TEMPLE ASSOCIATION OF

TAUP

UNIVERSITY PROFESSIONALS

Dear TAUP Members,

I am an economist. Economists like data and facts. Most importantly, we love the truth, so here is the truth about the U.S. Tax Cut and Jobs Act passed recently by the Senate. (The House Bill is similar enough that we do not need a separate analysis of that and the reconciliation process is nearing completion.)

1. This is NOT the "biggest tax cut in history" as the Tweeter-in-Chief has claimed. That was enacted during the Reagan administration. It caused huge deficits.

2. This bill is essentially a money grab by corporate and rich donors to the Republican Party. Its tax benefits to the Middle Class are very small and because the personal tax cuts expire in 2025, the taxes on the middle class will actually *increase* then. (In contrast, the corporate tax cuts are permanent.)

3. On Monday, December 4, the nonpartisan Tax Policy Center released a study of the Senate bill. It showed that in 2018 about half of the tax cuts would go to the richest ten percent of households. By 2027, the study said, the outcome would be even more slanted, with more than sixty percent of the cuts going to the richest one percent. In real terms, this means that a middle class household will get a $500 to $800 annual tax break while the top 10% will each get a $30,000+ tax refund.

4. Republicans say the tax cut will "pay for itself" by generating additional economic growth that will pay enough taxes to eliminate this deficit. In truth, the tax cuts will add $1 to $1.2 trillion to the deficit (and to the national debt) over the next ten years as estimated by Congress' own estimates.

5. The two major non-partisan tax analysts, the Tax Policy Center and Joint Committee on Taxation (Congress' very own tax analysis center) say that the additional economic stimulus is very small and will only generate additional taxes of $200 to $400 billion, leaving the American People with additional national debt of over $1 trillion dollars over the next ten years.

6. Republicans have stated that America has the "highest corporate tax rate in the world" at 35%. This is another falsehood. Whereas our "stated rate" is 35% (France's corporate tax rate is

also 35%), there are so many loopholes that according to the Wall Street Journal, the "effective tax rate" on the profits of all the companies in the S&P 500 companies is 26.2%.

7. Compare this to the "average effective tax rate" on German companies of 30%. Further, the Organization of Economic Cooperation and Development (of which the U.S. is a member) reports that the "average effective tax" on corporations for its 35 members is somewhat higher than that effective tax in the U.S.

8. The Congressional Budget Office also estimated in March 2017 the 2012 average corporate tax rate for companies in the G20 (the 20 largest economies). The U.S. is the third highest at approximately 27% but the average for the G20 nations is approximately 22%. This is not the huge discrepancy as claimed by Republicans.

9. This "Tax Cut and *Jobs Act*" is neither stimulative to the economy nor will it create many jobs. This is the consensus of virtually all major economists, both conservative and liberal, including Nobel Prize winners. So it is impossible to see how the tax cut will generate much additional revenue to the Treasury.

10. Fact number 9 compels us to point out that when the U.S. economy is at "full employment" as we are now, it is just contrary to all accepted economic theory to try to stimulate the economy, as it will just cause unwanted inflation. This has to lead us to the conclusion that the politicians that are claiming big job creation are lying about the purpose of the "Tax Cut and Jobs Act"

11. Due to the last minute "horse trading" in the Senate to secure votes, there are a lot of amendments that are pretty toxic. These include:

A. Repeal of the individual mandate in the ACA, which by the Congressional Budget Office's own estimates will cause 8 to 13 million additional people to go without health insurance

B. Taxing as income the tuition remission of Graduate Students at U.S. Universities.

12. Finally, we cannot forget that these Republican tax cuts are merely the first step of an announced two-step plan by the Republicans. Paul Ryan, Speaker of the House was recently quoted in *The New York Times* that if there is an actual deficit (as is projected) caused by the tax cuts, his goal is to cut entitlement programs over the next ten years to reduce that deficit.

All in all, the tax cut bill, whatever form it will ultimately take after the reconciliation process between the House and Senate, is a toxic money grab for the corporate and rich donors and we must oppose it.

Donald T. Wargo, Ph.D.
Associate Professor (Teaching/Instruction)
Department of Economics
Temple University