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TPC's Recent Analysis of the Republican Tax Reform Framework is Biased and Incomplete

Efforts to Analyze the Republican Tax Reform Framework Fail to Use Appropriate Dynamic Scoring and Assume Key Policy Details

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Since President Trump and Republicans in the House and Senate released their joint tax reform framework last month, many have rushed to judge the plan. While this plan is an excellent first step, it is still just a framework that will further be developed by the Committees of jurisdiction, as noted in the document. The next step in the process is to move through regular order:

> "This unified framework serves as a template for the tax-writing committees that will develop legislation through a transparent and inclusive committee process."

Despite this, some have decided to prematurely analyze the tax framework using their own assumptions. Exhibit A amongst these biased analyses is the study published by the Tax Policy Center, a joint project of the left-leaning Urban Institute and Brookings Institution.[1]

This study fails to take into account numerous issues.

First, it does not take into account any dynamic macroeconomic effects of the tax changes. Instead, it analyzes tax changes solely on the static revenue lost or gained as if every tax cut or tax increase is the same and has no effect on behavior.

Second, it assumes numerous details that have not been decided yet. The framework did not include the income ranges for the individual brackets or the size of the expanded child tax credit. Both of these will be decided by Committees of jurisdiction. The Tax Policy Center study included income ranges and the size of the credit despite this.

Dynamic Scoring is Key to Any Realistic Analysis of The Tax Reform Framework

The analysis conducted by the Tax Policy Center fails to use dynamic scoring to analyze the benefits of the plan. Instead, it uses static scoring to downplay the positive economic effects of the plan. Realistic scoring of tax proposals must use dynamic scoring for several reasons, as outlined by the Tax Foundation. [2]

First, static scoring does not take into account the changes to the economy and specifically economic growth that a tax change might cause. With dynamic scoring, however, representatives can understand the real benefits and costs of a tax change proposal. Dynamic scoring, therefore, is simply more accurate scoring.

A high tax rate will discourage some people from working as much because if the government is taking away most of the money from an additional hour that they'll work, it won't be worth it to work. However, if the government only takes a small percentage, more people will choose to work to i.e. save up for a vacation or their child's college tuition. Dynamic scoring reflects these behavioral changes, while static scoring does not.

Second, many tax changes made in the GOP framework are designed to promote economic growth. Because this is the goal, lawmakers need to understand how the change will affect economic growth. Static scoring does not show economic growth. It assumes that the gross domestic product will remain the same.

The Unified Framework is a plan to grow the economy and increase the number of jobs. In fact, economic growth is one of President Trump's goals for tax reform. Using static scoring makes it impossible for policy analysts to determine how much economic growth and how many jobs this framework will create.

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[1] "A Preliminary Analysis of the Unified Framework." Tax Policy Center. September 29, 2017. Accessed October 05, 2017. http://www.taxpolicycenter.org/publications/preliminary-analysis-unified-framework.

[2] Aisyah, Dita. "Four Reasons Why We Need Dynamic Scoring." Tax Foundation. August 5, 2015. Accessed October 05, 2017. https://taxfoundation.org/four-reasons-why-we-need-dynamic-scoring/.

Finally, static scoring does not show all the benefits of tax cuts. It downplays how much additional money the Treasury will see from economic growth due to the tax cuts. Therefore, the Congressional Budget Office's (CBO) estimates were often very far off from reality before the office started using dynamic scoring. Despite how far off the estimates were, the analysis by the CBO and JCT did determine whether a tax change passed.

Due to these reasons, Congress passed the Pro-Growth Budgeting Act of 2013, requiring the CBO and the JCT to use dynamic scoring. However, both the CBO and the JCT do not use as robust scoring as they should.

An example of how their scoring isn't robust enough is one provided in Curtis Dubay's 2015 Heritage article, "JCT Dynamic Score of Bonus Depreciation: Highly Flawed."[3] His example was bonus depreciation, a policy that allows businesses to deduct 50 percent of their investments in the year that they purchased them. The Joint Committee on Taxation (JCT) said this policy would only grow the size of the economy by .2 percent over ten years using dynamic scoring, while the Tax Foundation argued that the economy would grow by 1.1 percent over ten years.

Despite this flaw, the scoring by the CBO and JCT is more accurate than if they used static scoring.

While there are clear reasons for using dynamic scoring, the Tax Policy Center surprisingly examined the effects of the Congressional Republican's proposal, the "Unified Framework for Fixing Our Broken Tax Code" using static scoring. The Center now claims that the framework would reduce federal revenue by $2.4 trillion over ten years. In addition, those with the largest income would see the biggest tax cuts, and some would experience a tax increase under this plan.

The United States has historically seen large economic growth after tax cuts, and economic growth is one of the main purposes for this tax cut. If you think that there isn't going to be growth after a tax cut and the taxes have been reduced, it is not a surprise that federal revenue decreases and deficits increase. The *Wall Street Journal* pointed this out in a recent article and predicts that if GDP growth increases to 3% a year with this tax cut, the Treasury would see an additional $2.5 trillion.[4]

Efforts to Attribute Distributional Effects to the Framework Are Premature

As the framework notes, specific details, such as the income threshold for the consolidated tax brackets, will be developed by the House Ways and Means and Senate Finance Committees. Given this, any detailed modeling including distributional tables is premature and based on assumptions on details that have yet to be decided.

Despite this, the report by the Tax Policy Center conducted a detailed analysis of the changes to the framework, based on their own assumptions they claim that there would be little to no benefit for many Americans.

[3] Dubay, Curtis. "JCT Dynamic Score of Bonus Depreciation: Highly Flawed." The Heritage Foundation. November 3, 2015. Accessed October 05, 2017. http://www.heritage.org/taxes/report/jct-dynamic-score-bonus-depreciation-highly-flawed.
[4] The Editorial Board. "Tax Policy Center Propaganda." The Wall Street Journal. October 01, 2017. Accessed October 05, 2017. https://www.wsj.com/articles/tax-policy-center-propaganda-1506889612.

These conclusions are very different from those reached by the Tax Foundation. Tax Foundation Senior Analyst Scott Greenberg explained in an article, "What Would the "Big Six" Framework Mean for Lower-Middle Income Households?" how the plan would affect lower-middle income households.[5]

Greenberg says that the GOP individual tax proposal would reduce federal revenue by $209 billion on a static basis. The plan would benefit taxpayers in the 20% to 80% income group most, while the highest earners would pay more in taxes due to the elimination of most itemized deductions. The bottom 20% would gain from the increased standard deduction and child tax credit.

Similarly, Ryan Ellis, Senior Tax Advisor for the Family Business Coalition, found that the TPC was understating the benefits of the tax reform framework. In a recent *Forbes* column, he describes three typical scenarios.[6] All three median scenarios will allow the individuals or families to invest in the economy, instead of "investing" in poorly performing government programs that were created to help politicians stay in power.

His first scenario is a family of four. The family has two children under the age of 14. The family earns the median income for a married couple, $87,000, according to the Census bureau. While the larger standard deduction reduces the family's taxable income substantially, the lack of a personal exemption makes the family's taxable income larger after the deductions have been taken. However, once the child tax credit is accounted for, the family receives a tax cut of $1223. This is a substantial decrease for a family that owes $4560 under the new tax plan.

The second scenario is a single mother with two small children. She earns the median income of a female head of household, $41,000. Once again, her taxable income after only the larger standard deduction has been applied is larger than her taxable income after the current standard deduction and the personal exemption have been applied. This changes again when the larger child tax credit is used. Her tax cut is $498. Under the new plan, she not only doesn't have to pay $258 in taxes, she is given $240 by the federal government.

The final example is that of a single person who earns $36,000. She also benefits from the framework. However, once the larger standard deduction has been used, her taxable income decreases even without the personal exemption. Her taxes decrease from $3,374 to $2,880, and she receives a tax cut of $494.

[5] Greenberg, Scott. "What Would the "Big Six" Framework Mean for Lower-Middle Income Households?" Tax Foundation. September 29, 2017. Accessed October 05, 2017. https://taxfoundation.org/big-six-tax-plan-middle-class/.
[6] Ellis, Ryan. "GOP Tax Framework Is A Pay Raise For Middle Class Families." Forbes. October 03, 2017. Accessed October 05, 2017. https://www.forbes.com/sites/ryanellis/2017/10/02/gop-tax-framework-is-a-pay-raise-for-middle-class-families/#6607e29f5402.