Perspectives on Income Tax Increases

Name: ______________________________ **Date:** ______________

Perspective 1: Data from meta-analysis of tax studies conducted by the Economic Policy Institute

Recent economic research suggests that past reductions in top marginal individual income tax rates have had a statistically insignificant impact on growth and its driving factors—labor supply, savings, investment, and productivity growth. However, they have discernibly widened structural budget deficits and exacerbated income inequality. The policy implications of this research are that increasing top marginal tax rates can raise substantial sums of revenue and potentially dampen the rise of income inequality without unduly restraining economic growth. Major findings from the economic literature summarized in this paper include:

- The top U.S. income tax rate is currently well below best estimates of the optimal rate for revenue maximization. Recent research implies a revenue-maximizing top effective federal income tax rate of roughly 68.7 percent. This is nearly twice the top 35 percent effective marginal ordinary income tax rate that prevailed at the end of 2012, and 27.5 percentage points higher than the 41.2 percent rate in 2013.
- Analyses of top tax rate changes since World War II show that higher rates have no statistically significant impact on factors driving economic growth—private saving, investment levels, labor participation rates, and labor productivity—nor on overall economic growth rates.
- Historically, decreases in top marginal tax rates have widened inequality of both pre- and post-tax income.
- Political pressure to prematurely reduce near-term budget deficits, and ever-widening income inequality actually strengthens the case for raising top marginal tax rates. There remains substantial scope for further raising top rates toward the revenue-maximizing levels estimated by the best economic research.

Source: Fieldhouse, A. *A review of the economic research on the effects of raising ordinary income tax rates.* Economic Policy Institute, 2013. https://www.epi.org/publication/raising-income-taxes/

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Perspective 2: Summary research from Perspective.com (links to original research in article)

We shouldn't tax the rich more. First, let's define fairness. Fairness means that Americans reap the rewards of their labor, that what they earn inherently belongs to them and not to the government to redistribute as it sees fit, and that the path to prosperity is through hard work and success. Even through a flat tax, under which the rich pay the same tax rate as lower earners, the wealthy will still end up paying more in absolute terms since they have a higher amount of income to tax. But by any reasonable definition, the amount paid by the rich is already beyond their "fair share." For example, in 2015, the top 1 percent earned 16.5 percent of income, but paid a staggering 43.6 percent of federal income tax. Meanwhile, more than 44% of Americans pay no federal income tax at all. Entrepreneurs and business owners should not be penalized for their success.

It makes no economics sense.

Forcing a small slice of Americans to bear an inordinate burden of funding the government is not just immoral but also counterproductive; it kills jobs, and sometimes, even results in lower government revenue. Raising taxes on the rich creates a disincentive for work and job creation, slowing down both. If higher taxes discourage a business from opening or expanding, it is not just the rich who suffer but also the workers who are not hired.

Further, this means that tax hikes often do not have the intended effect of raising more revenue. If high taxes slow down economic growth, the government ends up taxing a smaller amount of money at a higher rate. Sometimes, this means a tax hike leads to lower total revenues, but even in less extreme cases, tax hikes yield diminishing returns.

Source (with hyperlinks to full research articles): thePerspective.com, Updated January 2019. https://www.theperspective.com/debates/businessandtechnology/raise-taxes-rich/

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Perspective on Corporate Tax Increases

Perspective 1: Arguments supporting raising corporate taxes (summarized)

Increasing (or opposing decreasing) corporate tax rates has several advantages:

1. Tax policy has no substantial relationship with economic growth. Although there is some small amount of data relating low-end tax cuts with increased consumer demand, the bigger picture is that individual and corporate tax rates have never strongly correlated with GDP growth rates. Ronald Reagan cut taxes in the 80's, and the economy grew sluggishly. Bill Clinton and George Bush Sr. famously raised them, and the 1990's posted booming economic growth. George Bush Jr. cut them again, and his presidency was marked by multiple downturns. That's not to say tax cuts are irrelevant as far as good policy goes. However, they're only one part of a very complicated system of incentives and demands in our economy.
2. It isn't realistic to expect corporations to spend new money because they're not spending the money they already have. U.S. corporations currently have nearly $2 trillion in assets sitting in bank accounts and portfolios waiting for business opportunities worth spending on. Companies don't invest or expand until there's a reason to do so. Just because a factory exists doesn't mean that customers will show up to buy its products. Corporate tax cuts won't create opportunities or increase the demand that drives business expansion, it will only add to the existing pool of held assets.
3. Bringing money into the United States doesn't work the way tax cut proponents claim…More than a third of the benefits from a corporate rate cut will go to foreign investors, leading billions of dollars to flow out of the economy. The profits from that money will also flow back out of the U.S. economy to the original investors. This will help drive up the value of the dollar (as people need more dollars to invest in the U.S. market, our currency will get more expensive), creating a wider trade gap and hurting exports…The "end of repatriation taxes is not likely to boost investment much," wrote William Gale, Co-Director of the Tax Policy Center, in an e-mail. "Companies with a lot of funds abroad also have a lot of funds here and are already not investing those funds."

Source (with hyperlinks to full research articles): Reed, E. **5 Arguments For And 5 Against Tax Cuts.** The Street.com, 2017. https://www.thestreet.com/slideshow/14396089/1/arguments-for-and-against-tax-cuts.html

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Perspective 2: Arguments against raising corporate taxes (summarized)

Having low corporate taxes is advantageous for several reasons:

1. If economic growth is spurred by business investment, one of the best things that the government can do is get out of the way of that investment. Based on this logic, recent corporate tax cuts passed by House Republicans…make it easier to profit as a private investor. The goal is to encourage companies and individuals to invest their money by increasing the rewards for doing so. Entrepreneurs will, proponents argue, spend more money developing new businesses if they can keep more of the money from doing so. Investors are more likely to give those entrepreneurs and businesses money if they will get to keep more of the profits. As a result, workers across the country will benefit from the jobs and prosperity that come from new firms, studios, factories and other forms of productive enterprise built by this new business activity.
2. Reducing the corporate tax rate will make it far more lucrative to launch a successful business venture, because the company will get to keep more of its own profits. This creates a corresponding incentive, then, for companies to create more business ventures. Companies will expand elastically in response to new profits. They will do so, in part, because the greater profit margins offset greater risks. Although any company could today take out a loan or spend some of its own capital launching a new product or opening a new branch, every venture comes with a certain degree of risk. A company decides to act based on a calculation of capital, risk and reward. By raising the reward through lower taxes, Congress hopes to influence that calculation.
3. By increasing the excess financial capital of businesses, tax cut proponents believe that companies will have more freedom to compete for talent. In addition, they will have the resources to improve training and skill development, raising employees' skills and general competitiveness in the marketplace. Finally, increased activity in the business environment will make the hiring market even tighter than it is right now. All of these forces will work to push average pay up.
4. American companies hold over $2.6 trillion in assets overseas that they could spend in the U.S. They are also eager for foreign investment as a source of potential new money. Reducing domestic taxes on corporate profits makes all of that more likely. By making it cheaper to bring money back into the country ("repatriation"), Washington will encourage companies to do so. With that money, as discussed above, they can increase domestic investment, building new facilities and products on American shores, with American jobs. The same holds true for foreign investment. By making the United States a more lucrative business environment, foreign investors will be more likely to buy into domestic corporations and foreign businesses will be more likely to build here.

Source (with hyperlinks to full research articles): Reed, E. **5 Arguments For And 5 Against Tax Cuts.** The Street.com, 2017. https://www.thestreet.com/slideshow/14396089/1/arguments-for-and-against-tax-cuts.html

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