



COMMITTEE ON THE BUDGET

Chairman John Yarmuth

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Real-World Effects Prove the GOP Tax Law was the Wrong Policy at the Wrong Time

In our hearing last week, “2017 Tax Law: Impact on the Budget and American Families,” the Committee Members learned about the real-world effects of the GOP tax law on the federal budget. Based on the testimony from expert witnesses, the hearing confirmed the GOP tax law was the wrong policy at the wrong time.

As Dr. William Gale, Chair in Federal Economic Policy at the Brookings Institution testified, it was the wrong policy because the law fails the growth test, the fairness test, and the fiscal test:

- It increases the national income by only 0.1 percent by 2028, failing the growth test.
- It increases disparities in after-tax income and, once plausible methods of financing the tax cut are taken into account, it will likely make most households worse off, failing the fairness test.
- It does not pay for itself, failing the fiscal test.

Dr. Gale also informed the panel that the tax cut was enacted at the wrong time, when our economy was already strong. Instead of strengthening our fiscal outlook, the law worsened it by adding \$1.9 trillion to the national debt.

Faced with overwhelming economic data, committee Republicans highlighted anecdotal evidence that some businesses, such as Geetings, Inc., had benefitted from the tax law—in addition to selected businesses in their respective districts.¹ However, the tax law was built primarily to help large corporations and already wealthy businesses. In fact, the tax law also [increased banks’ profits by \\$28 billion in 2018](#), [helped boost drug companies’ profits by almost \\$60 billion despite declining sales in the first nine months of 2018](#), and helped boost corporate

¹ Anecdotal evidence also shows the GOP tax law hurts many American workers and businesses. For example, after getting huge tax cuts, [Verizon will lay off 44,000 American workers and offshore at least 2,500 jobs to India](#); [General Motors will close four factories in the U.S. and lay off 14,000 workers](#); [Kimberly-Clark will fire up to 5,500 workers and adding insult to injury, use their tax cut savings to fund the layoffs](#); [Harley-Davidson shut a Kansas City plant, costing 800 jobs, and opened a new factory in Thailand](#); [Express Scripts laid off almost 500 workers at its Columbus, Ohio, facility](#); and [Agribusiness giant Conagra and outsourcing-service provider Convergys, are together eliminating over 600 jobs in Missouri](#). The GOP tax law [endangers more American jobs that are prone to offshoring](#), because its international tax provisions encourage companies to send factories and jobs overseas in order to lower or possibly avoid paying taxes. Last year, small business owners from across America, including [owners of Popcorn Heaven in Waterloo, Iowa, and O’Neill Construction Group in Portland, Oregon](#), spoke about how the GOP tax law hurts them. [John Arensmeyer, founder of Small Business Majority, a network of 58,000 small business owners from across the country](#), also testified last year about how the GOP tax law will hurt small businesses and the economy.

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profits enough to make possible [a record-setting \\$1 trillion stock buybacks in 2018](#) to benefit rich investors and CEOs.

While personal stories and anecdotal evidence from business owners can be helpful, they do not replace data and analyses of the law's overall effects on the federal budget and the lives of *all* families and *all* businesses across our nation. The expert witnesses presented evidence that shed light on these overall effects and failings, which are further highlighted below.

The Law Does Not Pay for Itself

The Congressional Budget Office (CBO) estimated in April 2018 that the GOP tax law will add \$1.9 trillion to deficits over 10 years even after including its economic effects. Just last week, CBO published a [report](#) stating that “CBO has not changed its estimates of the act’s macroeconomic or budgetary effects since first publishing them in April 2018. More recent data about revenues and the economy are broadly consistent with those April estimates.”

Throughout the hearing, both Dr. Gale and Ms. Chye-Ching Huang, Director of Federal Fiscal Policy at the Center on Budget and Policy Priorities, testified that the law does not pay for itself and makes a difficult federal fiscal situation even worse.

“It did not pay for itself, it will not pay for itself” — In his hearing testimony, Dr. Gale stated that this is clear from the analyses of any reputable organization, including the Tax Foundation. He testified that “it does not come close to paying for itself. Revenues fell by 0.8 percent in 2018, even though the economy was growing. Corporate revenues plummeted.” Ms. Huang also testified that “revenues as a share of the economy is at its lowest level in the last 50 years outside of the immediate aftermath of a recession.” She pointed out the law irresponsibly weakens revenues at a time when the nation faces fiscal challenges over the next several decades, including a growing population of retirees and rising health care costs.

The GOP Tax Law Showers Benefits on the Wealthy

According to the Tax Policy Center, the richest fifth of Americans will receive nearly two-thirds of the tax law’s total benefits in 2018 and the richest [1 percent alone will receive 83 percent](#) of the total benefits in 2027. During the hearing, both Dr. Gale and Ms. Huang testified the law showers benefits on the wealthy at the expense of lower-income households and future generations.

“We don’t have to pay off the top one percent to give to the bottom half” — In his hearing testimony, Dr. Gale stated that “If we had allocated the money really well to pressing national needs, then it might have been worth it to increase the deficit by that much, but the TCJA basically says the biggest problem in the country is that high-income households don’t have enough after-tax income, so it’s allocating an enormous amount of that increase in the deficit toward high income households.” Dr. Gale also pointed out that the law “increased the

inequality of income, which had already been growing for the past four decades.” Ms. Huang testified that “the 2017 tax law will boost the after-tax incomes of households in the top 1 percent by 2.9 percent by 2025, roughly three times the 1.0 percent gain for households in the bottom 60 percent.”

The Law Resulted in a Record-Setting \$1 Trillion in Stock Buybacks

The GOP tax cut delivered huge benefits to rich investors and CEOs through [a record-setting \\$1 trillion of stock buybacks in 2018](#). Stock buybacks do nothing to improve business operations or help workers. In fact, more than [one-third](#) of the benefits of those stock buybacks go to foreign investors. The corporate [tax cut gave more cash to companies that are sitting on historically large cash reserves](#), while failing to provide firms with any incentive to hire workers or boost pay.

“It’s not surprising the repatriated money has gone into stock buybacks, not jobs and investments” — During the hearing, Ms. Huang testified that we’ve seen about \$500 billion of repatriated offshore earnings so far (way below Trump’s [\\$4 trillion promise](#)) and it is not surprising that most of this money has gone into stock buybacks, dividends, and higher executive pay. She pointed out that very little flows to investments or wages, and the likelihood of an ultimate increase in wages is getting more remote. Last year, a study by the Federal Reserve found that the law’s new repatriation tax break has resulted in a [surge in stock buybacks and little impact in investment](#) by its biggest beneficiaries, just as critics predicted.

The Law Does Not Boost Real Wages for Working Americans

By any measure, there is no evidence showing that the GOP tax cut is trickling down to working Americans. For most U.S. workers, real wages have barely budged in decades. Despite the strong labor market, real wage growth has remained below economists’ expectations and below the rates seen in the late 1990s and early 2000s, the last time the labor market was as strong. The GOP tax law [ignores the stagnation of working-class wages and worsens income and wealth inequality](#).

“Tax cuts for the wealthy do not trickle down” — In her hearing testimony, Ms. Huang stated, “History, empirical evidence, and how real wages have fared since December 2017 are all reasons to doubt any claims that the large, immediate tax cuts for high-income filers will eventually trickle down to low- and moderate-income households.” Dr. Gale also testified that “there’s an enormous amount of evidence, whether it’s cross-country evidence or historical evidence in the U.S., that says that trickle-down economics falls far, far, far short of what’s claimed for it.” Despite the Trump Administration’s initial claim that their tax cut would give the [“typical American household around a \\$4,000 pay raise,”](#) Dr. Gale said this is extremely unlikely given the GOP tax law would increase the national income by only 0.1 percent in 10 years.

The Law Leaves Behind Low- and Moderate-Income Working Families

The GOP tax law does little to improve the lives of everyday working families. Under the law, [millions of working families receive nothing or a token increase of \\$75 or less from its Child Tax Credit provisions; millions of working families may not be able to afford health insurance or face higher premiums; and, a critical tool for boosting working-class wages, the Earned Income Tax Credit \(EITC\), was completely ignored](#). Furthermore, the law's deficit-financed tax cut for the wealthy worsens our fiscal outlook and risks cuts to crucial programs working Americans depend on.

“The law hurts many low- and moderate-income Americans” — During the hearing, Ms. Huang testified that the GOP law does little for low- and moderate-income working families—and indeed hurts many. She pointed out that despite the law's \$1.9 trillion deficit increase, single mothers with two kids, earning a full-time minimum wage, get only \$75 from this law. She said there are 11 million kids in working families just like this, and there should have been a substantial increase in the Child Tax Credit and the EITC to help them. She also testified that many low- and moderate-income families are hurt by the GOP law's provisions. For example, the law risks harming workers' wages and workplace standards due to its pass-through deduction and perverse incentives to shift profits and investments offshore, leaves millions more people uninsured or facing higher premiums, erodes the EITC for millions of workers, ends the Child Tax Credit for 1 million children, and creates pressure to cut critical programs working Americans rely on.

The Law Leaves Behind Typical Main Street Small Businesses

According to [John Arensmeyer, founder of Small Business Majority](#), a network of 58,000 small business owners from across the country, the GOP tax law hurts small businesses and the economy. He points out the law increases the deficit significantly without giving most small business owners a significant tax break, adds more complexity and confusion, and fails to address corporate tax loopholes that give large businesses an unfair advantage.

Ms. Lana Pol, president and owner of Geetings, Inc., testified that her four pass-through businesses benefited greatly from the GOP tax law, but most Main Street businesses are far less fortunate. Ms. Pol's four companies benefited from the new 20 percent pass-through deduction and doubling of business expensing from \$500,000 to more than \$1 million, but this is *not* the case for typical Main Street businesses. Most small businesses are very small and bring in a modest income. For example, the median income for self-employed incorporated businesses was only \$50,347 in 2016. Even before the tax law was enacted, only [1.8 percent](#) of all pass-through businesses, with average profits of nearly three-quarters of a million dollars, accounted for the majority of all pass-through income. According to the Joint Committee on

Taxation, the majority of tax benefits in 2018 will go to the top [2.3 percent](#) of pass-through firms, and by 2024, the majority will go to just the top 1.0 percent.

“The law doubled-down on a billion-dollar blind spot” — In her hearing testimony, Ms. Caroline Bruckner, Professor at American University and Managing Director of the Kogod Tax Policy Center, argued that the GOP law missed an opportunity to help women-owned small businesses. She testified that Congress has a billion-dollar blind spot when it comes to the U.S. tax code’s impact on helping women business owners, and the GOP law doubled-down on it. She said that while women-owned businesses account for 40 percent of all U.S. firms, they primarily operate service firms and about 88 percent generate revenues below \$100,000. The law tilts the tax code even further in favor of big businesses, so typical small women-owned businesses get little help. For example, more than 90 percent of the tax benefit from the new pass-through deduction flows to firms with income above \$100,000 in 2018, which bypasses the overwhelming majority of women-owned businesses.

The Law Encourages Companies to Send Investments and Jobs Offshore

In addition to permanently lowering the corporate tax rate to [levels not seen since the 1930s, the GOP law allows companies to reduce their tax liability even more by moving operations and jobs overseas](#). Under the law, income generated by American companies abroad face tax rates that are half the new top corporate rate of 21 percent. Some companies may be able to avoid tax altogether on tangible investments made offshore. The GOP law encourages companies to move factories and jobs overseas and endangers [more than 15.4 million Americans whose jobs are vulnerable to being offshored](#).

“It’s vitally important to protect workers and jobs” — During the hearing, Ms. Huang testified the GOP tax law creates perverse international tax incentives by permanently lowering the tax rate on investments offshore. In response to questions about closing loopholes to prevent outsourcing to protect workers and jobs, Ms. Huang stated it is vitally important to close those loopholes and put federal resources to better use.

We Need Smart Investments and Fair Fiscal Policies

As Chairman Yarmuth stated in his opening remarks, our budgetary challenges require smart, fiscally responsible policies, and the American people are demanding it. The hearing confirmed the GOP tax law is a huge and predictable failure for American families. The country needs wise fiscally responsible investments in our workers and Main Street businesses.