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European Languages

زبانهای اروپایی

FEBRUARY 28, 2018

by PETER BOHMER  
29.02.2018

## Trump's Tax Scam



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The December 2017 tax reform legislation, The Tax Cuts and Jobs Act (TCJA) will cut taxes for the wealthy and corporations and their stockholders, will raise health care premiums, further endanger the Arctic National Wildlife Reserve and the environment, and it will lead to further cuts for flawed but still important social and public welfare programs such as Medicaid, Medicare, food stamps, Pell grants, etc. unless we build active resistance to these cuts and movements that go beyond demanding that we maintain the status quo.

[www.afgazad.com](http://www.afgazad.com)

[afgazad@gmail.com](mailto:afgazad@gmail.com)

## Recent History of Tax Reform

For forty years, income and wealth in the United States has been growing more unequal. The top 1% takes about 20% of all income, which is double their share from 40 year ago. The poorest 20% of the population earns about 3% of all income— 120 times less per household. Why is this the case? The growing power of capitalists, growth of global capitalism, weaker unions, automation, and the fall in real minimum wage have constituted a one-sided class war.

Federal income taxes have made incomes somewhat more equal, as those with higher incomes are taxed at higher effective rates than those with lower incomes. However, changes in federal tax laws under Reagan, George W. Bush and now Trump have made federal taxes less and less progressive by primarily cutting taxes on high-income people. The highest rate of taxation went from 90% before Kennedy to 70% before Reagan to below 40% today. WA State taxes also are among most regressive, meaning lower income people pay a higher proportion of income in taxes.

### **Key Aspects of Trump's Tax Legislation**

#### *A. Reductions in Federal Income Tax Rates*

In 2017, households with incomes paid a 39.6% rate in federal income taxes on incomes over \$480,000. Under the new tax plan, all incomes over \$600,000 will be taxed at a 37% rate and incomes from \$480,00 to \$600,000 will be taxed at 35%, 4.6 percentage points less than the old rate. While all income levels will experience slight reductions in tax rates those with the highest incomes will benefit the most. In addition, there will be no reduction in social security taxes, which are higher for the majority of families than the income taxes they pay.

Additionally, under the new tax plan, standard deductions— income that is exempted from taxation if expenses aren't itemized—will be doubled. In terms of equity, this is a good thing because most who itemize their deductions have higher incomes. However, the TCJA will hurt larger families because larger families previously got an exemption of income for each family member and this was ended.

There will be limits on how much mortgage interest and taxes one can subtract if one itemizes expenses. Now one only deduct interest on up to \$750,000 of one's mortgage, rather than the interest payments on a million dollars. Also one is now limited to \$10,000 in state, local and property taxes that one can deduct—this will slightly further equality as this deduction mainly benefits the top 10% or possibly the top 20% of the income distribution who live in places with high housing costs.

From 2018 to 2027, when the Tax Cuts and Jobs Act is set to expire, the tax cuts in the Act are expected to reduce overall tax revenues by around \$440 billion dollars only about 30% of the total loss in revenue of this legislation.

#### *B. Changes to Affordable Care Act*

In his State of the Union address on January 30th, Trump talked of “eliminating an especially cruel tax that fell mostly on Americans making less than \$50,000 a year.” He was referring to Obamacare (officially the Affordable Care Act) under which people had to get health insurance or pay a penalty, the individual mandate. Now, beginning in 2019, health insurance no longer is required because the Tax Cuts and Jobs Act eliminated the individual mandate of the Affordable Care Act. With the elimination of the individual mandate, healthier people are more likely to opt out of getting health insurance until they need it, leaving the insured more likely to need expensive medical care thus raising insurance rates. This large increase in health insurance rates will lead to fewer and fewer people getting health insurance due to increasing premiums— a vicious spiral of higher premiums and fewer people covered. Rates are expected to rise more than 10% or more the first year, more than \$1000 per year. The Congressional Budget Office estimates that the number of uninsured Americans will rise from 37 million to 50 million people by 2027. The federal government is also expected to save \$340 billion between 2019 and 2027 because fewer people will receive healthcare subsidies, as they no longer sign up for government healthcare. The human cost will be increased illness, suffering and more deaths.

#### *C. Estate Tax*

Under the Tax Cuts and Jobs Act (TCJA), estate tax exemptions will double, meaning that the first \$11 million dollars an individual leaves in their will and the first \$22 million dollars a couple leaves in their estate, will be exempt from estate taxes. Only 0.1% of all estates will now pay this tax. It will lead to \$83 billion in savings for the super wealthy over the next ten years and \$83 billion less in government revenue from the situation before this bill.

#### *D. Corporate and Business Taxes*

One of the most dramatic aspects of Trump’s new tax plan is the slashing of corporate income tax rates from 35% to 21%. The extra profits gained from this cut will mainly go to increased dividends and likely increase prices of stocks. Because the richest 1% of the population owns 40% of all stock and 80% of the population owns only 7% of all stock, this cut will make income and wealth even more unequal. Also, what Trump calls “small

businesses”— corporations not traded on the stock exchange and businesses owned by a few people— called pass-through entities, will also see their tax rates decrease from 39.7% to 29.6%. 70% of this income goes to the 1%.

U.S. corporations will also have reduced taxes on income made abroad, which will further incentivize U.S. corporations to invest abroad, increasing the “capital flight” Trump promised to limit in his campaign.

#### The Hoax of Trickle-Down Economics

Trump and congressional Republicans claim that the new tax plan will “create jobs, raise wages, and help small businesses.” Their argument is that lower corporate taxes will increase after-tax profits of businesses, which will then lead to investments in plant, equipment and research that will increase productivity of workers and raise wages. Such ideas are often referred to as “trickle-down economics” because they argue that the benefits of tax cuts for the wealthiest businesses and individuals will eventually “trickle down” to the workers they employ. The philosophy of trickle-down economics ignores the fact that since 2011, business profits have increased but very few of these profits have been invested in new equipment, plants or in workers, and wages haven’t increased. Rather, increased profits have been used to award higher and higher salaries and bonuses to top executives.

Since the 1970’s, productivity and output per worker has increased steadily but very small increases in average wages after inflation have occurred. Trickle-down economics has historically proved to be nothing but a cruel hoax.

#### **Starve the Beast!**

President Ronald Reagan passed a similar tax cut in 1981 and again in 1986. He claimed publicly that, with these cuts, people would work more and earn more and those tax revenues therefore wouldn’t fall and the budget deficit wouldn’t increase even with lower tax rates, primarily lowered for the highest income households. David Stockman, Reagan’s budget director, later admitted in many interviews that these tax cuts were a Trojan Horse to gut social spending and social programs for poor and working-class people, to “starve the beast”. Such an agenda is less hidden under Trump and Paul Ryan. When tax cuts inevitably lead to a budget deficit, it will be easier to cut and/or privatize Social Security, Medicaid, Medicare, Food Stamps, Pell grants, Low Income Energy Assistance, Housing programs, the budget of the EPA, OSHA and other regulatory agencies. This is the primary reason for this tax cut, to use the increased government deficit to justify cutting government programs that further the public good.

Trump's budget proposals of February 12, 2018, which bear the influence of House Speaker, Paul Ryan, Trump's Budget Director, Mick Mulvaney, and the Koch Brothers, are a wish list for the right-wing. They have not been enacted and hopefully won't be but are truly dangerous to the planet and everyone but the rich. Large increases are proposed for the military budget and Homeland Security. The Trump budget proposes to cut Food Stamps (SNAP) by 27%, the Section 8 housing assistance program for low-income people by 20%, end the low-income energy assistance program, and cut Medicare by \$270 billion dollars with similar cuts to Medicaid. Trump proposes to cut the budget of the EPA by 34%. While cutting funds for education, it proposes increased funds for vouchers and other aid to private schools. In addition, it proposes to expand work requirements for most programs for low-income people such as Medicaid. This tax scam and proposed budget are truly Robin Hood in reverse, to take it from the needy and give it all to the greedy.

### **False Promises!**

Trump, in his State of the Union Speech of January 30, 2018, claimed that this tax cut was already resulting in large bonuses and wage increases for workers—another lie. According to the research group, “Just Capital”, in an analysis of the 90 largest corporations, they estimated only 6% of the tax savings of these corporations of \$45 billion this year would go as bonuses or increased wages for their employees, with over ½ of this going to one time bonuses. This huge corporate tax break is a projected bonus of over \$900 billion to Corporate America over the next nine years. Unlike the individual tax cuts, the corporate tax cuts are permanent and do not have to be renewed although they could be overturned by a future Congress and President.

What will increase wages and benefits for working people is not this latest version of trickle-down economics but rather the organized power of workers and their increased bargaining power gained through strikes, rebuilding the labor movement, winning \$15 or more an hour nationally, winning an above poverty level universal basic income, reducing capital flight and ending right-wing economic policies.

### **What Is To Be Done?**

If we are to resist Trump's tax plan, we mustn't settle for the old status quo or a lesser evil. It doesn't inspire people. Rather, we must organize for what we want. For example, we must think beyond protecting the Affordable Care Act and instead demand quality and accessible health care for all including all immigrants. On a local level, we can support organizing efforts for a progressive income tax and or a tax on wealth for Olympia, Thurston County and Washington State. Additionally, our organizing efforts must connect

income and wealth equality with environmental and immigrant justice, racial and gender justice, anti-militarism and anti-imperialism. They are all closely linked. Let us connect the dots.

I suggest we consider developing from the bottom up and using popular education methods a campaign for 2018 and beyond for a People's Budget. It should include a tax proposal that reduces taxes for low and middle-income people, and raises taxes substantially for high-income people. These real tax reforms could finance a People's Budget that together with major cuts in military spending, in the national security state including Homeland Security, could finance major increases in public spending for alternate energy, and for social spending to end poverty and to improve the quality of life. It could be coordinated nationally and demand that any political candidate we consider supporting in 2018, publicly support this democratically developed People's Budget. Similar to taxes, let us demand a government budget that goes beyond preserving the current one, and develop a program of progressive taxes and a people's budget as a step towards a longer run transformation to a participatory socialist society.

*Originally presented as a talk in Olympia, WA. Edited for publication by Kelly Miller.*