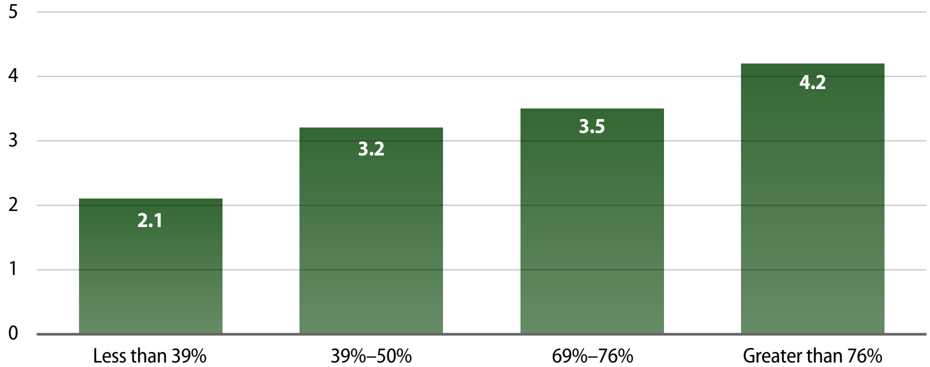
Since 1950, economic growth in the United States has tended to be higher during periods with higher top tax rates.[21] This does not mean that high tax rates for the wealthy cause economic growth, as correlation does not prove causation. But if cutting the top tax rate paid by the wealthiest Americans is supposed to be the key ingredient for growing the economy, it is strange that this effect has been invisible for more than 60 years.

Although cutting taxes for the wealthy has failed to grow the economy, it has succeeded at helping the rich get richer. A cross-country analysis by economists Thomas Piketty, Emmanuel Saez, and Stefanie Stantcheva found that countries that made larger reductions to their top tax rate were more likely to have larger increases in the share of income flowing to the top 1 percent.[22] The same study found no relationship between reductions in the top tax rate and overall economic growth.

FIGURE 1

Top marginal tax rates and economic growth

Average annual growth in real gross domestic product, by top marginal tax rate, 1950–2016



Note: There are 16 years to 18 years of data for each range of top tax rates.

Sources: Tax Policy Center, "Historical Highest Marginal Income Tax Rates," available at http://www.taxpolicycenter.org/statistics/historical-highest-marginal-income-tax-rates (last accessed March 2017); Bureau of Economic Analysis, "National Economic Accounts: Gross Domestic Product, Percent Change from Preceding Period," available at https://www.bea.gov/national/xls/gdpchg.xls (last accessed March 2017).

It is also hard to see how taxes could somehow be crushing large corporations and preventing them from creating jobs because after-tax corporate profits have been at unusually high levels as a share of national income since 2010.[23] Corporate taxes contribute a much smaller share of total federal revenues than they used to, due to tax breaks for corporations and an increase in the use of pass-through business structures such as partnerships that are not taxed at the corporate level.[24]

While advocates of corporate tax cuts focus on the statutory corporate tax rate of 35 percent, the effective rate that corporations actually pay is much lower. A Government Accountability Office study found that American corporations paid an average of 22.7 percent of their income in taxes, which includes not only federal corporate taxes, but also foreign, state, and local taxes.[25] A different study by the Congressional Research Service found that the effective corporate tax burden in the United States was roughly in line with other nations in the Organisation for Economic Co-operation and Development.[26]

Americans oppose tax cuts for the wealthy and corporations

The American people have made it clear to pollsters that they do not want politicians to cut taxes for corporations or the wealthy. According to a 2015 Gallup poll, only 11 percent of Americans said that upper-income households pay "too much" tax, and only 9 percent said corporations pay "too much."[27] Interestingly, the same poll found that 62 percent of Americans believed that upper-income households pay "too little" tax, and 69 percent of Americans said that corporations pay "too little." Gallup has repeatedly asked this question over the years, and a majority of Americans always say that corporations and upper-income households do not pay enough taxes.[28]

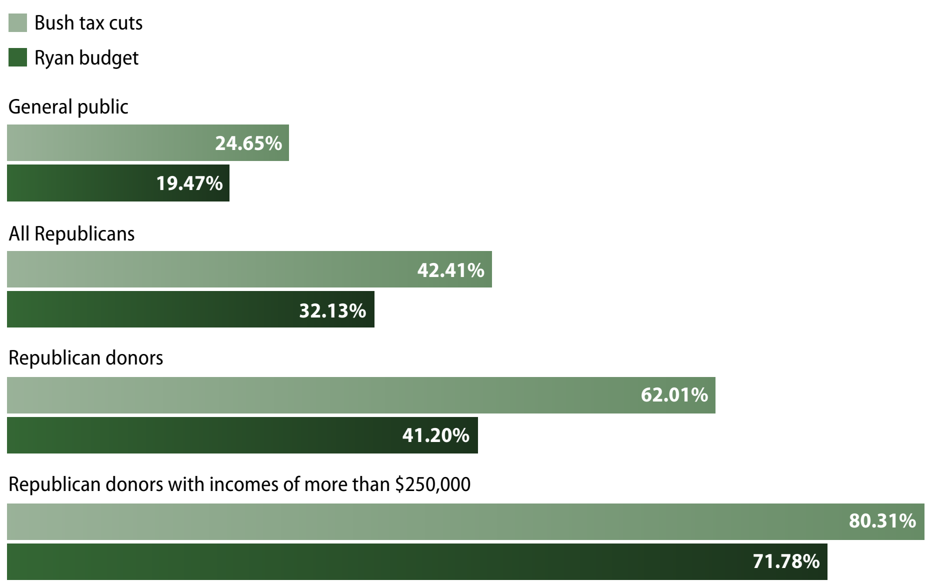
The sense that some wealthy people and corporations are not paying their fair share of taxes is a major concern for many Democratic, Republican, and Independent voters, according to a 2015 poll by Pew Research Center.[29] This concern is particularly striking for Republican voters, since the tax plans proposed by President Trump and House Republican leaders include large tax cuts for the wealthiest Americans.[30] According to a March 2016 poll by political scientists Alan Abramowitz, Ronald Rapoport, and Walter Stone, 56 percent of Republican primary voters favored raising taxes on households making more than $250,000 per year.[31] The same poll found that President Trump performed especially well among voters who favored higher taxes on the wealthy.

Why, then, do politicians support tax cuts for the wealthy and corporations? Some might be responding to the preferences of wealthy campaign donors.[32] This was revealed in detailed survey research from the 2012 election, in which a major question was whether to extend all the tax cuts enacted under President George W. Bush or allow them to expire for the wealthiest Americans. Only 42 percent of Republican voters supported the Bush tax cuts for the wealthy, compared with 80 percent of Republican campaign donors with incomes above $250,000.[33]

FIGURE 2

Wealthy Republican donors support deeply unpopular fiscal policies

Share supporting Ryan budget and extending Bush tax cuts, even for the rich



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Conclusion

Tax cuts for the wealthy and corporations have repeatedly failed to grow the economy, and the American people strongly oppose this trickle-down agenda. After an election in which voters rejected elites of both political parties, members of Congress should take a stand against any policy that further enriches wealthy and corporate interests. Lawmakers should make clear that tax cuts for the wealthy and corporations are off the table—and get to work on the negotiations and compromise that will be necessary to make the tax code work better for average Americans.

Harry Stein is the Director of Fiscal Policy at the Center for American Progress.

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