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New Federal Tax Law will Hurt Many, Benefit the Wealthy Few

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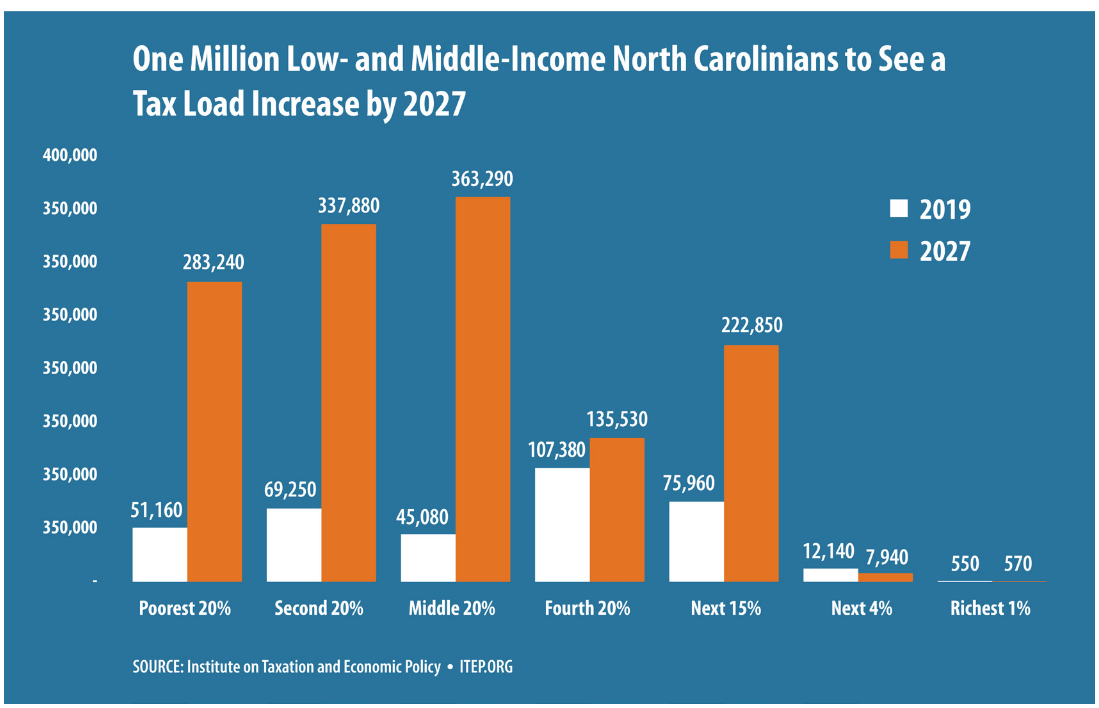
Last month, after introducing various tax bills and rushing the legislative process, Congress and the President passed the Tax Cuts and Jobs Act. Analysis of the final tax plan bill confirms what previous analysis showed: Our country's tax code has now been changed in a way that benefits wealthy taxpayers and foreign investors while asking more from low and middle-income taxpayers.

The new law also paves the way for significant reductions in the federal programs and services that ensure the economy is functioning efficiently and effectively, and that more people are connected to opportunities.

Recent analysis from the Institute on Taxation and Economic Policy provides detailed information about the ways in which the final tax plan hurts low- and middle-income families and how it benefits the richest 5 percent of taxpayers in North Carolina and foreign investors.[1]

North Carolina's low- and middle-income taxpayers will be impacted disproportionately



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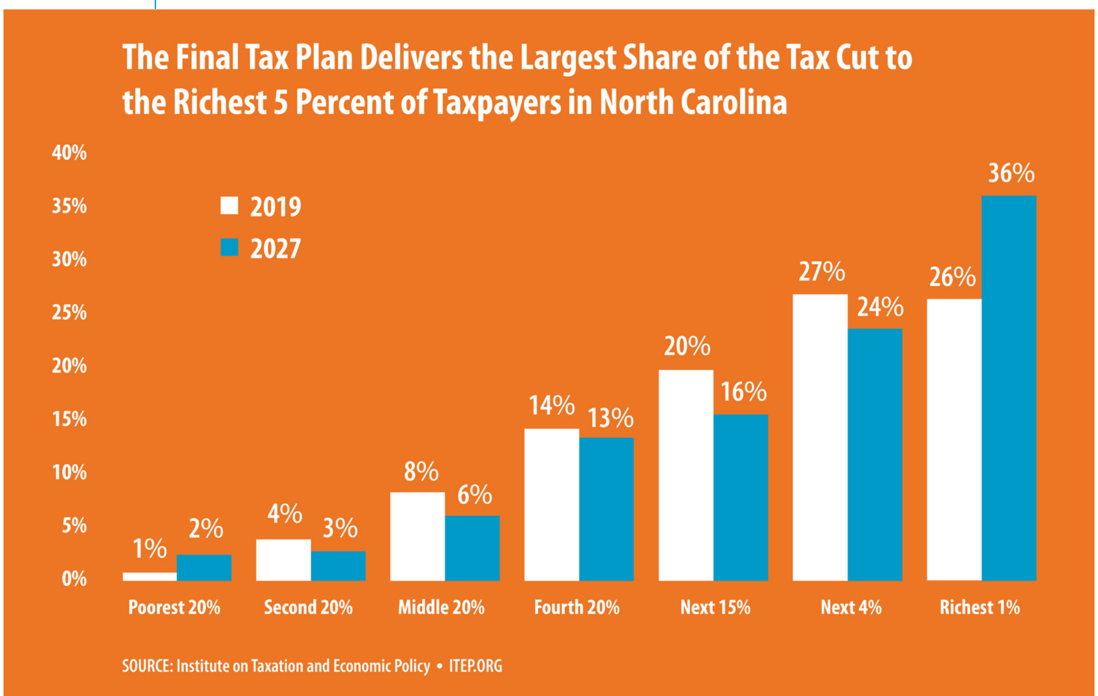
by the new tax law, as more than 1 million people will see a tax hike by 2027, due to phase-in of various tax changes that mostly benefit the rich.

By 2027, **the number of North Carolina taxpayers seeing a tax hike would increase from 361,520 in 2019 to 1,351,290 in 2027**. Of the 1 million people that would see a tax increase, 984,410 would be taxpayers in the bottom 60 percent (people currently making less than $60,000 a year). Meanwhile, the top 5 percent of taxpayers in North Carolina experiencing a tax hike would decrease from 12,690 to 8,510 over the same period.

The reason low- and middle-income people are worse off in 2027 is because provisions in the tax law that directly affect families and individuals all expire after 2025. The only provision that is permanent for them is one that raises taxes by adjusting the tax code to a slower measure of inflation called the "chained" consumer price index (chained CPI). According to ITEP, "in years after 2025, the tax provisions relevant to families and individuals will return to what they are today, except that chained CPI will gradually push households into higher income tax brackets and will make most deductions and exemptions less generous over time."[2]



While the new tax law provides a tax cut to taxpayers in each income group – over half (53 percent) of the tax cut benefit is given to the top 5 percent in 2019. By 2027, the share of the tax cuts to the richest 5 percent increases to 60 percent.

By 2027, the top 1 percent of North Carolina households' share of tax cut would increase from 26 percent in year one to 36 percent, for an average cut of $4,970. Under the new law, the average tax cut for middle-income taxpayers' will erode to $60 from $700, with the poorest 20 percent seeing their average tax cut decline from $170 to $20.

Furthermore, the new tax law delivers $48 billion in tax cuts to owners of stock in American corporations overseas. As the new tax law reduces the statutory rate paid by corporations from 35 to 21 percent, the richest fifth of Americans is the only group that will receive more benefits from the tax law than foreign investors, according to ITEP analysis. Recent research has **found** that foreign investors own 35 percent of stocks in American corporations and would therefore receive a significant share of the benefits from corporate tax cuts.

New federal tax law requires significant cuts to important programs and services that help Americans

The new tax law adds $1.5 trillion to the U.S deficit over the next 10 years and means, on average, a $150 billion revenue loss each year. As previously reported, the $150 billion revenue loss each year[3] could have been used to:

- **Double the Pell Grant program, which provides aid to low- and moderate-income college students; AND**
- **Double cancer research at NIH; AND**
- **Fund the full backlog of needed maintenance at National Parks; AND**
- **Provide child care assistance to 6 million children; AND**
- **Provide opioid addiction treatment to 300,000 people; AND**
- **Train 3.5 million workers for in-demand jobs**

President Trump and Congressional leaders have stated their intention to cut the federal budget, including many key programs to the well-being of North Carolinians and our communities, like Medicare, Medicaid, Social Security, food assistance, research and development and housing support.[4]

In North Carolina, programs that have been identified for cuts support the well-being of families and communities. The scope of services delivered to North Carolinians is wide ranging. Children, students, the elderly to people with disabilities are served by federal programs and could be affected by cuts to services or eligibility.[5]

- **2 million people receive** Medicaid
- **1.8 million people receive** Medicare
- **972,535 people receive** SNAP (food assistance)
- **256,545 people receive** Housing Assistance
- **233,432 people receive** Supplemental Security Income
- **549,155 people are** Health Marketplace Enrollees
- **223,633 people receive** Pell Grants

PAYGO and the New Tax Law: What Happened?

The Statutory Pay-as-You-Go (PAYGO) Act is a law, enacted by Congress in 2010, that requires that any increases to the deficit through tax cuts or spending increases be paid for by offsetting spending cuts. This automatically begins the following year after the deficit-increasing bill and continuing for up to ten years thereafter.

Under the new tax law the existing PAYGO law would have required automatic reductions in spending in the coming years.

So what happened? Congress enacted a waiver. On Dec. 21, 2017, Congress passed a temporary spending measure that exempted the tax bill from PAYGO.

North Carolina's fiscal footing and economic health is further at risk with final tax plan

As previously reported, North Carolina's investments in the foundations of a strong economy are at 45-year lows. Students are struggling to learn in over-crowded classrooms, teachers' professional development needs are being ignored, and our schools can't pay for the technology and tools required to prepare young people for the future. At the same time, our communities are failing to maintain safe school buildings for children to learn in, provide affordable housing for families that stabilize communities, and maintain thriving Main Streets that generate jobs and commercial activity.[6]

North Carolina's failure to invest due to state-level tax cuts will be made worse with additional federal cuts. Worst yet, there will be few options available to policymakers to absorb the federal cost shift when programs and services are cut to pay for the tax cuts that mainly benefit the richest taxpayers.

North Carolina's General Assembly must begin planning and sharing the details of those plans with the public for how they will minimize the harm of these federal cuts and serve our families and communities.

ENDNOTES

1. Institute on Taxation and Economic Policy, December 2017. How the Final GOP-Trump Tax Bill Would Affect North Carolina Residents' Federal Taxes. Accessed at: https://itep.org/finalgop-trumpbill-nc/

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6. Sirota, Alexandra, September 2017. Failed Tax-cut Experiment Hurts NC—Don't Let It Hurt the Country. Progressive Pulse, NC Policy Watch. Accessed at: http://pulse.ncpolicywatch.org/2017/09/23/failed-tax-cut-experiment-hurts-nc-dont-let-hurt-country/#sthash.LTKCCQYY.dpbs