

Still Terrible at Two

The Trump Tax Act Delivered Big Benefits to the Rich and Corporations But Nearly None for Working Families

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The Center for Popular Democracy (CPD) works to create equity, opportunity, and a dynamic democracy in partnership with high-impact base-building organizations, organizing alliances, and progressive unions. CPD strengthens our collective capacity to envision and win an innovative pro-worker, pro-immigrant, racial and economic justice agenda.

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The Economic Policy Institute (EPI) is a nonprofit, nonpartisan think tank created in 1986 to include the needs of low- and middle-income workers in economic policy discussions. EPI's mission is to inform and empower individuals to seek solutions that ensure broadly shared prosperity and opportunity.

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I. Overview of Trump's Tax Cuts and Jobs Act

At the December 2017 signing of the Tax Cuts and Jobs Act (TCJA), President Donald Trump touted it as “a bill for the middle class and a bill for jobs.”¹ Trump claimed that the TCJA would provide sizable tax cuts for working people, increase their wages, and boost business investment. In reality, Trump’s tax bill—one of the largest overhauls of the tax system in the last 50 years—made sweeping changes to benefit corporations and wealthy individuals while doing little to support working families. The TCJA slashed the corporate tax rate from 35 percent to 21 percent, the lowest rate since 1939, and introduced a range of provisions that enable corporations and the rich to pay less in taxes.² In 2018, the top 5 percent of income earners received nearly 50 percent of tax cuts from the TCJA.³ The bulk of benefits to middle or low-income individuals are modest and will expire in 2025 while the enormous tax breaks for corporations are permanent. By 2027, after the individual provisions expire, the top 1 percent of households alone will see 83 percent of the benefits of the TCJA.

Key Findings

On the two-year anniversary of the Tax Cuts and Jobs Act, this paper provides new data analysis on the impact of the bill:

Working people have seen no discernible wage increase as a result of the TCJA

- While real (inflation-adjusted) wage growth accelerated in 2018 relative to 2017, similar one-year accelerations have been seen in recent years.
- Further, wage growth in 2019 has decisively decelerated.
- Other influences pushing up wage growth in 2018—tight labor markets and higher state-level minimum wages—can fully explain the mild pickup in wage growth for that year.

TCJA has decisively failed to spur business investment

- In 2018 there was no discernible uptick in investment relative to the pre-TCJA trend.
- Investment in recent years—especially in 2015 and 2016—had been quite weak, mostly because of continuing slack in labor markets that moderated labor-cost pressures and because of falling energy prices. The TCJA has added nothing discernible to the natural bounceback from these weak years of investment.
- In 2019 investment has absolutely cratered, with outright declines in the last nine months of available data.

Corporate tax revenues have plummeted

- During the legislative debate surrounding the TCJA, the Congressional Budget Office (CBO) estimated that corporate revenues would fall by about \$96 billion (or roughly 26 percent) in 2019 due to the TCJA.⁴
- A recent update by CBO indicates that the erosion of corporate tax revenue has been substantially worse than this initial estimate, with revenues falling roughly 19 percent more than even the initial CBO projection.⁵

Stock buybacks have surged in its wake

- Stock buybacks rose from \$368 billion on average in 2016 and 2017 to \$560 billion in 2018, an increase of more than 50 percent in a single year. Buybacks in 2019 look on-pace to hit \$500 billion again.⁶

These data findings refute many of the tax bill proponents' key arguments that were made at the time of its passage. Far from a catalyst for growth and shared prosperity, the TCJA has failed to deliver wage increases for working people and managed to enrich already wealthy corporate actors. Most corporations have passed TCJA tax savings on to their wealthy shareholders instead of investing in the workers who are increasing the companies' bottom lines. Corporate profits and stock buybacks have soared since the Trump tax bill was passed and in contrast, as the report outlines, wages are not rising.⁷

Not only has Trump's tax bill failed to deliver meaningful benefits to working people, it is also fueling income inequality and exacerbating racial wealth divides. Throughout the nation's history, discriminatory policies at the workplace, in housing, and throughout the economy have resulted in the vast majority of America's richest families being white.⁸ Given those historical legacies and present day realities, Trump's tax cuts to the super wealthy and 1 percent are disproportionately benefiting white households. Tax cuts are used by a government to redistribute public resources in ways that support its policy priorities. In this case, Trump's tax cuts are exacerbating existing racial inequities: a recent study found nearly 80 percent of Trump's tax cuts—\$218 billion—go to white households, who make up only 67 percent of taxpayers.⁹ Most of these tax cuts have gone to white taxpayers in the top 5 percent, earning \$243,000 or more a year. The average tax cut for a Black household was \$840, while it was more than double—\$2,020—for white families.¹⁰ Overall, the vast majority of Trump's tax cuts benefit people with wealth, including financial investments and real estate. Given historical policies promoting wealth stripping from Black communities and wealth concentration in white communities, the tax cuts do less to benefit communities of color.¹¹

Key Provisions of the Tax Cuts and Jobs Act

In stark contrast to President Trump's populist messaging leading up to the passage of the TCJA, the bill combines permanent tax breaks for corporations that overwhelmingly benefit the wealthy with a mixed bag of temporary changes to the individual taxes. Specifically, the bill:

- **Slashes the Corporate Tax Rate.** The statutory corporate income tax rate was decreased from 35 percent to 21 percent. Loopholes and widespread evasion led to U.S. corporations facing an effective tax rate much lower than 35 percent even before the TCJA was passed.¹² By slashing the statutory rate and doing little to close loopholes (while in fact introducing new ones), the TCJA has cut the effective rate faced by U.S. corporations almost in half.
- **Created a Double Bonus for Debt-Financed Capital Investments.** Companies can now immediately write off the full value of any capital investments made in new plants or equipment for five years (until 2022), instead of amortizing these investments over time. On top of this, the bill also preserved some deductibility of interest payments for corporations, giving a double-bonus for debt-financed investments.
- **Redesigned International Tax Rules.** U.S. corporations are no longer required to pay U.S. taxes on income earned in other countries, unless this income exceeds a global benchmark rate of profit. The TCJA allows companies to use foreign tax credits to offset the taxes they may owe if their income exceeds this global benchmark.
- **Repeals the Corporate Minimum Tax.** Previously, there was a 20 percent corporate alternative minimum tax. This tax required profitable corporations to pay at least some share of taxes on their profits in a given year, but was repealed in the TCJA.
- **Provides a Pass-through Business Income Deduction.** This is a 20 percent deduction for pass-through businesses—called so because they pass income through to their owner's personal tax returns without having to pay tax at the business level—on the first \$315,000 of business income earned.* Pass-through business income has become enormously concentrated at the top of the income distribution in recent decades and has been a prime driver of overall inequality.¹³

* The business income threshold is \$157,000 if the individual is single.

- **Increased the Millionaire Estate Exemption.** The TCJA made any estate up to \$10 million exempt from taxes (this amount was increased from the previous \$5 million per person).
- **Undermined the Affordable Care Act and Reduced Health insurance coverage.** The TCJA effectively repealed the Affordable Care Act individual mandate, a policy designed to incentivize Americans to obtain health insurance coverage and to keep “free riders” from undermining the viability of health insurance markets.¹⁴

The tax bill also introduced several provisions that affect individuals more broadly, many of which are set to expire in 2025. It increased the standard deduction—which is a fixed amount individuals can subtract from their gross income to lower their taxable income—from \$6,350 to \$12,000 for individuals and from \$12,700 to \$24,000 for married couples; repealed personal and dependent deductions; put a \$10,000 cap on state and local tax deductions; and increased the child tax credit by \$1,000 (but made it more generous to high-income households while failing to make it fully refundable to ensure that it fully benefits low-income families).¹⁵

Notably, Trump’s tax bill maintained the carried interest loophole: Wall Street private equity and hedge fund managers commonly use the carried interest loophole to claim a lower capital gains tax rate on their income, which should be more accurately treated for tax purposes as ordinary (earned) income. The TCJA kept this loophole in place.

In the two years since Trump’s tax bill was passed, Lowe’s has spent billions in corporate stock buybacks. In 2019, Lowe’s laid off thousands of its employees around the country, without notice or severance.*

Emily Gordon, Lowe’s (Louisville, OH)

“Lowe’s priority has turned from one of customer and employee focus, to solely pleasing the shareholders. When you don’t take care of your employees, everything quickly falls apart. But too many corporations don’t care about this anymore. All they see are numbers.”



Emily was a full-time associate at Lowe’s for four years. During that time, she saw changes taking place for the worse for the workforce. She witnessed her coworkers, many who had worked with the company for 10 years or more, lose their positions—sometimes laid off on the day they were told of the cuts with no severance—and many had to settle for a pay cut just to stay employed. Even as a full-time employee, Emily’s hours became increasingly unpredictable, and planning her life around her work schedule became nearly impossible. Like most of her coworkers, Emily had to use holiday or vacation time just to have a day off for a doctor’s appointment. After speaking up about these changes at Lowe’s, Emily was told to find employment elsewhere and was fired. She lost her health insurance, and never received her remaining vacation pay. Emily is a member of United for Respect (united4respect.org/).

*Source: CBS News, “Lowe’s spent billions on share buybacks, zero on severance for laid-off workers,” August 12, 2019, www.cbsnews.com/news/lowes-layoffs-2019-retailer-spent-billions-on-share-buybacks-zero-on-severance-for-laid-off-workers/

II. Impact of the First Two Years of Trump's Tax Cuts and Jobs Act

Tax cuts can affect either the demand side or the supply side of the economy. By boosting households' disposable incomes, cutting taxes can potentially increase economy-wide spending (or *aggregate demand*) if households spend more of their now-higher disposable income. If there is productive slack in the economy (ie, unemployed workers), then boosting aggregate demand can take up this slack (ie, put more people to work) and spur growth. On the supply-side, tax cuts raise the after-tax return to either working or owning wealth. These higher returns can in theory incentivize workers to supply more labor or can encourage households and businesses to save and invest more. These incentives, however, will only boost economic growth if the economy is already at full employment. For example, if labor supply increases when there is already excess unemployment, this does not create jobs and allow more work to be done, instead it only increases the number of frustrated jobseekers. Similarly, households might save more as taxes are cut, but if businesses are reluctant to invest because of too-few customers, this new savings will not be translated into additional productivity-enhancing investment.

The effect of tax cuts on aggregate demand should occur quickly - in the first year of implementation. The *full* effect of tax cuts on the supply side can take a while longer to happen, but any evidence of their beginning should absolutely be reflected in the data by now.

This section examines the data for the effect of the TCJA. It finds that the only real detectable effect has been the rise in after-tax corporate profits and an increase in stock buybacks. Any broader economic effect that might "trickle down" to aid workers just is not in the data — and it's been long enough that this lack of effect constitutes convincing evidence that it will not aid workers at any time.

Trends in Corporate Tax Revenue

The centerpiece of the TCJA was a large cut in the tax rate owed by corporations. In this narrow regard, it has been a smashing success, with corporations ending up with an even better deal than the Congressional Budget Office (CBO) originally predicted in its scores of the TCJA. According to the CBO, corporate income taxes brought in about 19 percent less revenue over 2018-2019 than they initially projected.¹⁶

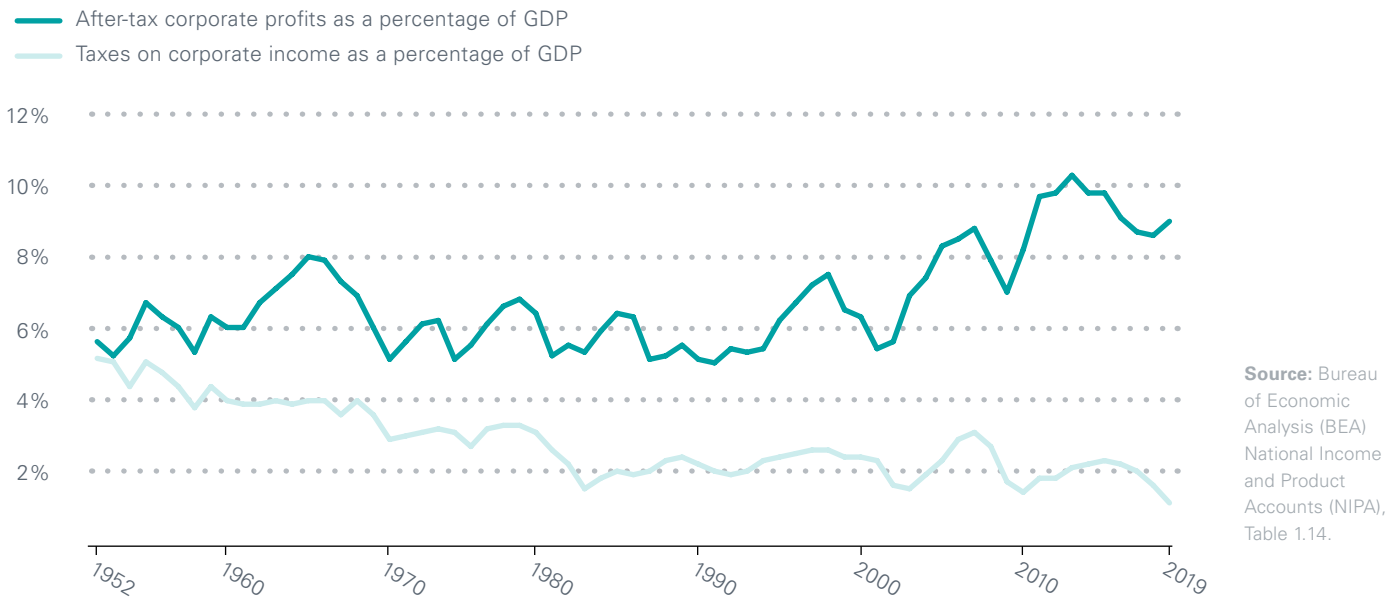
In historical context, the TCJA is just one more factor (though a particularly large one) driving a long-run trend in U.S. tax policy—corporate revenues accounting for smaller and smaller shares of total federal taxes. This erosion of corporate income tax revenues has been historically driven by corporate evasion and avoidance rather than cuts in the statutory tax rate, and it has been extremely damaging for the progressivity of the overall federal tax system. Besides the estate tax (also cut in the TCJA) the corporate income tax is the most-progressive feature of the U.S. tax code.

In the short run, changes in corporate taxation are felt exclusively by shareholders. The top 10 percent of U.S households, ranked by overall wealth, own roughly 80 percent of stock market wealth.¹⁷ Even in the long run, economists typically estimate that around three-quarters of the ultimate economic cost of the incidence of corporate income taxes falls on owners of capital (shareholders, business owners, and partners, for example) and is not able to be passed onto workers. Just the top 1 percent of households earns roughly 54 percent of total capital income, and the bottom 90 percent owns just 22 percent.¹⁸ This progressivity is precisely why the corporate income tax was slowly being strangled before 2017 and why it was in the crosshairs of the TJCA.

Figure 1 below shows long-run trends in corporate profits and corporate taxes as shares of overall gross domestic product (GDP). In 1952, after-tax corporate profits were 5.6 percent of GDP but by 2018 corporate profits soared to 9 percent of GDP. Over the same time period, corporate tax revenues plummeted. Corporate tax revenues accounted for 5.2 percent of GDP in 1952. Today, corporate tax revenue has fallen to just 1.1 percent of GDP. The TCJA saw the leakage from the most progressive major feature of the U.S. tax code shift from a slow dribble to a flood.

Figure 1. TCJA Supercharges Existing Erosion of the Corporate Income Tax:

Corporate Profits and Corporate Income Tax Revenues as % of GDP, 1952-2019



Trends in Workers' Wages

The TCJA has not boosted American workers' wages

Of course, the Trump administration did not sell the TCJA to the American public by arguing that rich corporations needed tax breaks. Instead, the bill's proponents contended that it would powerfully boost wage growth for working people. For example, the Council of Economic Advisors claimed that "reducing the statutory federal corporate tax rate from 35 to 20 percent would [...] increase average household income in the United States by, very conservatively, \$4,000 annually."¹⁹

Proponents of this (probably unintuitive) claim that cutting corporations' tax rates leads to wage gains have to rely on a long theoretical chain of arguments. They start by noting that cutting corporate tax rates reduces the "user cost of capital" – or how much firms have to pay to make an extra investment in plant, equipment or research. The lower user cost of capital hence boosts firms' demand for investment. This increased investment demand is met by greater supply of savings, as higher after-tax returns to investing either incentivize U.S. households to save more or attract more capital from abroad. By this view, the resulting increase in investment gives workers more and better tools to do their jobs, which boosts productivity (or output generated in an average hour of work). The rise in productivity is assumed, in turn, to translate into higher wages.

If Walmart ended its stock buyback program, and instead redirected \$10 billion towards higher wages for its workforce, one million Walmart employees would see an hourly wage increase of over \$5.66.*

Adriana Bautista, Walmart (Bay City, TX)

"I know I'm not alone in thinking that moms shouldn't have to choose between being present in their kids' lives or contributing financially to the home. Walmart is the biggest retail corporation in our country. It has more than enough means to make sure that working families like mine are able to get ahead."



Adriana Bautista is a mother of four children and 15-year employee of Walmart. When her youngest daughter was born four years ago, Adriana could not afford childcare, despite working full-time at Walmart. She decided to go down to part-time hours at Walmart and was guaranteed over 20 hours per week. Soon after, however, Walmart started cutting her hours. Some weeks Adriana was only scheduled to work five hours and only made enough money to put gas in her car. When she is able to work more than five hours, her shifts are often unpredictable. She sometimes leaves her store at 10pm and has to return at 8am the next morning. Going from two incomes to close to one has had a huge impact on Adriana's family, who have fallen behind on bills, at times, and taken on credit card debt to pay for expenses. Meanwhile, Adriana's store keeps hiring employees who are offered more hours than her. Adriana is a member of United for Respect (united4respect.org/).

*Source: Roosevelt Institute, "Making The Case: How Ending Walmart's Stock Buyback Program Would Help To Fix Our High-Profit, Low-Wage Economy" May 2018.

WORKER BONUSES REMAIN ELUSIVE, CONTRARY TO HIGH PROFILE CORPORATE PR CAMPAIGNS

At the December 2017 signing of his Tax Cuts and Jobs Act, Trump predicted corporations would be “giving billions and billions of dollars away to their workers.”²⁰ Dozens of large corporations responded immediately to the passage of the TCJA by mounting clearly disingenuous campaigns claiming that every wage increase and bonus they gave out at the end of 2017 was due to the TCJA. Some employers, like Walmart and AT&T, went so far as to make splashy public announcements of worker bonuses while quietly laying off thousands of workers shortly after.²¹

In reality, corporations’ claims that the TCJA spurred worker bonuses and wage increases were baseless PR and are not supported by serious analysis.²² Remember the theoretical chain of reasoning that argues cutting corporate taxes will lead to higher wages. Investment decisions must be made and undertaken, then productivity growth has to perk up, then productivity gains have to be translated into wage gains. None of this would be expected to happen in 2017 – even before the TCJA took effect.

Given that corporate rates were going to be cut in 2018, there was an economic incentive for firms to front-load any planned bonuses or raises in 2017. Labor costs can be deducted from corporate income for taxes and any tax deduction is more valuable when tax rates are higher. But even with this incentive, the empirical heft of bonuses given at the end of 2017 was tiny. In the last quarter of 2017, despite there being a large tax incentive to give workers planned bonuses before the TCJA lowered corporate income tax rates, bonuses accounted for just 2.7 percent of workers’ total compensation. As a comparison, in the last quarter of 2016, bonuses accounted for 2.5 percent of workers’ total compensation. This rise essentially put less than a dime per hour extra in workers’ pay on average for the last three months of 2017.

In fact, bonuses have actually declined since the bill’s passage, and as of mid-2019 the post-TCJA increase in bonuses is a single cent per hour.²³



Donald J. Trump ✓
@realDonaldTrump

Following

I promised that my policies would allow companies like Apple to bring massive amounts of money back to the United States. Great to see Apple follow through as a result of TAX CUTS. Huge win for American workers and the USA!



Apple says it will 'contribute' \$350 billion in the US economy over the next 5 y...
Apple told CNBC's "Mad Money" last year that it would invest \$1 billion fund to promote advanced manufacturing jobs in the United States.
cnbc.com



Leader McConnell ✓
@SenateMajLdr

Thanks to @POTUS signing #TaxCutsandJobsAct into law @Walmart employees in #Ke receive bonuses and higher



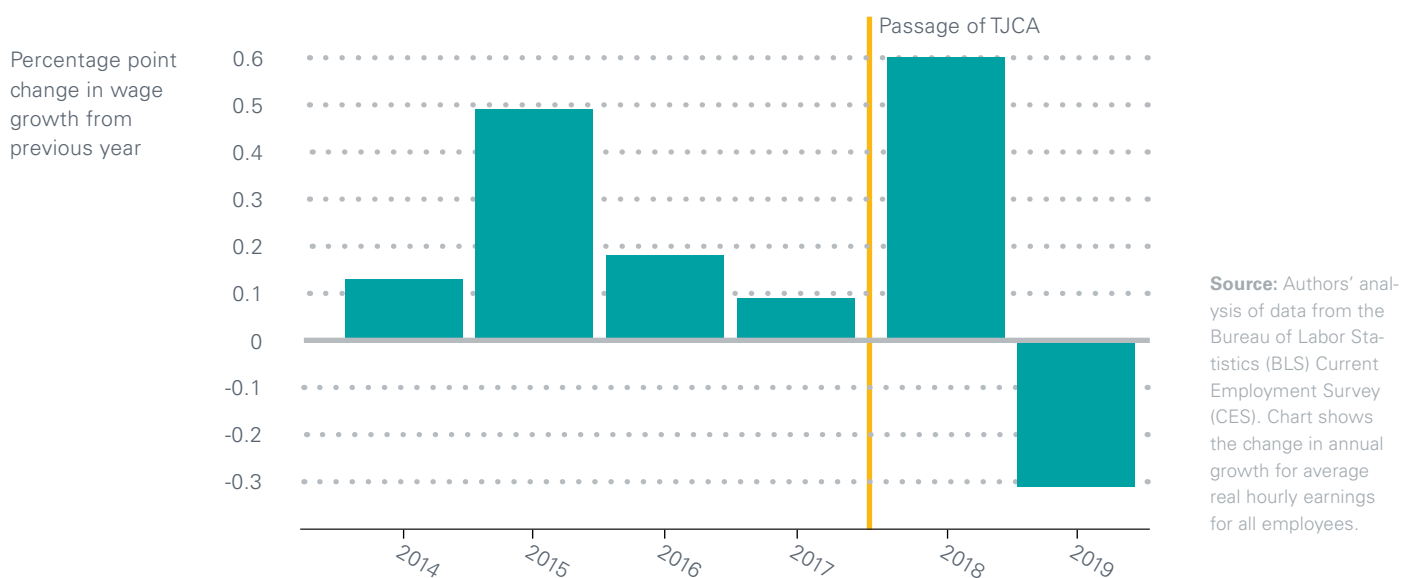
Walmart to raise its starting wage to \$11, give so...
Walmart announced it will be increasing its starting v in the U.S. to \$11 from \$9.
cnbc.com

10:10 AM - 11 Jan 2018

Unfortunately, the data does not support this theory. Workers have seen nowhere near the \$4,000 in additional annual compensation promised by Trump’s economic advisors. The best estimation for how much wages have risen due to the TCJA is zero. **Figure 2** below shows the acceleration in real (inflation-adjusted) wage growth for the years between 2014 and 2019 - four years before and two years after the TCJA became effective. While there was an acceleration in wage growth in 2018, it is essentially the same size as the acceleration that occurred in 2015. While wage growth accelerated only slightly in the two years before the TCJA, this growth has outright decelerated in the first ten months of 2019. In short, it is hard indeed to see in these figures clear evidence of the TCJA’s effect in pushing up wage growth in any unusual or sustained way.

Figure 2. No Unusual or Sustained Wage Acceleration Post-TCJA

Acceleration (change in growth rate) of inflation-adjusted wages, 2014-2019



The TCJA’s failure as a wage growth policy is not surprising. Indeed, the available evidence from before the TCJA passed suggested these projections, based on a long chain of faulty economic assumptions, were flawed from the start.

For example, after-tax corporate profits had been historically elevated for years prior to the TCJA,²⁴ and those high profits had not driven rapid investment in plants and equipment. In fact, investment in these same years was historically weak. Further, in these same years, interest rates were extremely low relative to historical data, which led to extremely low user costs of capital. Hence, there was little reason to think the economy was constrained by high user costs of capital that were depressing investments.²⁵ In short, there was no identifiable problem constraining investment that the TCJA convincingly solved.

The historical experience with corporate tax cuts also did not support the notion that they would noticeably buoy investment or workers’ wages. For example, the corporate tax rate was substantially higher than 35 percent in decades that saw rapid productivity growth; and when the rate was lowered in 1986, productivity growth did not budge for about a decade (and then accelerated only for unrelated causes).²⁶ Further, in recent decades median wage growth was no faster in states that cut corporate tax rates when compared to states that did not.²⁷ Likewise, international data did not support the contention that corporate tax cuts would lead to higher investments. In fact, countries that saw larger reductions in the statutory corporate tax rate in recent decades actually saw *slower* growth of investment.²⁸

Additionally, it's worth noting that even the abstract theory linking corporate tax cuts to faster wage growth only holds unambiguously if corporate tax cuts do not increase the federal budget deficit. While corporate tax cuts might boost private savings, they will not necessarily increase *national savings*. This is because, all else being equal, a corporate tax cut unambiguously reduces *public savings* (by increasing the federal budget deficit), making the effect on national savings a wash. If national savings do not rise in response to the tax cut, then the hoped-for increased *demand* for investments might not be satisfied, and instead might just push up interest rates and the user cost of capital.²⁹ That is, any gains the TCJA might spur by reducing the user cost of capital in a full employment economy would be substantially undone by larger federal budget deficits pushing up interest rates.³⁰ By increasing the deficit by \$1.9 trillion over years between 2018 and 2028, the TCJA clearly violated this condition that the deficit not increase.

Finally, even if corporate tax cuts are paid for, and end up boosting capital investment and productivity growth, the recent history of U.S. inequality should make abundantly clear that there's no reason to believe these productivity increases will automatically trickle down to typical workers.³¹

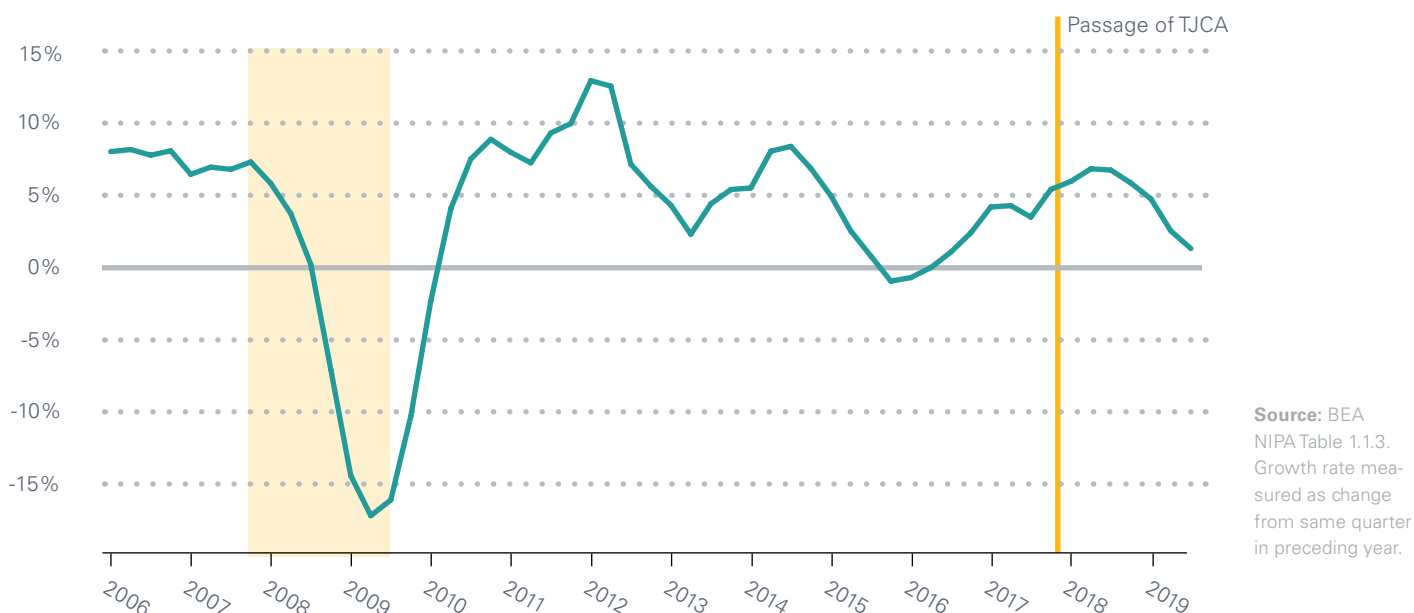
Investment Growth

Investment growth since the passage of the TCJA – the very first link in the economic chain that must hold for corporate tax cuts to boost wages – has been extremely weak, as is shown below in **Figure 3**. If workers' wages are to be spurred, specific kinds of investment—defined by macroeconomists and tracked in the National Income and Product Accounts (NIPAP) as purchasing plant or equipment or undertaking research and development aimed at increasing productivity—must increase. Under this definition, a company purchasing its own paper stock does not count as investment.

- In 2018, the first year after the TCJA's passage, there was no discernible uptick in the trend of investment.
- In 2019, the second year after the TCJA's passage, investment has absolutely cratered.

Figure 3. Passage of TCJA Does Not Budge Investment Trends

Year-over-year change in non-residential fixed investment, 2006-2019



If workers are to see a dime of these corporate tax cuts hit their paychecks in coming years, investment growth has to accelerate. For a short time after its passage, proponents of the TCJA could claim it would take some time for its boost to investment to be fully felt. But contrary to this claim, investment growth did not gradually accelerate as the economy got further and further from its passage, instead this investment growth cratered.

Without an uptick in investment, it is not possible for corporate tax cuts to be responsible for affecting wage growth. It is true that 2018 did see strengthening wage growth, but this growth is explained by other forces— in particular the continued tightening of the labor market (a process that had been ongoing at a constant rate since roughly 2010).³² Further, in recent years numerous increases in state and city-level minimum wages were responsible for better wage growth at the bottom of the wage scale.³³ Both tighter labor markets and minimum wage increases can more than explain any uptick in wage growth that occurred in 2018. Further, this episode of faster wage growth largely levelled off in 2018, as wage growth has been unchanged since the beginning of 2019.³⁴

THE U.S. GOVERNMENT'S OWN ANALYSIS ECHOES THIS REPORT'S KEY FINDINGS

The Congressional Research Service's (CRS) May 2019 impact analysis of the first year of the tax bill echoes this report's findings.³⁵ CRS found that Trump's tax bill had almost no effect on wages, did not lead to a surge in investment, and did not bring a tax cut to the average taxpayer.³⁶ While the tax cut increased the standard deduction and child credit for working/middle-class families, the government found these benefits were largely offset by the elimination of key exemptions for working families, including state and local tax exemptions.³⁷ Among households earning between \$500,000 and \$1 million a year, their incomes rose an average of 5.2 percent, while families making less than \$50,000 only saw a 0.6 percent increase. In later years, these gains for typical families will shrink as the individual tax cuts sunset, while the corporate tax cuts which provided the bulk of the gains to rich households remain in place.³⁸

Broader Impacts of the Tax Cuts and Jobs Act

After the Tax Cuts and Jobs Act became law, many warned the bill would have significant negative impacts on the economy and working people. Critics warned the bill, as passed, would lead to skyrocketing corporate stock buybacks and financial engineering by wealthy investors, fail to support economic growth for small businesses, and be unable to deliver meaningful benefits for America's most vulnerable families. In the two-years since the passage of the TCJA, many of these negative consequences have come to pass.

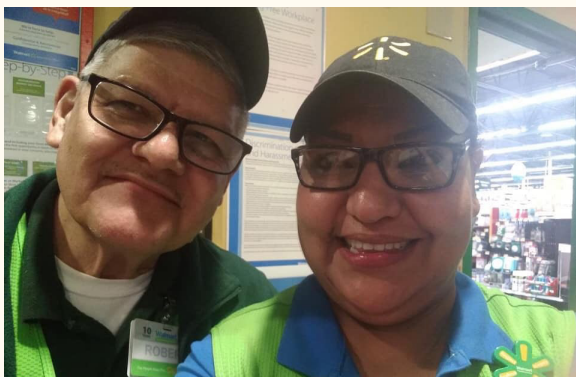
Trump's tax cuts have caused stock buybacks to soar. Instead of using their tax windfall to increase their workers' wages or to undertake productivity-enhancing investments in plant, equipment or research and development, companies instead spent billions buying back their own stock. Companies in the S&P 500 spent a record-breaking nearly \$1 trillion in 2018 on buying back their own shares.³⁹ Stock buybacks involve a company buying its own shares from the marketplace. This enriches shareholders instead of creating jobs or boosting investments in communities.⁴⁰ Share ownership mirrors broader inequality in this country, with shareholders being more likely to be wealthy and white. That means these stock buybacks are less likely to benefit low-income communities or communities of color in the US.⁴¹ In addition, many benefits of the TCJA are going to foreign investors, including those who are shareholders in U.S. companies. In fact, foreign investors, as a group, received larger tax cuts than low- and middle-income families⁴² and are slated to receive \$38.3 billion in tax benefits in 2020. Meanwhile the country's poorest 20 percent are set to receive a combined \$1.9 billion.⁴³



If Walmart ended its stock buyback program, and instead redirected \$10 billion towards higher wages for its workforce, one million Walmart employees would see an hourly wage increase of over \$5.66.*

Patricia Garcia, Walmart (El Paso, TX)

“Walmart pays their shareholders billions of dollars while loyal employees like me are struggling. How is this fair? Nobody should have to choose between paying a mortgage or their kid’s school, especially when we’re working for the largest retail corporation in our country.”



Patricia is a Walmart employee of 10 years and is a single mother and sole provider of her two children. Her daughter has just started college, and Patricia is worried month to month about helping to pay for her daughter’s tuition while paying her own bills. Getting stable hours at her Walmart store is difficult, and Patricia has to have “open availability,” which means she can get scheduled at any time in order to piece together enough hours to get by. Even so, Patricia’s hours are still cut regularly - she uses her paid time off to get the 40 hour paycheck she needs. Patricia is a member of United for Respect (united4respect.org/).

Source: Roosevelt Institute, “Making The Case: How Ending Walmart’s Stock Buyback Program Would Help To Fix Our High-Profit, Low-Wage Economy” May 2018.

Pass-through Business Income Deduction: So-called small business tax cut benefits millionaires. The TCJA included a 20 percent deduction for pass-through businesses, including partnerships and sole proprietorships where the business income is “passed through” to the owner’s personal tax returns without having to pay taxes at the business level. Business owners can now deduct 20 percent on the first \$315,000 of business income they generate. The bill’s proponents claimed this deduction would bolster small businesses;⁴⁴ however, millionaires have received the largest share of those tax benefits. In fact, by 2024, the Institute on Taxation and Economic Policy projects that millionaires will receive more than half of the benefits.⁴⁵ This is not a surprise, as “pass-through” business income is concentrated overwhelmingly among the richest households. In fact, 49 percent of this income is claimed by the richest 1 percent of taxpayers. In short, “pass through” income is not generated by what most people would think of as “small businesses.” Instead, it’s largely income generated by rich companies that just do not happen to be traditional C-corporations that pay taxes through the corporate income tax code.



“While Republicans are selling their plan as benefiting small business, it was really just another corporate tax break. Corporations are using their trillion dollar tax cut to pad the pockets of their wealthy shareholders and increase

what CEOs make. West Virginia continues to have one of the highest poverty rates in the nation, and small businesses and average people will get little or nothing from these tax changes — except the reductions in services that come from handing out over one trillion dollars in corporate tax giveaways. I certainly didn’t see positive changes this year. In fact, I ended up paying a few thousand more in taxes this year in part because I couldn’t use some of the deductions like those for a home office, common for small business owners, that I’ve used in the past. For me, and many other small business owners, this tax bill is a dud.”

—Martha Ehlman, owner of Tenfold Fair Trade Collection, Harper’s Ferry, WV and Main Street Alliance Member (mainstreetalliance.org)



“I actually got a higher tax return this year, of roughly \$8,000. But that’s not enough to make any real investments back into my business and far less than it would take

to create another quality job for someone in our community. I think that money—and the even larger returns of others who don’t need them—would be better spent addressing the real challenges small businesses face - like creating insurance pools for health care, child care, and paid family leave to help with retention and recruitment. Or fixing the state of our highways, roads and bridges that make transportation cost skyrocket and cut into our small business profit margins. The actual concerns of small businesses should be more important than touting a failed tax bill—that only served to increase wealth for those at the top.”

—Todd Mikkelson, Owner of Sprayrack, Minneapolis, MN and Main Street Alliance member (mainstreetalliance.org).

The TCJA has failed to support the country's most vulnerable families. Unfortunately, the TCJA offered only crumbs to working families—particularly those in the bottom fifth of the income distribution. Families in households earning less than \$25,000 per year saw an average tax cut of about \$40.⁴⁶ While the TCJA increased the amount families can receive in child tax credits (CTC), many low-income earners saw negligible benefits. A low-income family earning \$15,000 or less a year would only get an additional \$75 per year as a result of TCJA,⁴⁷ in large part because the expansion of the CTC was not made fully refundable. A tax credit is refundable if families can claim the entire amount, even if it means their overall income tax bill goes to \$0 or below (in which case they receive a refund from the government). For families with low incomes and hence low income-tax liability, refundability is often crucial in determining how large a benefit they can receive from any tax cut. TCJA proponents knew that making their expansion of the CTC less than fully refundable would carve its full potential benefits away from millions of low-income families. As simple as it would have been to fix it, proponents did not.

Deficit spending has its place - if it buys the right things. The TCJA dramatically cut taxes for corporations and the wealthy, but provisions that offset that revenue loss were far too small to make the act deficit-neutral. The Congressional Budget Office has estimated that the TCJA will raise deficits, including net interest payments, by \$2.3 trillion over the next decade. That number rises to \$3.1 trillion by 2028 if all the temporary provisions of the bill are extended beyond 2025.⁴⁸ As a result, the federal deficit has grown to nearly \$1 trillion in 2019 and is projected to surpass that mark in 2020.⁴⁹

In the two years since Trump's tax bill was passed, Lowe's has spent billions in corporate stock buybacks. In 2019, Lowe's laid off thousands of its employees around the country, without notice or severance.*

Tyler Porter, Lowe's (Syracuse, NY)



"I lost my job at Lowe's after my manager told me to perform tasks against my documented disability. They even tried to fight my unemployment. People like me who work for a living are not disposable. We all should be able to live a full life in dignity."

Tyler worked at Lowe's for six years. Earning \$13 an hour, Tyler struggled to pay all his bills and medical treatments, including a \$700 bill for an MRI which he had to pay out of pocket. While working at Lowe's, Tyler often had to borrow money from his loved ones to make ends meet. The low wages not only hurt his dignity and sense of pride, it never allowed him to have any stability. Sometimes, he could only truly afford to eat once a day. Tyler grew up in Cape Cod, MA and raised his younger brother who has autism. Tyler dreamed of going to college but never had the opportunity. He could not afford the tuition on his wages while working to support himself. Tyler is a member of United for Respect (united4respect.org/).

Source: CBS News, "Lowe's spent billions on share buybacks, zero on severance for laid-off workers," August 12, 2019, <https://www.cbsnews.com/news/lowes-layoffs-2019-retailer-spent-billions-on-share-buybacks-zero-on-severance-for-laid-off-workers/>.

To be clear, if the embrace of debt-financing by the TCJA's backers represented a genuine change in analytical assessments about the costs and benefits of deficit spending, this would be welcome. For far too long the bipartisan conventional wisdom in DC policymaking circles has been that deficits are always and everywhere bad, and that lower deficits were always welcome. This view is simply incorrect economics and constitutes a significant barrier to progressive policy priorities. Deficit spending is not always and everywhere bad. Often the economy needs larger deficits to push it closer to genuine full employment. And one can never say anything definitive about how "good" or "bad" a given increment of debt is unless one knows what it bought. Deficits and debt could be powerful tools when used to fund vital public investments, including supports for low-income communities and children.

But the decision to finance the TCJA with debt did not represent an analytical re-assessment about the economic merits of deficits, instead it was simple political convenience. How do we know this? Because at the moment, the revenue loss caused by the TCJA does not pose a pressing problem, and there's no economic reason that the higher deficits created by the TCJA should threaten key programs that U.S. families rely on, like Social Security, Medicare, Medicaid, and the Affordable Care Act (ACA). And yet, once the TCJA had passed, the 2018 House GOP budget called for deep cuts to education, public investment, Medicare, Medicaid, and the ACA, all in the name of restraining allegedly damaging debt.

This is a well-worn tactic of proponents of regressive tax cuts: Using debt to finance their preferred policy change, but then turning around and demanding that spending be slashed because of the predictably-higher debt that resulted from their tax cuts. This happened in the early 1980s in the Reagan administration and in the early 2000s under the George W. Bush administration. It should come as no surprise that it's happening again.

Even in today's economy, debt is bad when it buys the wrong things.

Further, just because there is no pressing national debt problem does not mean that anything that adds to the federal debt is equally fine. Among its other flaws, the TCJA is a huge squandering of fiscal resources that could have spurred economic growth far more in the near-term and made needed investments for the long-term.

Because the lion's share of the TCJA cuts accrue to rich households, they have done very little to spur growth in aggregate demand (spending by households, businesses, and governments) since its passage. Rich households' spending is not constrained by too-low disposable income, so boosting this disposable income does not lead to significantly more spending. Poorer and moderate-income households, on the other hand, are indeed income-constrained in their current spending, so tax cuts or direct transfers to them would boost demand growth significantly. Direct spending—say on infrastructure or providing needed public investments like high-quality early child care—would have stimulated demand even more.

For a time, many credited the slight acceleration in growth in 2018 to fiscal stimulus generally. But [revisions](#) to 2018 government data show this acceleration was even more subdued than previously thought. Further, the growth in government spending brought forth by a budget deal in 2018 actually provided much more stimulus than the more-expensive TCJA.

President Trump and the Republican-led Congress squandered \$150 billion in potential fiscal stimulus by prioritizing tax cuts for the rich over any number of actions that would have plausibly created faster growth and jobs (see [Table 1 in this report](#) for a list of more and less effective fiscal policies to spur near-term growth).

III. How Could Those Billions Be Put to Better Use? An Alternative Vision

When the government collects and spends tax revenue, it is an opportunity to address the needs and priorities of local communities. The Trump Tax Cuts and Jobs Act gives \$150 billion in annual federal tax breaks to wealthy individuals and large corporations over the next decade. Those billions could be put to much better use by supporting a range of timely and important public social services including:⁵⁰



Providing universal high-quality Pre-K nationwide.

This could be achieved with an estimated \$50 billion per year.

Universal Pre-K not only promotes child development through high quality educational programming, but also helps ease the financial burden facing families with young children. Universal Pre-K has the largest positive impact on low-income children, children of color, and children in multilingual homes.⁵¹



Expanding Social Security.

This could be accomplished with approximately \$50 billion per year.⁵²

This additional investment would support vulnerable senior citizens by: providing benefit increases for all senior citizens; providing cost-of-living adjustments to better support seniors facing rising costs; and by increasing minimum benefits further above the poverty line.



Instituting a child allowance, that could effectively cut child poverty in half.

This could be achieved with \$80 billion in investments per year.

With nearly 10 million children living in poverty in the United States, an investment in a child allowance would have enormous impacts on child wellbeing.⁵³



The nation's crumbling infrastructure could be revived

with \$150 billion annually in new infrastructure spending, over the next decade.

Critically, this spending would almost close the \$2 trillion "infrastructure deficit" estimated by the American Society of Civil Engineers that currently threatens our roads, bridges, drinking water, and other public infrastructure.⁵⁴

The trade-off data is clear: the TCJA's billion-dollar giveaways to wealthy individuals and corporations would be much better spent on the nation's children, seniors, and public infrastructure. With comparatively modest investments in the social safety net, we could eradicate child poverty, support vulnerable senior citizens, and build the nation's climate resilience through critical infrastructure investments.

Conclusion

In the lead up to the TCJA passage, President Trump said, “The people I care most about are the middle-income people in this country, who have gotten screwed.” He vowed to lower taxes for middle-income people and that any increases would affect high-income earners.⁵⁵ This report’s findings put in stark relief who the TCJA really benefits. The largest overhaul of the tax system in the last 30 years enacted sweeping changes to benefit corporations and wealthy individuals while the interests and priorities of working families were ignored. In the two years since the TCJA’s passage, corporate tax revenues have plummeted. Despite predictions from President Trump that worker’s wages and business investments would skyrocket, the data featured in this report tell a different story. The TCJA failed to boost American workers’ wages and deliver broad prosperity for low-income communities or communities of color. At the same time, stock buybacks that enrich wealthy investors soared to record highs while the so-called “small business tax” has disproportionately benefited millionaires.



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