The Trump-Goldman Sachs Tax Cut for the Rich

By Dr. Jack Rasmus
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This past week Trump introduced his long awaited Tax Cut, estimated between $2.0 to $2.4 trillion. Like so many other distortions of the truth, Trump claimed his plan would benefit the middle class, not the rich—the latest in a long litany of lies by this president.

Contradicting Trump, the independent Tax Policy Center has estimated in just the first year half of the $2 trillion plus Trump cuts will go to the wealthiest 1% households that annually earn more than $730,000. That's an immediate income windfall to the wealthiest 1% households of 8.5%, according to the Tax Policy Center. But that's only in the first of ten years the cuts will be in effect. It gets worse over time.

According to the Tax Policy Center,

> "Taxpayers in the top one percent (incomes above $730,000), would receive about 50 percent of the total tax benefit [in 2018]". However, "By 2027, the top one percent would get 80 percent of the plan's tax cuts while the share for middle-income households would drop to about five percent."

By the last year of the cuts, 2027, on average the wealthiest 1% household would realize $207,000, and the even wealthier 0.1% would realize an income gain of $1,022,000.

When confronted with these facts on national TV this past Sunday, Trump's Treasury Secretary, Steve Mnuchin, quickly backtracked and admitted he could not guarantee every middle class family would see a tax cut. Right. That's because 15-17 million (12%) of US taxpaying households in the US will face a tax hike in the first year of the cuts. In the tenth and last year, "one in four middle class families would end up with higher taxes".

The US Economic 'Troika'

The Trump Plan is actually the product of the former Goldman-Sachs investment bankers who have been in charge of Trump's economic policy since he came into office. Steve Mnuchin, the Treasury Secretary, and Gary Cohn, director of Trump's economic council, are the two authors of the Trump tax cuts. They put it together. They are also both former top executives of the global shadow bank called Goldman Sachs. Together with the other key office determining US economic policy, the US central bank, held by yet another ex-Goldman Sachs senior exec, Bill Dudley, president of the New York Federal Reserve bank, the Goldman-Sachs trio of Mnuchin-Cohn-Dudley constitute what might be called the 'US Troika' for domestic economic policy.

The Trump tax proposal is therefore really a big bankers tax plan—authored by bankers, in the interest of bankers and financial investors (like Trump himself), and overwhelmingly favoring the wealthiest 1%.

Given that economic policy under Trump is being driven by bankers, it's not surprising that the CEO of the biggest US banks, Morgan Stanley, admitted just a few months ago that a reduction of the corporate nominal income tax rate from the current 35% nominal rate to a new nominal rate of 20% will provide the bank an immediate windfall gain of 15%-20% in earnings. And that's just the nominal corporate rate cut proposed by Trump. With loopholes, it's no doubt more.

The Trump-Troika's Triple Tax-Cut Trifecta for the 1%

The Trump Troika has indicated it hopes to package up and deliver the trillions of $ to their 1% friends by Christmas 2017. Their gift will consist of three major tax cuts for the rich and their businesses. A Trump-Troika Tax Cut 'Trifecta' of $ trillions.

1.The Corporate Tax Cuts

The first of the three main elements is a big *cut in the corporate income tax nominal rate,* from current 35% to 20%. In addition, there's the elimination of what is called the '*territorial tax'* system, which is just a fancy phrase for ending the fiction of the foreign profits tax. Currently, US multinational corporations hoard a minimum of $2.6 trillion of profits offshore and refuse to pay US taxes on those profits. In other words, Congress and presidents for decades have refused to enforce the foreign profits tax. Now that fiction will be ended by officially eliminating taxes on their profits. They'll only pay taxes on US profits, which will create an even greater incentive for them to shift operations and profits to their offshore subsidiaries. But there's more for the big corporations.

The Trump plan also simultaneously proposes what it calls a '*repatriation tax cut'*. If the big tech, pharma, banks, and energy companies bring back some of their reported $2.6 trillion (an official number which is actually more than that), Congress will require they pay only a 10% tax rate—not the current 35% rate or even Trump's proposed 20%–on that repatriated profits. No doubt the repatriation will be tied to some kind of agreement to invest the money in the US economy. That's how they'll sell it to the American public. But that shell game was played before, in 2004-05, under George W. Bush. The same 'repatriation' deal was then legislated, to return the $700 billion then stuffed away in corporate offshore subsidiaries. About half the $700 billion was brought back, but US corporations did not invest it in jobs in the US as they were supposed to. They used the repatriated profits to buy up their competitors (mergers and acquisitions), to pay out dividends to stockholders, and to buy back their stock to drive equity prices and the stock market to new heights in 2005-07. The current Trump 'territorial tax repeal/repatriation' boondoggle will turn out just the same as it did in 2005.

2. Non-Incorporate Business Tax Cuts

The second big business class tax windfall in the Trump-Goldman Sachs tax giveaway for the rich is the proposal to reduce the top *nominal tax rate for non-corporate businesses*, like proprietorships and partnerships, whose business income (aka profits) is treated like personal income. This is called *the 'pass through business income'* provision.

That’s a Trump tax cut for unincorporated businesses—like doctors, law firms, real estate investment partnerships, etc. 40% of non-corporate income is currently taxed at 39.6% (the top personal income tax rate). Trump proposes to reduce that nominal rate to 25%. So non-incorporate businesses too will get an immediately 14.6% cut, nearly matching the 15% rate cut for corporate businesses.

In the case of both corporate and non-corporate companies we’re talking about ‘nominal’ tax rate cuts of 14.6% and 15%. The ‘effective’ tax rate is what they actually pay in taxes—i.e. after loopholes, after their high paid tax lawyers take a whack at their tax bill, after they cleverly divert their income to their offshore subsidiaries and refuse to pay the foreign profits tax, and after they stuff away whatever they can in offshore tax havens in the Cayman Islands, Switzerland, and a dozen other island nations worldwide.

For example, Apple Corporation alone is hoarding $260 billion in cash at present—95% of which it keeps offshore to avoid paying Uncle Sam taxes. Big multinational companies like Apple, i.e. virtually all the big tech companies, big Pharma corporations, banks and oil companies, pay no more than 12-13% effective tax rates today—not the 35% nominal rate.

Tech, big Pharma, banks and oil companies are the big violators of offshore cash hoarding/tax avoidance schemes. Microsoft’s effective global tax rate last year was only 12%. IBM’s even less, at 10%. The giant drug company, Pfizer paid 18% and the oil company, Chevron 14%. One of the largest US companies in the world, General Electric, paid only 1%. When their nominal rate is reduced to 20% under the Trump plan, they’ll pay even less, likely in the single digits, if that.

Corporations and non-corporate businesses are the institutional conduit for passing income to their capitalist owners and managers. The Trump corporate and business taxes means companies immediately get to keep at least 15% more of their income for themselves—and more in ‘effective’ rate terms. That means they get to distribute to their executives and big stockholders and partners even more than they have in recent years. And in recent years that has been no small sum. For example, just corporate dividend payouts and stock buybacks have totaled more than $1 trillion on average for six years since 2010! A total of more than $6 trillion.

But all that’s only the business tax cut side of the Trump plan. There’s a third major tax cut component of the Trump plan—i.e. major cuts in the Personal Income Tax that accrue overwhelmingly to the richest 1% households.

3. Personal Income Tax Cuts for the 1%

There are multiple measures in the Trump-Troika proposal that benefits the 1% in the form of personal income tax reductions. Corporations and businesses get to keep more income from the business tax cuts, to pass on to their shareholders, investors, and senior managers. The latter then get to keep more of what’s passed through and distributed to them as a result of the personal income tax cuts.

The first personal tax cut boondoggle for the 1% wealthiest households is the Trump proposal to reduce the ‘tax income brackets’ from seven to three. The new brackets would be 35%, 25%, and 12%.

Whenever brackets are reduced, the wealthiest always benefit. The current top bracket, affecting households with a minimum of $418,000 annual income, would be reduced from the current 39.6% to 35%. In the next bracket, those with incomes of 191,000 to 418,000 would see their tax rate (nominal again) cut from 28% to 25%. However, the 25% third bracket would apply to annual incomes as low as $38,000. That's the middle and working class. So households with $38,000 annual incomes would pay the same rate as those with more than $400,000. Tax cuts for the middle class, did Trump say? Only tax rate reductions beginning with those with $191,000 incomes and the real cuts for those over $418,000!

But the cuts in the nominal tax rate for the top 1% to 5% households are only part of the personal income tax windfall for the rich under the Trump plan. The really big tax cuts for the 1% come in the form of the repeal of the Inheritance Tax and the Alternative Minimum Tax, as well as Trump's allowing the 'carried interest' tax loophole for financial speculators like hedge fund managers and private equity CEOs to continue.

The current Inheritance Tax applies only to those with estates of $11 million or more, about 0.2 of all the taxpaying households. So its repeal is clearly a windfall for the super rich. The Alternative Minimum Tax is designed to ensure the super rich pay something, after they manipulate the tax loopholes, shelter their income offshore in tax havens, or simply engage in tax fraud by various other means. Now that's gone as well under the Trump plan. 'Carried interest', a loophole, allows big finance speculators, like hedge fund managers, to avoid paying the corporate tax rate altogether, and pay a maximum of 20% on their hundreds of millions and sometimes billions of dollars of income every year.

Who Pays?

As previously noted, folks with $91,000 a year annual income get no tax rate cuts. They still will pay the 25%. And since that is what's called 'earned' (wage and salary) income, they don't get the loopholes to manipulate, like those with 'capital incomes' (dividends, capital gains, rents, interest, etc.). What they get is called deductions. But under the Trump plan, the deductions for state and local taxes, for state sales taxes, and apparently for excess medical costs will all disappear. The cost of that to middle and working class households is estimated at $1 trillion over the decade.

Trump claims the standard deduction will be doubled, and that will benefit the middle class. But estimates reveal that a middle class family with two kids will see their standard deduction reduced from $28,900 to $24,000. But I guess that's just 'Trump math'.

The general US taxpayer will also pay for the trillions of dollars that will be redistributed to the 1% and their companies. It's estimated the federal government deficit will increase by $2.4 trillion over the decade as a result of the Trump plan. Republicans in Congress have railed over the deficits and federal debt, now at $20 trillion, for years. But they are conspicuously quiet now about adding $2.4 trillion more—so long as it the result of tax giveaways to themselves, their 1% friends, and their rich corporate election campaign contributors.

And both wings of the Corporate Party of America—aka Republicans and Democrats—never mention the economic fact that since 2001, 60% of US federal government deficits, and therefore the US debt of $20 trillion, are attributable to tax cuts by George W. Bush and Barack Obama: more than $3.5 trillion under Bush and more than $7 trillion under Obama. (The remaining $10 trillion of the US debt due to war and defense spending, price gouging by the medical industry and big pharma driving up government costs for Medicare, Medicaid, and other government insurance, bailouts of the big banks in 2008-09, and interest payments on the debt).

The 35-Year Neoliberal Tax Offensive

Tax cutting for business classes and the 1% has always been a fundamental element of Neoliberal economic policy ever since the Reagan years (and actually late Jimmy Carter period). Major tax cut legislation occurred in 1981, 1986, and 1997-98 under Clinton. George W. Bush then cut taxes by $3.4 trillion in 2001-04, 80% of which went to the wealthiest households and businesses. He cut taxes another $180 billion in 2008. Obama cut another $300 billion in his 2009 so-called recovery program. When that faltered, it was another $800 billion at year end 2010. He then extended the Bush tax cuts that were scheduled to expire in 2011 two more years. That costs $450 billion each year. And in 2013, cutting a deal with Republicans called the 'fiscal cliff' settlement, he extended the Bush tax cuts of the prior decade for another ten years. That cost a further $5 trillion. Now Trump wants even more. He promised $5 trillion in tax cuts during his election campaign. So the current proposal is only half of what he has in mind perhaps.

Neoliberal tax cutting in the US has also been characterized by the 'tax cut shell game'. The shell game is played several ways.

In the course of major tax cut legislation, the elites and their lobbyists alternate their focus on cutting rates and on correcting tax loopholes. They raise rates but expand loopholes. When the public becomes aware of the outrageous loopholes, they then eliminate some loopholes but simultaneously reduce the tax rates on the rich. When the public complains of too low tax rates for the rich, they raise the rates but quietly expand the loopholes. They play this shell game so the outcome is always a net gain for corporations and the rich.

Since Reagan and the advent of neoliberal tax policy, the corporate income tax share of total US government revenues has fallen from more than 20% to single digits well below 10%. Conversely, the payroll tax has doubled from 22% to more than 40%. A similar shift within the personal income tax, steadily around 40% of government revenues, has also occurred. The wealthy pay less a share of the total and the middle class pays more.   Along the way, token concessions to the very low end of working poor are introduced, to give the appearance of fairness. But the middle class, the $38 to $91,000 nearly 100 million taxpaying households foot the bill for both the 1% and the bottom. This pattern was set in motion under Reagan. His proposed $752 billion in tax cuts in 1981-82 were adjusted in 1986, but the net outcome was more for the rich and their corporations. That pattern has continued under Clinton, Bush, Obama and now proposed under Trump.

To cover the shell game, an overlay of ideology covers up what's going on. There's the false argument that 'tax cuts create jobs', for which there's no empirical evidence. There's the claim US multinational corporations pay a double tax compared to their competitors, when in fact they effectively pay less. There's the lie that if corporate taxes are cut they will automatically invest the savings, when in fact what they do is invest offshore, divert the savings to stock and bond and other financial markets, boost their dividend and stock buybacks, or stuff the savings in their offshore subsidiaries to avoid paying taxes.

All these neoliberal false claims, arguments, and outright lies continue today to justify the Trump-Goldman Sachs tax plan—which is just the latest iteration of neoliberal tax policy and tax offensive in the US. The consequences of the Trump plan, if it is passed, will be the same as the previous tax giveaways to the 1% and their companies: it will redistribute income massively from the middle and working classes to the rich. Income inequality will continue to worsen dramatically. US multinational corporations will begin again to divert profits, and investment, offshore; profits brought back untaxed will result in mergers and acquisitions, dividend payouts, and financial markets investment. No real jobs will be created in the US. The wealthy will continue to pump their savings into financial asset markets, causing further bubbles in stocks, exchange traded funds, bonds, derivatives and the like. The US economy will continue to slow and become more unstable financially. And there will be another financial crash and great recession—or worse. Only this time, the vast majority of US households—i.e. the middle and working classes—will be even worse off and more unable to weather the next economic storm.

Nothing will change so long as the Corporate Party of America is allowed to continue its neoliberal tax giveaways, its tax cutting 'shell games', and is allowed to continue to foment its ideological cover up.

Dr. Rasmus is author of the just published book, 'Central Bankers at the End of Their Ropes?: Monetary Policy and the Coming Depression', Clarity Press, August 2017, and the previously published 'Looting Greece: A New Financial Imperialism Emerges', October 2016, and 'Systemic Fragility in the Global Economy', January 2016, also by Clarity press. More information is available at Claritypress.com/Rasmus. For more analyses on the Trump and neoliberal taxation, listen to Dr. Rasmus's, September 29, 2017 radio show, Alternative Visions, on the Progressive Radio Network at http://alternativevisions.podbean.com. He blogs at jackrasmus.com and his website is http://kyklosproductions.com.

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Articles by: Dr. Jack Rasmus