"What to Do About Trump's Tax Cuts," Divided We Fall

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The Tax Cuts and Jobs Act of 2017

One of President Joe Biden's core campaign promises was to roll back the Tax Cuts and Jobs Act of 2017 (TCJA) passed during the Trump Administration. Biden and other Democrats have criticized the law as a tax giveaway for rich households and corporations, ballooning the national deficit. To replace the TCJA, Biden would increase the corporate income tax rate from 21 percent to 28 percent, and the federal income tax rate to 39.8 percent for those making at least $400,000. He has also proposed new taxes on corporate profits, capital gains, payroll, and estate distributions.

While congressional Democrats now have the majorities needed to repeal the TCJA, doing so would only worsen the economic hardships of Americans who are out of work due to the pandemic, including Black and Hispanic Americans who historically lack access to capital. Instead, Biden and Congress should delay implementing any tax hikes until the pandemic has subsided. Then, Congress should reform the TCJA to limit corporations' use of their savings under the tax cuts to restrict stock buybacks in favor of reinvestment or increased dividend distributions.

Tax Cuts and Savings: Who Saved More?

The TCJA created savings for Americans in every tax bracket, with a skew towards higher income earners who generally pay more taxes to begin with. By 2025, after-tax incomes under the TCJA are expected to increase accordingly for each of the following income earners:

- "The Top 1%": 2.1 percent increase;
- Top Fifth: 1.8 percent increase;
- Fourth Fifth: 1.4 percent increase;
- Middle fifth: 1.3 percent increase;

- Second fifth: 1 percent increase;
- Bottom fifth: 0.7 percent increase.

The TCJA also fueled the country's economic growth, bringing unemployment rates to historic lows (prior to COVID-19). A 2019 study by the Federal Reserve Bank of Dallas found that the TCJA "likely boosted GDP growth by 0.8 percentage points and job growth by roughly 0.24 percentage points in 2018." This is due to the TCJA's changes to the U.S. tax code which encourages companies to invest and create jobs in America rather than overseas.

All of this economic momentum stalled thanks to the COVID-19 pandemic, which has put millions of Americans out of work, causing millions to fall behind on their housing payments, and many to go hungry. A necessary yet painful factor in the economic slump were state and local stay-at-home orders which forced many businesses to either furlough or lay off their workers. According to the Congressional Research Service (CRS), "in April [2020], every state and the District of Columbia reached unemployment rates greater than their highest unemployment rates during the Great Recession."

Unemployment: The Hardest Hit

The pandemic put Americans out of work across multiple industries, not just those providing in-person services. The CRS reports that while the leisure and hospitality industries experienced the highest unemployment rates last year, mining and extraction workers suffered the second highest rate of 13.1 percent as recently as last December. Although the overall unemployment rate has since improved, the Department of Labor continues to report new unemployment insurance claims following the holiday surge in new coronavirus cases. What's more, the rate of permanent lay-offs has exceeded that of temporary furloughs, and the Congressional Budget Office and Federal Reserve both estimate that the unemployment rate will exceed 6 percent over the next three years.

Americans of color have suffered the brunt of this economic downturn. In April 2020, the unemployment rates among Black and Hispanic Americans were 16.7 percent and 18.9 percent, respectively. While those rates have since declined, they still exceed those of other racial and ethnic populations. This tracks a much larger and sadder reality that consumers of color historically lack access to capital to seize important opportunities such as securing or refinancing a mortgage.

Americans from every corner of the country are suffering, as the numbers make clear. Increasing taxes now—however slight—would be detrimental to their economic wellbeing which is already fragile due to the surging pandemic.

Biden's Challenges

It also makes little practical sense for the Administration to push for tax reform due to new challenges which could prolong the economic crisis. First, President

Biden's campaign to administer 100 million vaccines in 100 days has been stymied by a rocky transition and newly reported mutations of the coronavirus. Experts say that because new virus strains could reduce the efficacy of the current vaccines, the more people who forgo getting vaccinated will allow the virus to further spread and mutate. The Administration should put the full force of the federal government behind ending addressing these new threats before pushing for new policies which could rattle an already fragile economy.

Second, President Biden will need to contend with an evenly-split Senate which must confirm his Cabinet nominees, consider his ambitious legislative proposals, and hold an impeachment trial for former President Donald Trump—all at the same time. Biden's $1.9 trillion COVID-19 relief package is already meeting pushback from Senators on both sides of the aisle over the large price tag. Biden aides have since proposed splitting the package into two parts which would reduce the amount of economic relief that families and state and local governments could receive to cope with the pandemic. With a Senate majority lacking time and a unified voting bloc, Biden should save as much political capital as he has and shelve a potentially divisive tax overhaul if he hopes to quickly deliver economic relief.

Biden understands that Americans are suffering because of the economic fallout. Upon taking office, the President quickly signed several executive orders delaying evictions and student loan repayments for those struggling to make ends meet. Biden must now decide if this economic prudence should also apply to our taxes, as I believe it should. Even Biden's Treasury Secretary Janet Yellen conceded that rolling back the TCJA now would do more harm than good.

Tax Cuts and the Road Ahead

However, when the pandemic is behind us, Congress should reform the TCJA to reverse an inadvertent consequence of the tax law—surging corporate stock buybacks. Corporations often buy back their own shares, typically under good economic conditions, to make the stock more valuable and enable their executives to exercise their stock options when the stock hits the right price. These buybacks are typically funded by taking on new debt, which reduces corporations' liquidity to weather economic downturns and limits internal growth.

But the TCJA's corporate tax cuts created stock buybacks on steroids, thanks to corporations' reduced tax burden limiting the need to take on new debt. According to the Harvard Business Review, "in 2018 alone, with corporate profits bolstered by the [TCJA], companies in the S&P 500 Index did a combined $806 billion in buybacks, about $200 billion more than the previous record set in 2007." However, the government's loss of tax revenue under the TCJA caused the national deficit to balloon, shifting corporations' savings onto taxpayers as debt. Exposing households to these debt burdens makes them more vulnerable in weaker economies like the one we're in now. Congress should reform the TCJA to ban stock buy backs to fortify our economy and require corporations to either reinvest their tax savings or distribute them as dividends.

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