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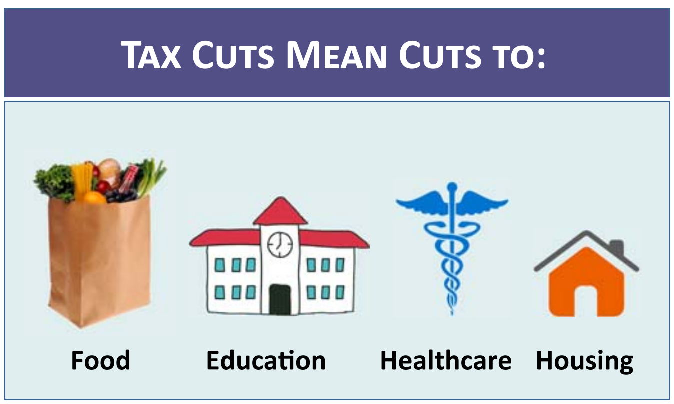
Most Michiganians Won't Benefit from Federal Tax Reform

Lawmakers in Washington are pushing through tax cuts for profitable corporations and wealthy Americans that will hardly give anything back to working families. Instead, the plan will jeopardize the things that Michigan residents need the most—housing, food, education and infrastructure.

THE BASICS

Unpaid-for tax cuts. The federal budget that was approved allows Congress to massively cut taxes without paying for them, significantly increasing our deficit. If alternative revenues are not provided, or if an equal amount of harmful cuts is not produced, our deficit will grow by $1.5 trillion in 10 years under the guidelines.



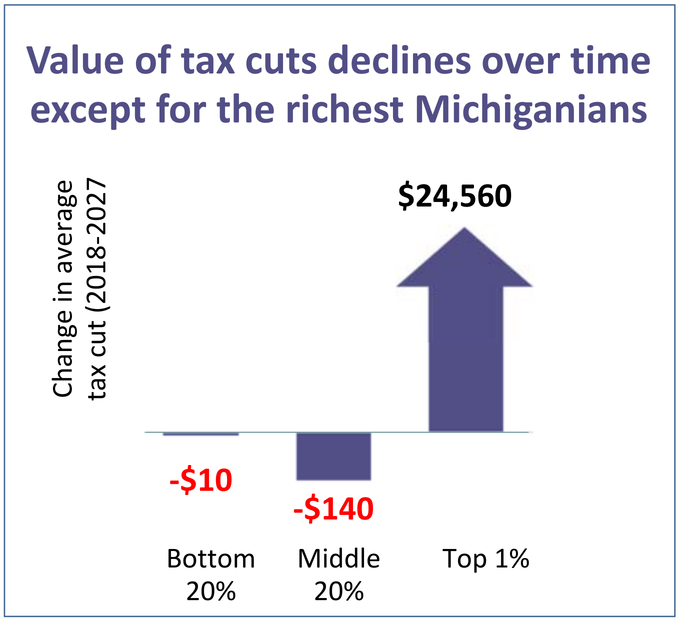
Cuts to services will harm us all. Even though the budget does not mandate specific cuts to help offset revenue losses from tax reform, as the deficit increases, lawmakers will be under more pressure to right-size the budget. This will likely trigger cuts in the things Michigan residents rely on—healthcare, basic needs assistance, education, college financial aid, housing assistance, infrastructure and more.

NOT MUCH FOR WORKING FAMILIES

No one really pays the estate tax. Currently, only about 2 in every 1,000 estates (the top 0.2% of estates) pay an estate tax. This is because the law exempts the first $5.49 million ($10.98 million for married filing jointly) from the estate tax. This year, only about 5,200 out of 2.7 million estates nationally are expected to pay the tax; of those, only about 80 will be small farms or business estates.

Bad tradeoff hinders state and local governments' ability to raise needed revenues. Michigan residents could lose their deduction for state sales, income and/or property taxes. This change is misleading, because on the surface an elimination of the state and local tax deduction would help progressivity in our federal tax code. But this framework uses the elimination to at least partially pay for rate cuts that heavily benefit the wealthiest taxpayers. Additionally, this would make it harder for states and local governments to raise or maintain revenue for necessary services, such as infrastructure and education, as taxpayers would be less likely to support funding for current services.

Working family tax credits aren't enhanced enough. The expansion of the Child Tax Credit (CTC) will likely not help those who need it most because the expanded credit is nonrefundable. Instead, much of the increased benefit would be felt by families making six-figure incomes who are currently marginally eligible or ineligible for the credit. Recent analysis estimates that about 10 million American children in families with low incomes would be left out of the increase. Additionally, other provisions in the proposal could negate some of the benefits felt through a CTC expansion. No increase or expansion of the federal Earned Income Tax Credit (EITC), with its proven positive impact on the lives of kids in poverty, has been proposed. For example, recent proposals to strengthen the EITC for workers not raising children in their homes would help up to 15 million more families working in jobs with low wages.



Source: Institute on Taxation and Economic Policy

BIG CORPORATE TAX CUTS

Pass-through tax rate would not help many small businesses but would encourage tax avoidance. Most small businesses that are set up as pass-through entities, such as partnerships, are already taxed at a rate of 25% or lower. Instead, having a lower pass-through entity rate would simply encourage high-income individuals to reclassify their income as business income to benefit from the lower rate.

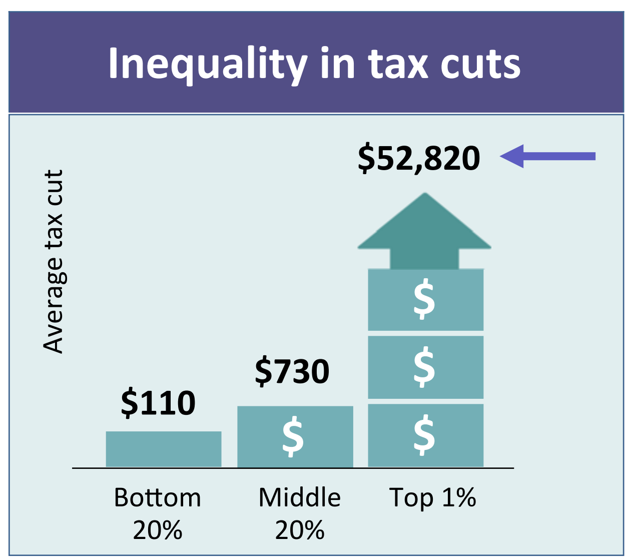
Trickle down does not work (don't expect a huge raise from corporate tax cuts.) Cutting the corporate tax rate from 35% to 20% will not help workers as much as plan proponents say it will. Most research shows that only a quarter or less of corporate taxes fall on workers. Instead, corporate tax cuts will give huge payouts to high-income investors and those at the top, while leaving little for employees, especially those working low-wage jobs.

Tax cuts don't create jobs. Taxes are only one factor when a company looks at whether to move or expand. We saw this play out in Kansas over the past five years. Huge tax cuts expected to boost the economy never produced the promised effects. Instead, Kansas' job and economic growth has lagged behind much of the rest of the nation. What's worse is that the resulting revenue loss from the tax cuts caused huge cuts in the things Kansans needed the most; school funding was cut to the point where some schools had to close early and the state went from being able to maintain its roads every nine years to every 50 years.

WHAT'S THIS MEAN FOR MICHIGANIANS?

Massive tax cuts for the top 1% and not much for the rest of us. Based on an analysis of the current Republican tax plan, Michigan taxpayers among the richest 1%—those making $500,760 or more a year—would see an average tax cut of $52,820. On the other hand, Michigan families making less than $22,870 would see an average cut of $110. Middle-class Michiganians would see $730 in tax benefits.

Over the next 10 years, the value of the tax cut would decline for every income group except for the very richest. While the richest would see their tax benefit grow by $24,560, middle-income Michiganians could see their tax cut shrink by $140. This is due to tax cuts for the wealthiest phasing in over time as tax cuts for everyone else expire. In fact, some taxpayers in all income levels could see tax increases. In the end, taxpayers with low-to moderate incomes pay for tax cuts for high income earners.



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