Voice Of the People
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CITIZEN CABINET INITIATIVE

PROGRAM FOR PUBLIC CONSULTATION
SCHOOL OF PUBLIC POLICY, UNIVERSITY OF MARYLAND

Tax Reform
A Survey of American Voters

November 2017

Methodology

Online Probability Based Panel: Provided by Nielsen Scarborough

Total Sample: 1,750 registered voters

Margin of Error: 2.3%

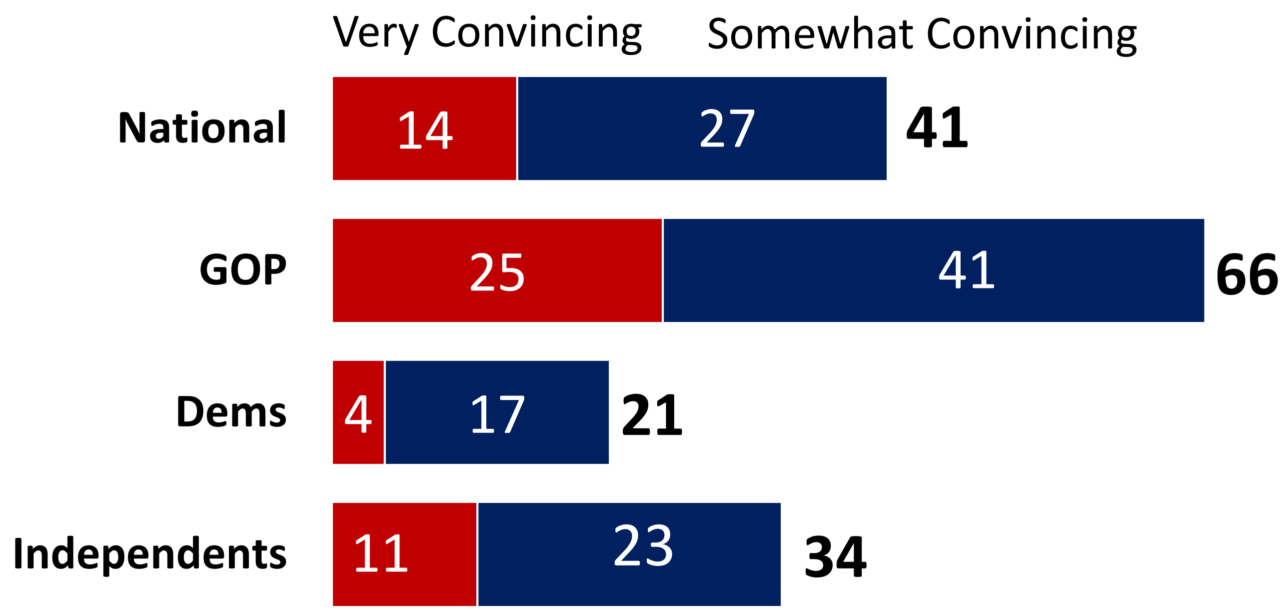
Fielding Dates: November 14-17, 2017

Weighting: By age, income, gender, education, race, and geographic region.

Modifying Income Tax Rates for High-Income Individuals and Middle Class

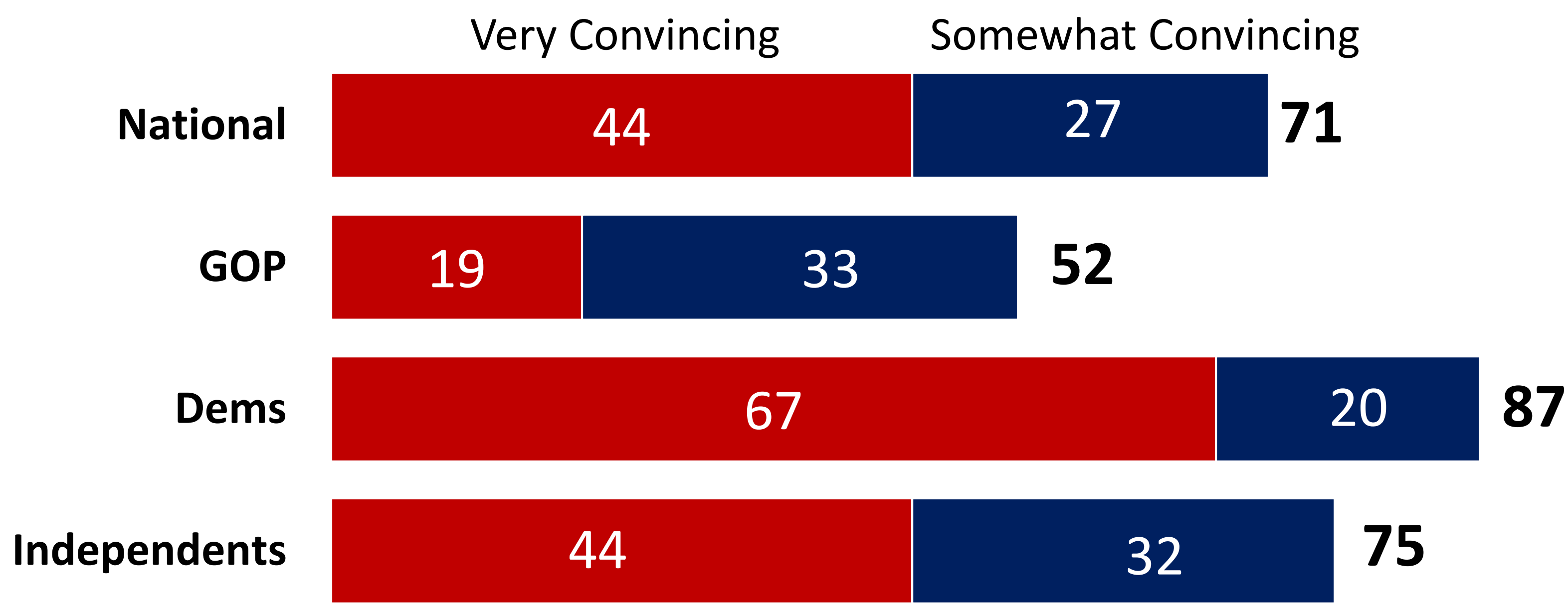
Lowering Income Taxes for High-Income Individuals
- Argument in Favor -

The people at the top already pay a lot more than everyone else. In fact, the top ten percent of earners are paying two-thirds of the amount the federal government collects in income tax. And the top tax rate already went up in 2013. Furthermore, people with high incomes play an important role in the economy. They are the only ones who have enough capital to create new businesses that hire people. We need to give them a break to encourage them to take the necessary risks to invest and create more jobs. If they pay lower taxes, they will have more money to invest in salaries. So everybody benefits.



Increasing Income Taxes for High-Income Individuals
- Argument Against -

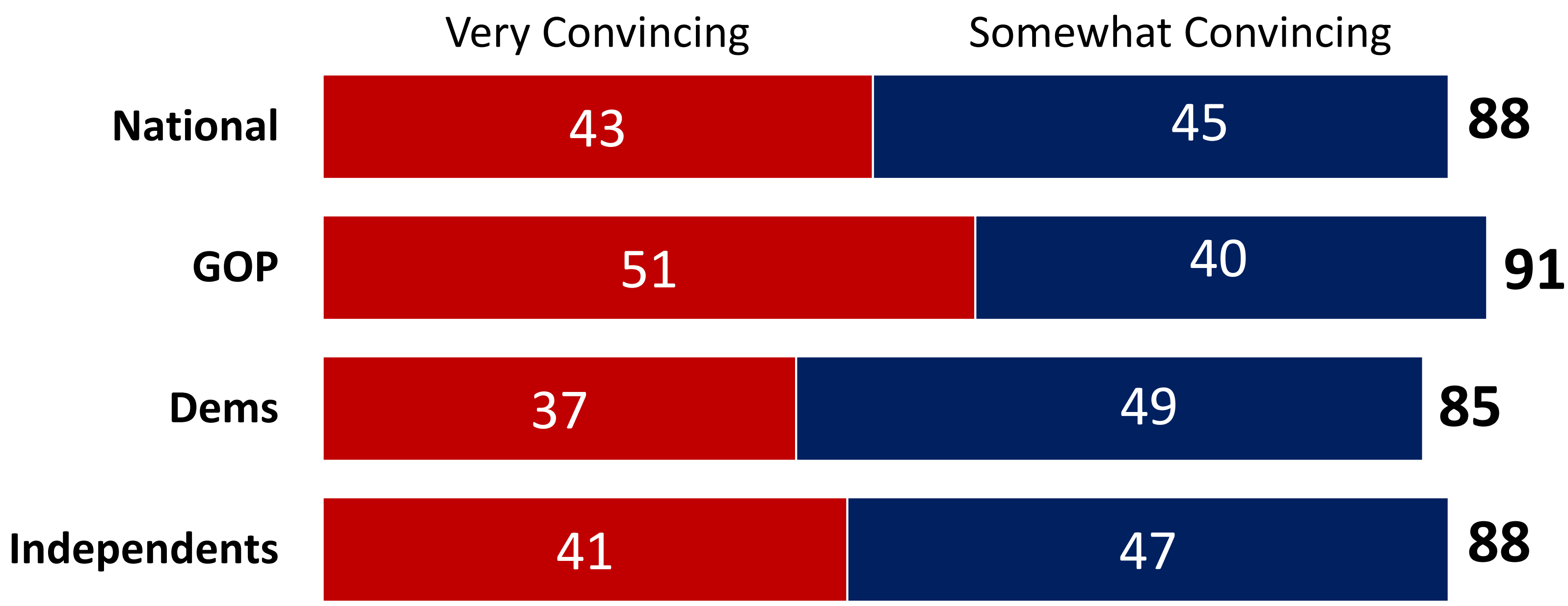
We have heard for decades that tax cuts to the rich will trickle down and help everybody. Taxes for the rich have come down a lot over the last decades and are far lower here than they are in most developed democracies. But while most Americans are working hard and are more productive than ever, their salaries have barely grown at all and our national debt has grown enormously. Meanwhile, the rich have gotten far richer, so that the top 1% now has more wealth than the entire bottom 80%. It's only fair that the rich pay their share by letting their rates rise back to where they have been in the past.



Lowering Income Taxes on the Middle Class

- Argument in Favor -

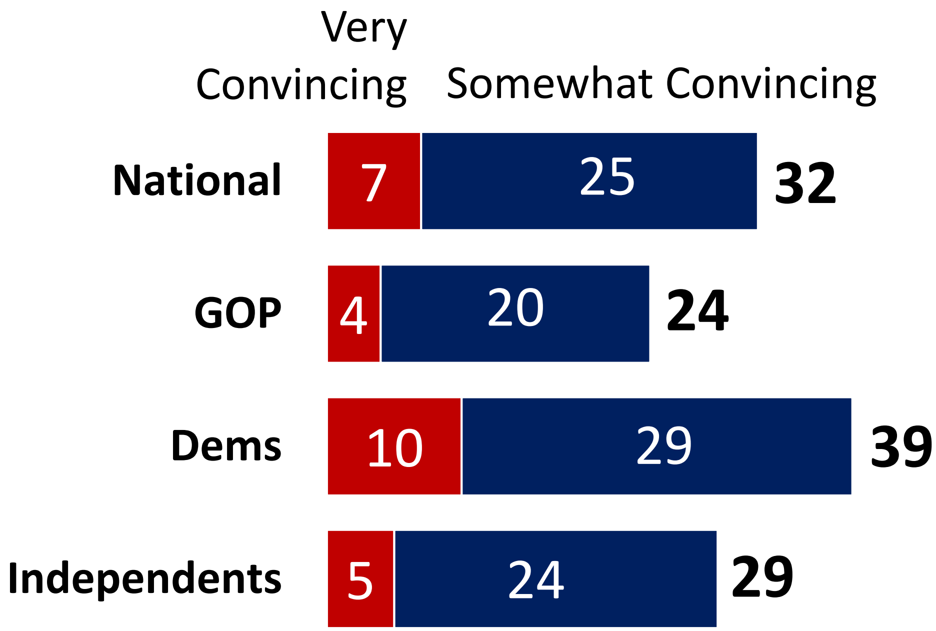
The middle class is still recovering from the financial crisis caused by the risk-taking of the big banks. Overall, the incomes of the middle class have hardly risen at all for the last decades, even as the workforce has become more productive. While middle-income people may pay a lower rate on income taxes than the wealthy, they pay a larger share of their income than the wealthy on other taxes, such as Social Security. It is time for them to get a break on their federal income taxes.



Lowering Income Taxes on the Middle Class

- Argument Against -

All Americans benefit from what the Federal government does, whether it is building highways, protecting the nation, or enforcing laws. So, everyone needs to pitch in. In fact, the middle class pays very little in income taxes. Individuals with incomes under $100,000 pay on average less than 10% of their income for federal income taxes. The middle class got a tax cut in the early 2000’s and this has contributed to the major deficits we are seeing. Another tax cut for the middle class will only make the budget deficit worse.



Instructions for Modifying Effective Individual Income Tax Rates for Specific Income Brackets

Respondents were given the opportunity to say exactly how much income tax people should pay at different income levels, including the middle class and people with high incomes.

They were shown the average ***effective income tax rates*** for people with different levels of income. The effective tax rate shown is the percentage of their total adjusted gross income that people actually pay, after credits and deductions. These numbers only include income taxes, not payroll taxes for Social Security and Medicare.

[**Note:** These rates are lower than a person's marginal tax bracket. It is the rate people pay on the last dollars earned and before credits and deductions.] The lowest income level shown was $30,000. While those with less income below $30,000 pay payroll taxes, they typically pay little or no income tax.

With the table for each income level, they were able to increase or reduce the effective tax rates or to keep them where they are. Each selection showed the effect on revenue, which was the potential impact on the deficit.

Income Tax: Changes Made by Bracket

Bracket	Group	Change made by Majority	Percent change in House Bill	Percentage reducing by 5% or more
$30,000-$40,000	US	-5%	-9%	52
	GOP	-5%		54
	Dem	No change		50
	Indep	-5%		51
$40,000-$50,000	US	-5%	-9%	54
	GOP	-5%		58
	Dem	No change		50
	Indep	-5%		53
$50,000-$75,000	US	No change	-9%	48
	GOP	-5%		56
	Dem	No change		40
	Indep	No change		48
$75,000-$100,000	US	No change	-8%	42
	GOP	-5%		54
	Dem	No change		31
	Indep	No change		40

Income Tax: Changes Made by Bracket

		Change made by Majority	Percent change in House Bill	Percentage increasing by 5% or more
$100,000-$200,000	US	No change	-7%	37
	GOP	No change		30
	Dem	No change		44
	Indep	No change		40
$200,000-$500,000	US	+5%	-8%	54
	GOP	No change		39
	Dem	+5%		66
	Indep	+5%		57
$500,000-$1 Million	US	+5%	-10%	60
	GOP	No change		45
	Dem	+5%		72
	Indep	+5%		65
Above $1 Million	US	+5%	-6%	62
	GOP	No change		47
	Dem	+ 10%		74
	Indep	+ 10%		67

State and Local Tax Deductions

Eliminating State and Local Tax Deductions

- PRESENTATION OF PROPOSAL -

Another proposal is to eliminate the deduction for state and local taxes on individual federal income taxes. [However, according to this plan, up to $10,000 in property taxes could still be deducted.] *

Here is some background information:

In 2015, more than 32 million American taxpayers claimed the deduction for state and local taxes, including property taxes.

Eliminating this deduction would raise the amount of these taxpayer's federal income taxes.

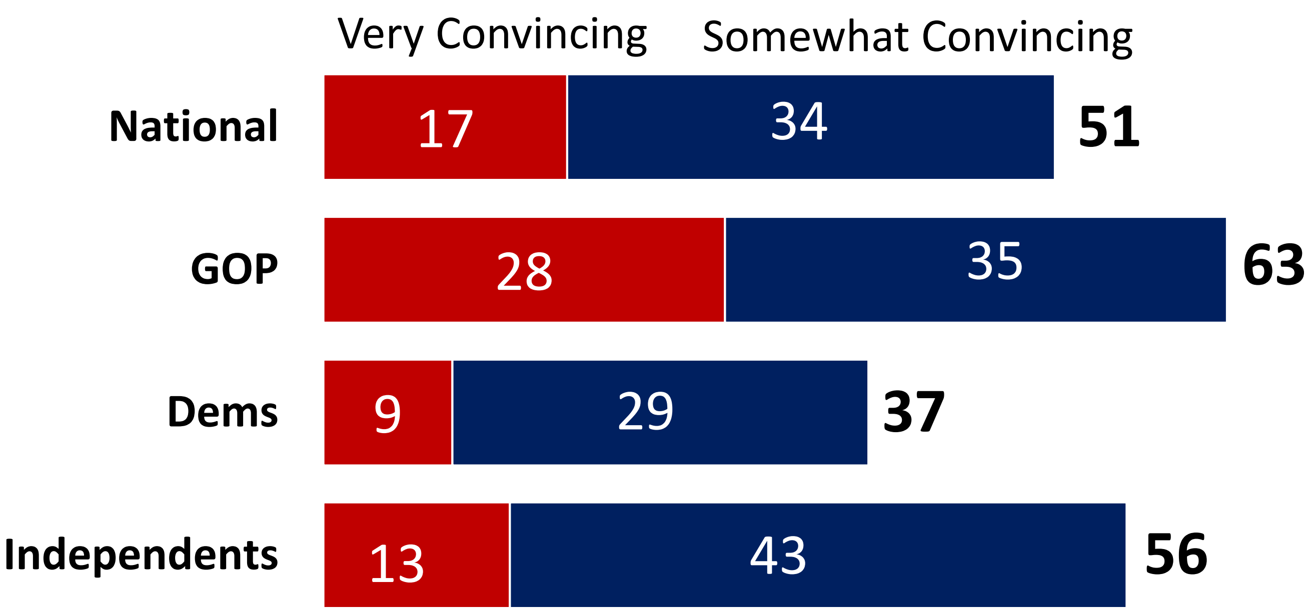
Eliminating this deduction would affect taxpayers in all 50 states, but taxpayers in states with higher state and local taxes would be affected more because they have more taxes to deduct.

**Half the sample was presented this provision, the other half not.*

Eliminating State and Local Tax Deductions

- Argument in Favor -

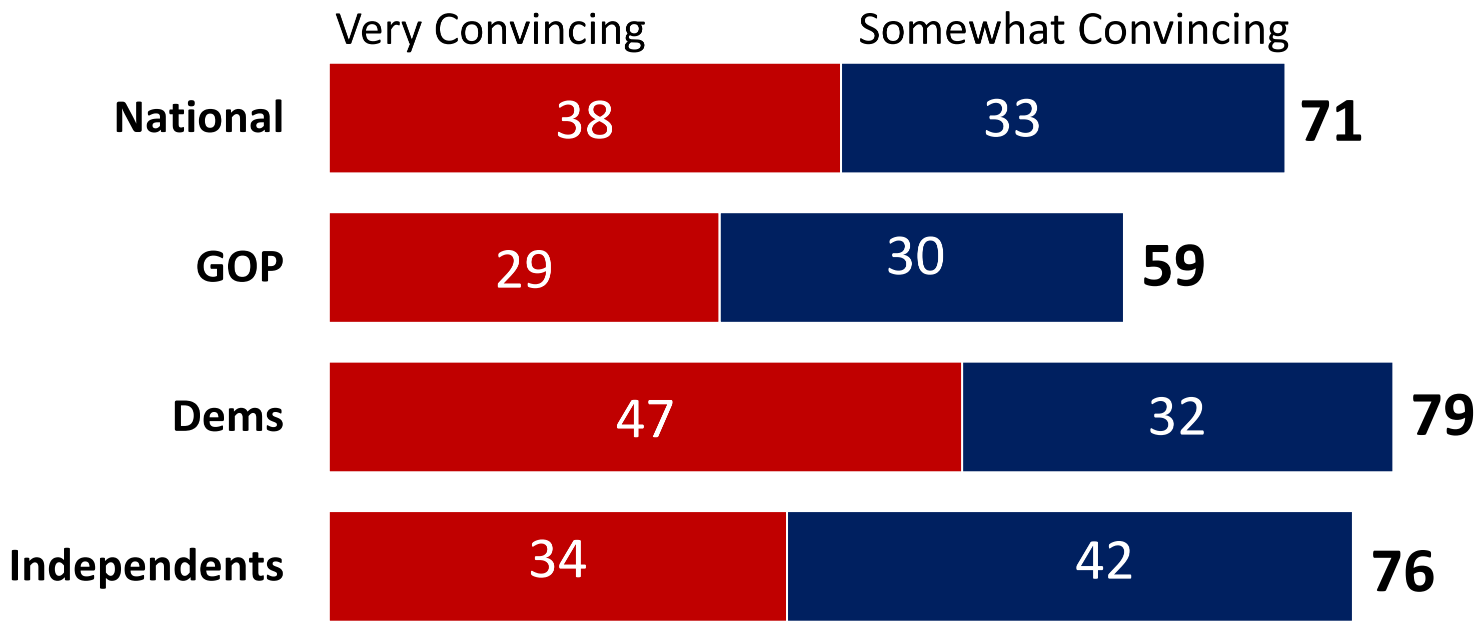
The deduction for state and local taxes is fundamentally unfair. States and counties vary greatly in terms of the amount of services they provide to their taxpayers. By making the taxes paid to support those services deductible on federal taxes, all taxpayers in the country effectively subsidize those states and counties with more services. States and counties where voters don't get as many services from the government get the short end of the stick. This creates an incentive for state and local government to provide more services when they might not really be needed.



Eliminating State and Local Tax Deductions

- Argument Against -

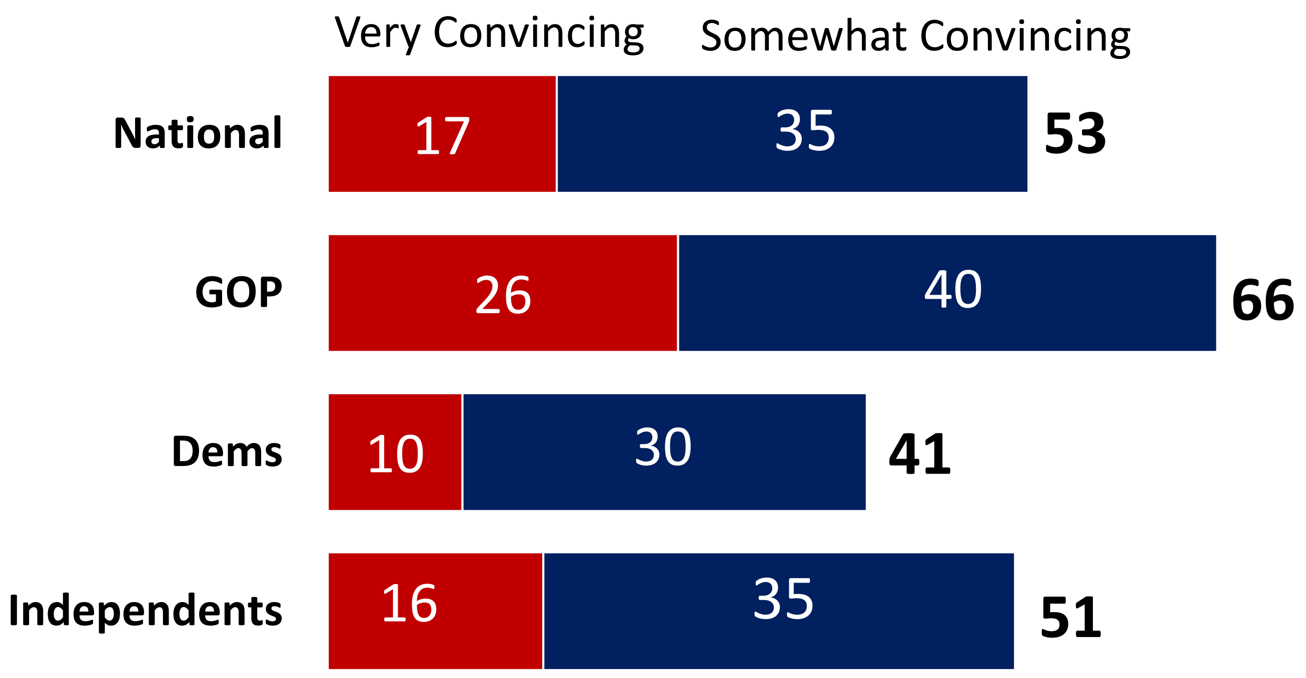
This is double taxation clear and simple. Say I earn one hundred dollars and state and local taxes take ten dollars. They are no longer part of my income. Should I still have to pay federal taxes on those ten dollars? States have the right to impose taxes and the federal government should not ignore the fact that the income taxed is no longer available for federal taxation. Furthermore, many of the things that states do with this tax money address important needs that the federal government would otherwise have to address.



Eliminating State and Local Tax Deductions

- Argument in Favor -

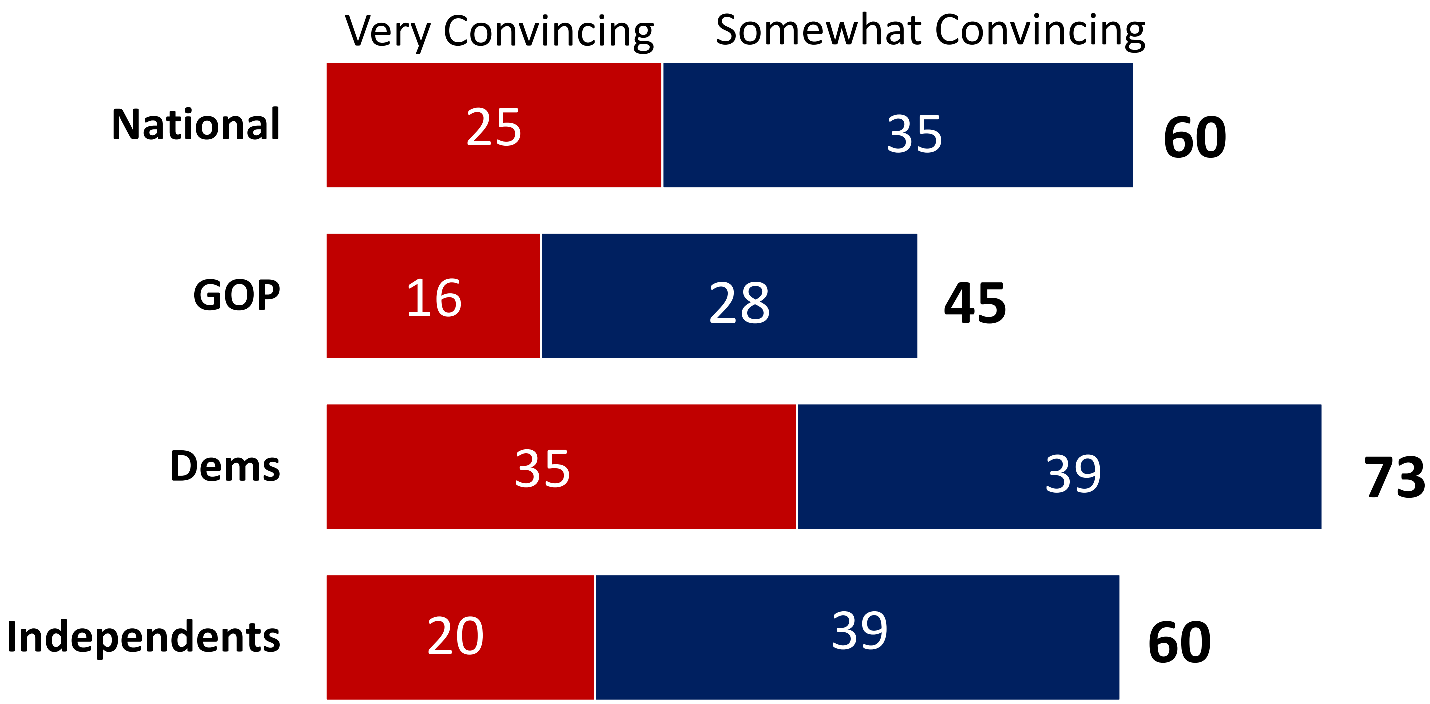
This deduction favors states and localities that are primarily urban where taxes tend to be higher. Rural areas, where state and local taxes are lower, benefit less. This is not fair.



Eliminating State and Local Tax Deductions

- Argument Against -

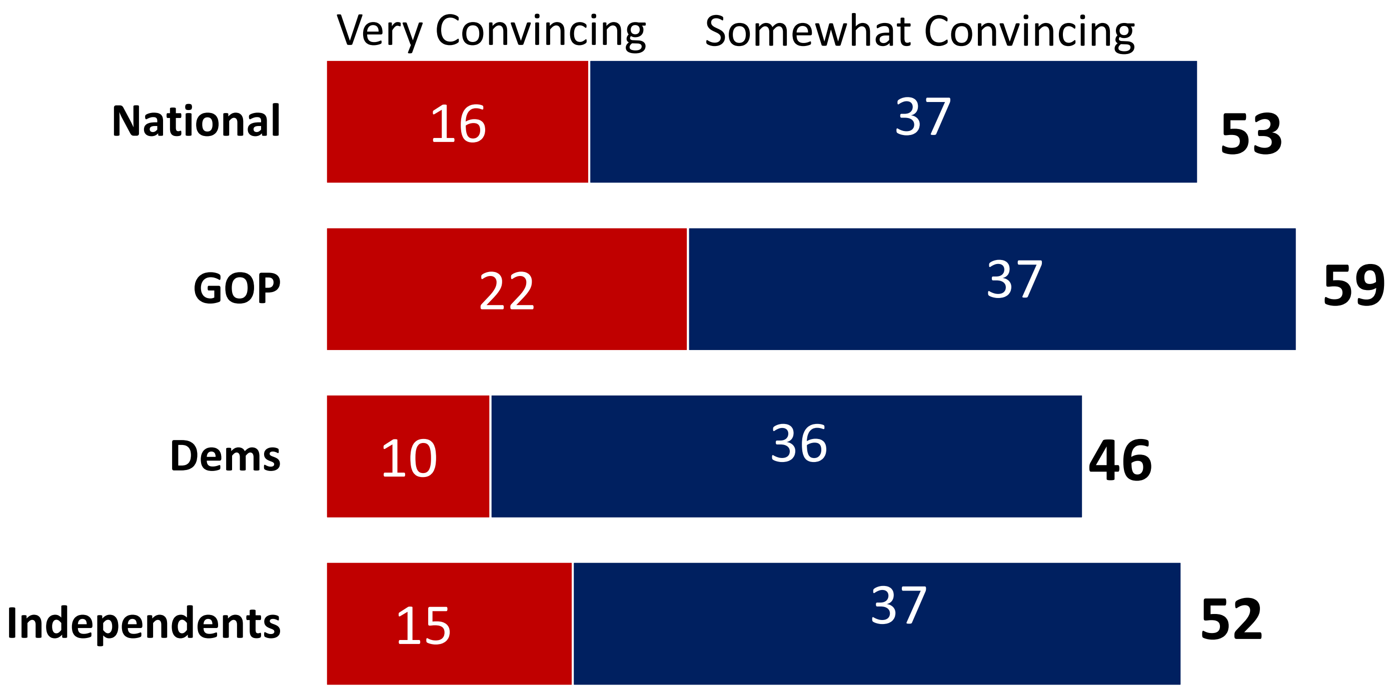
This idea that this deduction is unfair because in rural areas people have fewer taxes to deduct makes no sense. In fact, people in rural areas, because they are spread out more, get more federal subsidies such as for highways. Should we try to adjust for that too? Of course not.



Eliminating State and Local Tax Deductions

- Argument in Favor -

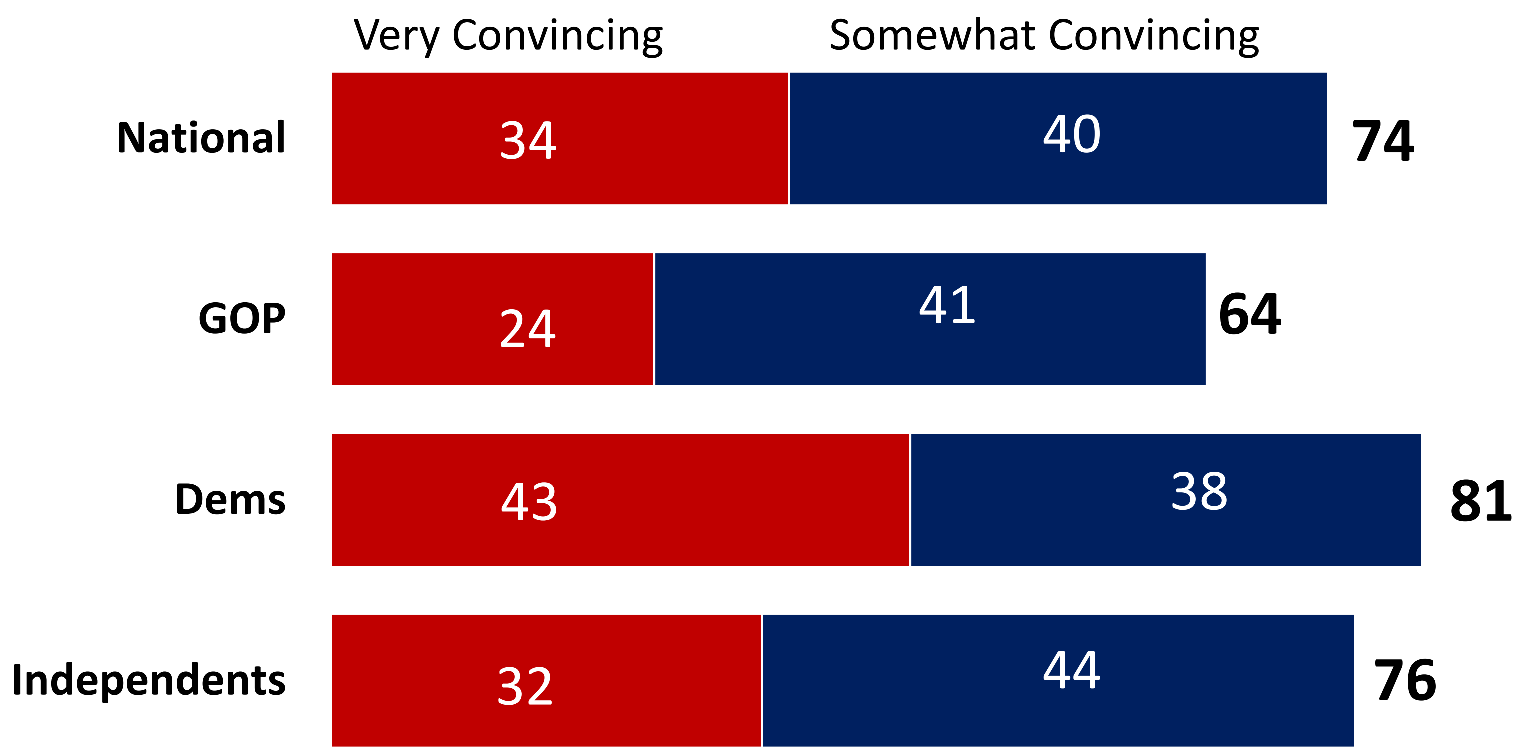
In terms of the dollars saved from this deduction, the benefits primarily go to higher income people, because they are much more likely to itemize their deductions, because they pay more state and local taxes, and because they are in a higher tax bracket. These high-income people can afford not to have this deduction.



Eliminating State and Local Tax Deductions

- Argument Against-

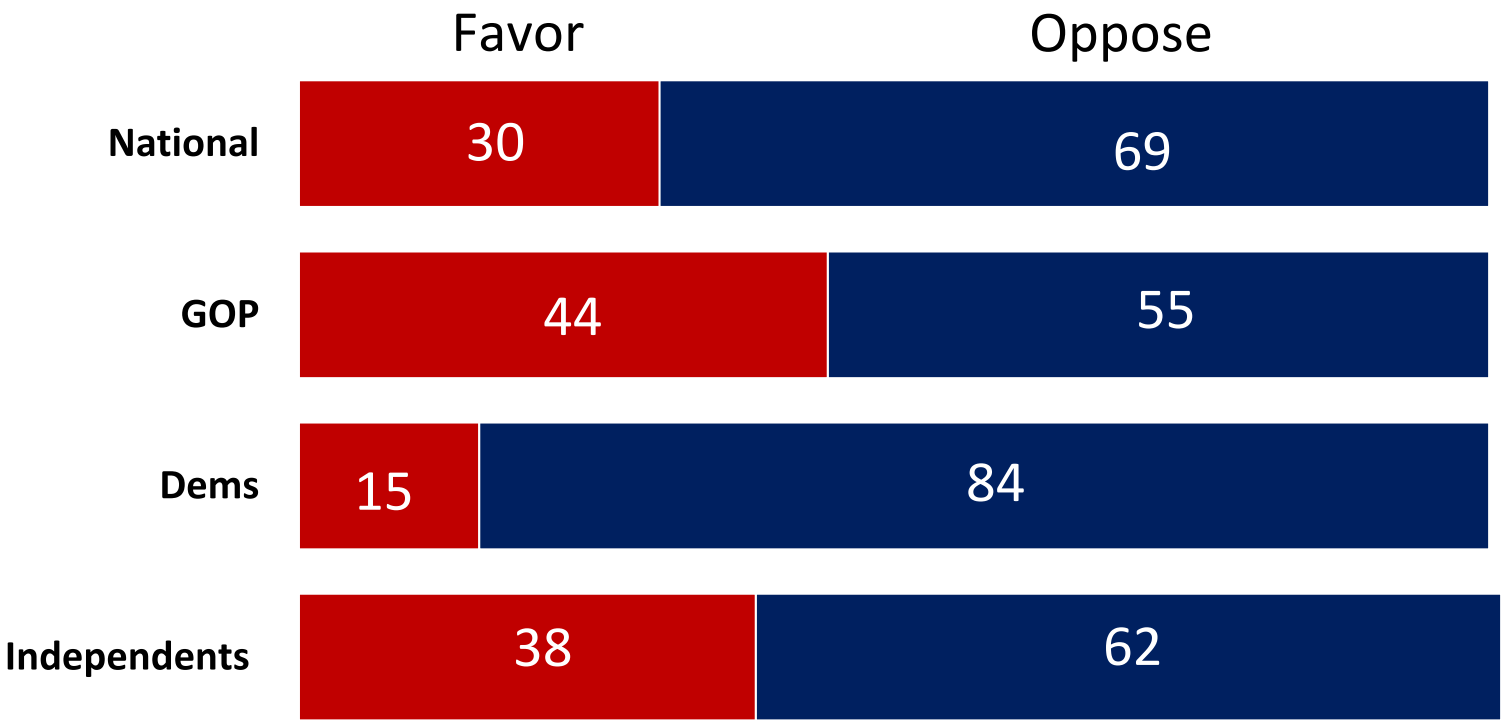
In terms of the number of people who benefit, this deduction primarily benefits the middle class. In 2015 nearly 87% of taxpayers who claimed the deduction had an adjusted gross income under $200,000. Eliminating it would badly hurt many middle class taxpayers.



Eliminating State and Local Tax Deductions

- FINAL RECOMMENDATION: SENATE VERSION -

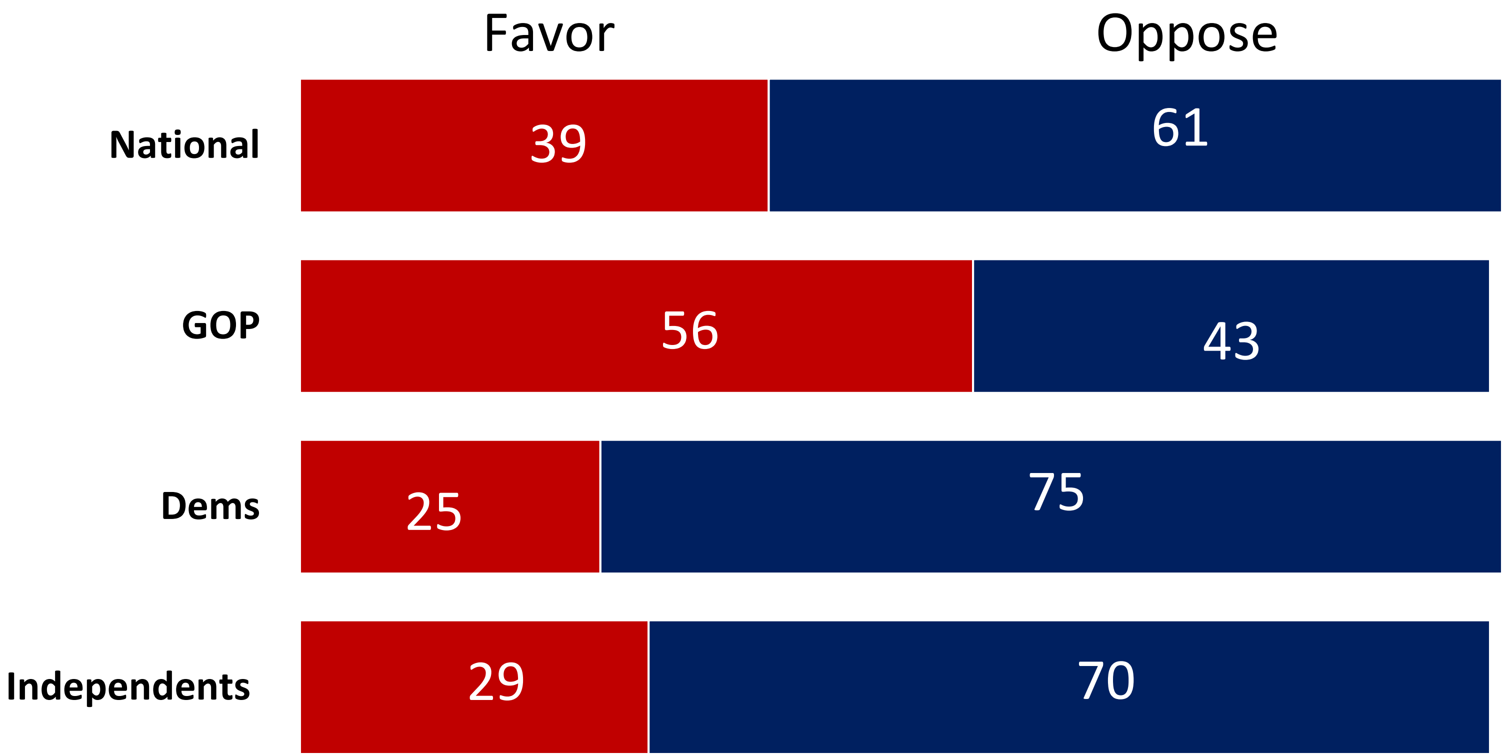
In conclusion, do you favor or oppose the proposal to eliminate the deduction for state and local taxes on individual federal income taxes, including property taxes?



Eliminating State and Local Tax Deductions

- FINAL RECOMMENDATION: HOUSE VERSION -

In conclusion, do you favor or oppose the proposal to eliminate the deduction for state and local taxes on individual federal income taxes? However, up to $10,000 in property taxes would still be deductible.



Corporate Taxes

Lowering Top Corporate Tax Rate

- BRIEFING -

Before getting started we need to clarify some issues. You may have heard that the highest corporate tax rate is 35 percent. This is the amount of the top marginal tax rate. However, no corporation actually pays this amount of tax on their profits as a whole. Just like individuals, corporations have exemptions, credits and other deductions that are applied to their profits before calculating their income tax. Thus, their effective tax rate is considerably lower.

Determining the effective tax rate for corporations has been the subject of some discussion. The simplest method, and the one used by the Government Accountability Office, calculates the percentage of a corporation's profits that are paid in federal taxes. Using this method, profitable corporations, on average, pay about 15% of their profits on taxes.

There are other ways of calculating the effective tax rate. Some have done calculations that include state taxes and foreign taxes. Some have focused on the amount of taxes paid on profits on new investments, independent of the corporations' underlying deductions. By these other calculations, corporations' effective tax rate average more than 20%, even as high as 28%.

Corporate Taxes

- PRESENTATION OF PROPOSAL -

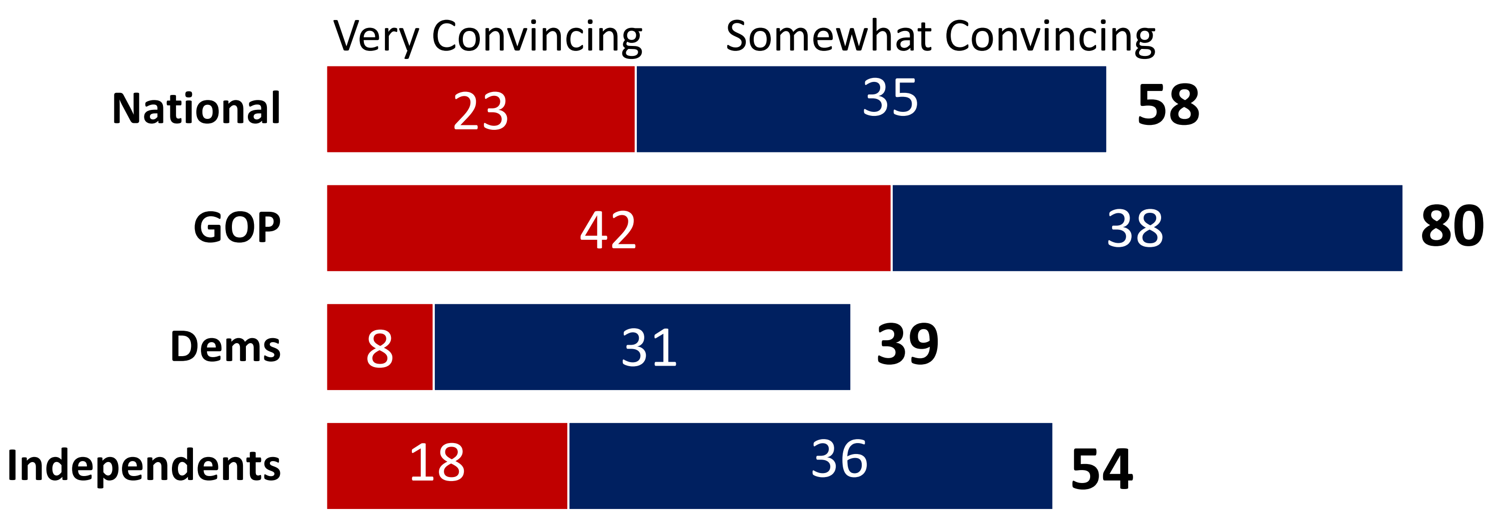
The proposal is to lower the top corporate tax rate from 35% to 20%. Exemptions, credits and other deductions would then be applied to this amount.

Over the next decade, this reduction in taxes would reduce revenues to the federal government by $1.329 trillion.

Lowering Top Corporate Tax Rate

- Argument in Favor-

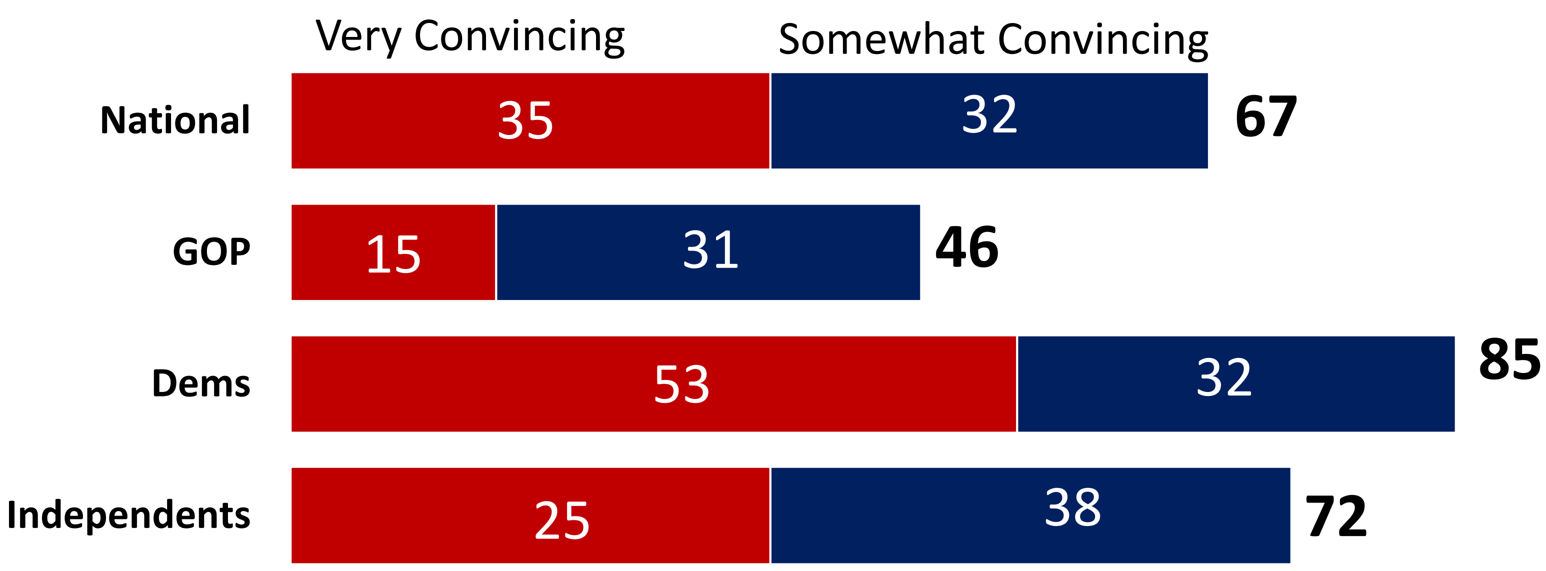
The 35 percent top corporate tax rate, combined with an average state corporate income tax rate of 4 percent, is the third-highest rate in the world. The effective tax rate is not as high, but is still higher than in most other advanced countries. If corporate taxes are lower, it will make U.S. corporations more competitive internationally. More important, it will give both U.S. and foreign companies an incentive to invest in the United States rather than abroad. The additional investments will create more jobs for Americans and push up wages. The current corporate income tax also gives companies an artificial tax incentive to borrow more than they otherwise would; cutting the rate would reduce that problem.



Lowering Top Corporate Tax Rate

- Argument Against -

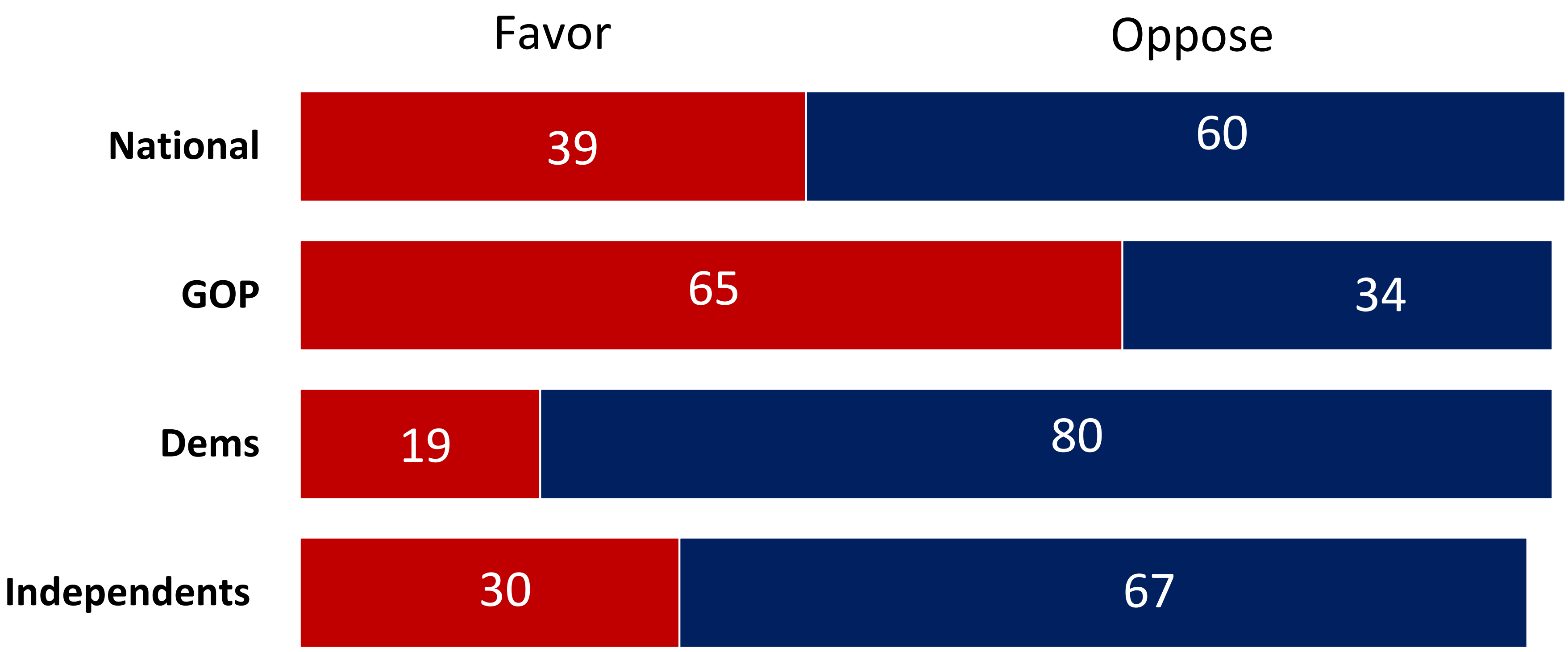
It's easy to say that lower taxes will help stimulate the economy. But when corporations get extra funds from tax breaks, they do not always invest those funds or raise workers' salaries; they often pass them on to shareholders or just boost the already huge salaries of their top executives. Over the last decades, while corporate profits have risen, their taxes have gone down, and the majority of corporations do not pay any taxes. Obviously corporate lobbyists have been hard at work. We have a large budget deficit and corporations need to step up and make a larger contribution to reducing it.



Lowering Top Corporate Tax Rate

- FINAL RECOMMENDATION -

So now, do you favor or oppose the proposal to lower the top corporate tax rate from 35% to 20%. Exemptions, credits and other deductions would then be applied to this amount.



Lowering Tax on Pass-Through Business Owners

- PRESENTATION OF PROPOSAL -

We will now consider a proposal to reduce taxes for some business owners. There is a kind of business, such as sole proprietorships or partnerships that does not pay ordinary corporate taxes. Instead the business distributes the profits to the owners who then pay regular individual income tax rates on those profits. These are called ‘pass-through’ businesses.

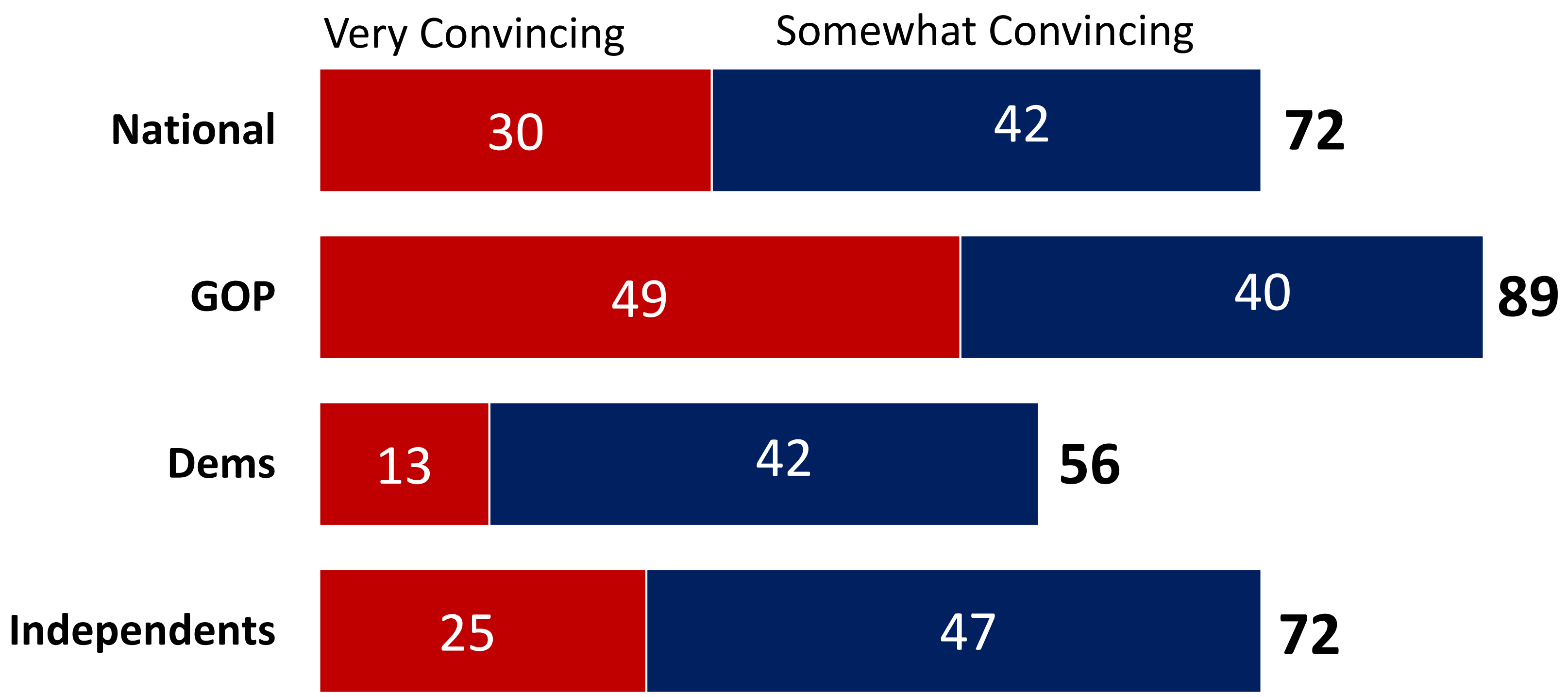
Like all other individuals, owners of such ‘pass-through’ businesses pay rates as high as 39.6% on income over and above $418,400 (after deductions).

This proposal would set a new maximum tax rate for owners of ‘pass-through’ businesses at 25%.

Lowering Tax on 'Pass-Through' Business Owners

- Argument in Favor -

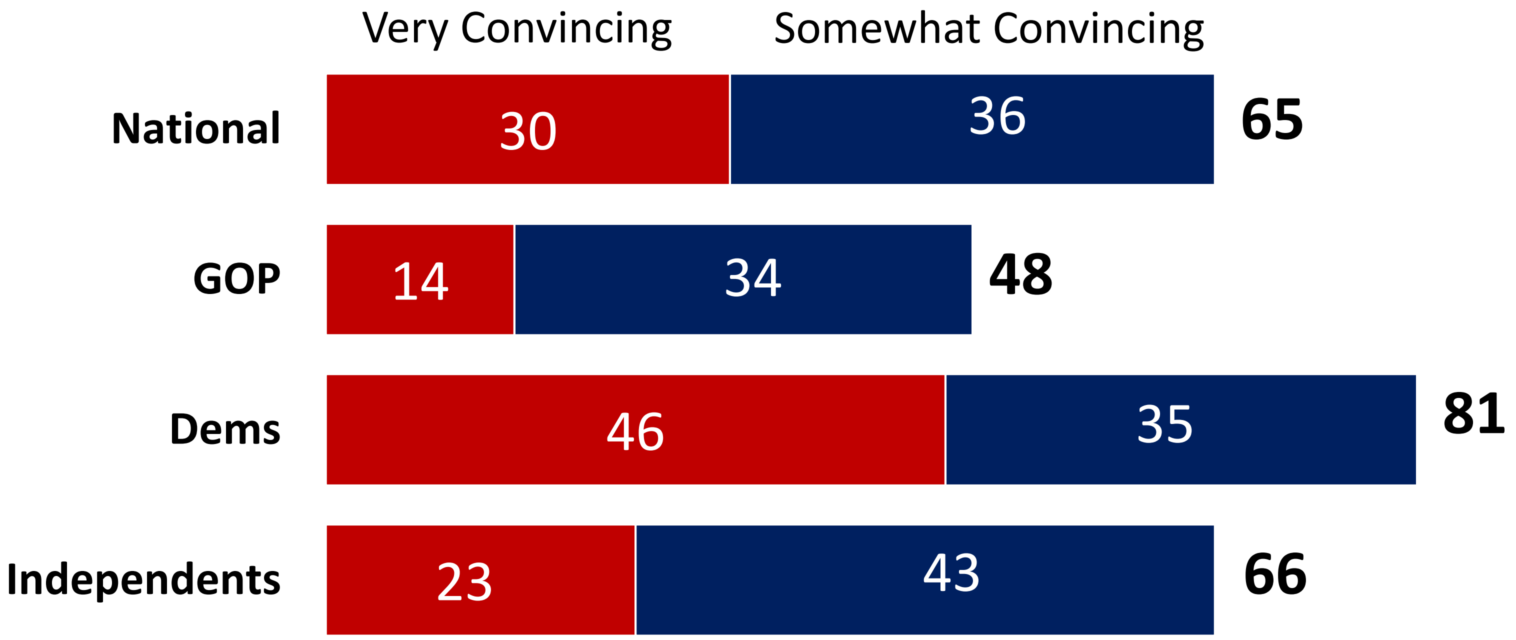
Most of the businesses that would be affected by this are small businesses, which are an important source of job creation. And regardless of their size, if we lower the top tax rate that the owners of pass through companies pay, this will free them up to invest more, grow their business, create more jobs and be an even more vibrant engine of the economy.



Lowering Tax on ‘Pass-Through’ Business Owners

- Argument Against-

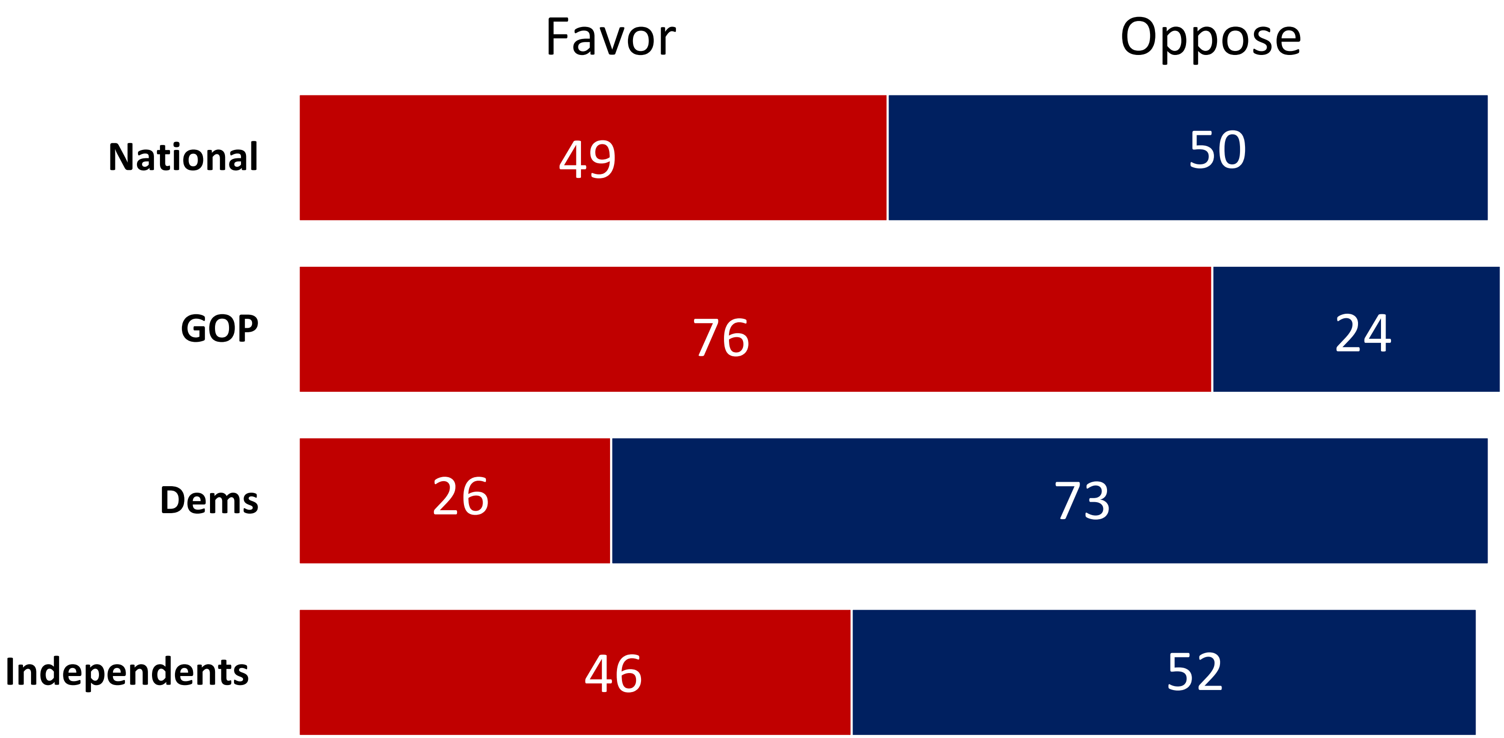
This proposal has two problems. First, this tax break will only benefit the wealthiest 5-6 percent of business owners, because they are the only ones who now pay more than the 25% rate. Many of these businesses are not “small.” Second, lots of high-income people will set themselves up as a ‘pass-through’ business so they can re-categorize their wages as business profits and pay the lower rate. That is what happened when this was tried in Kansas. This proposal will do nothing to help the middle class, but will reduce revenues and worsen the deficit.



Lowering Tax on ‘Pass-Through’ Business Owners

- FINAL RECOMMENDATION -

Setting a new maximum tax rate for owners of ‘pass-through’ businesses at 25%.



Territorial Tax

- PRESENTATION OF PROPOSAL -

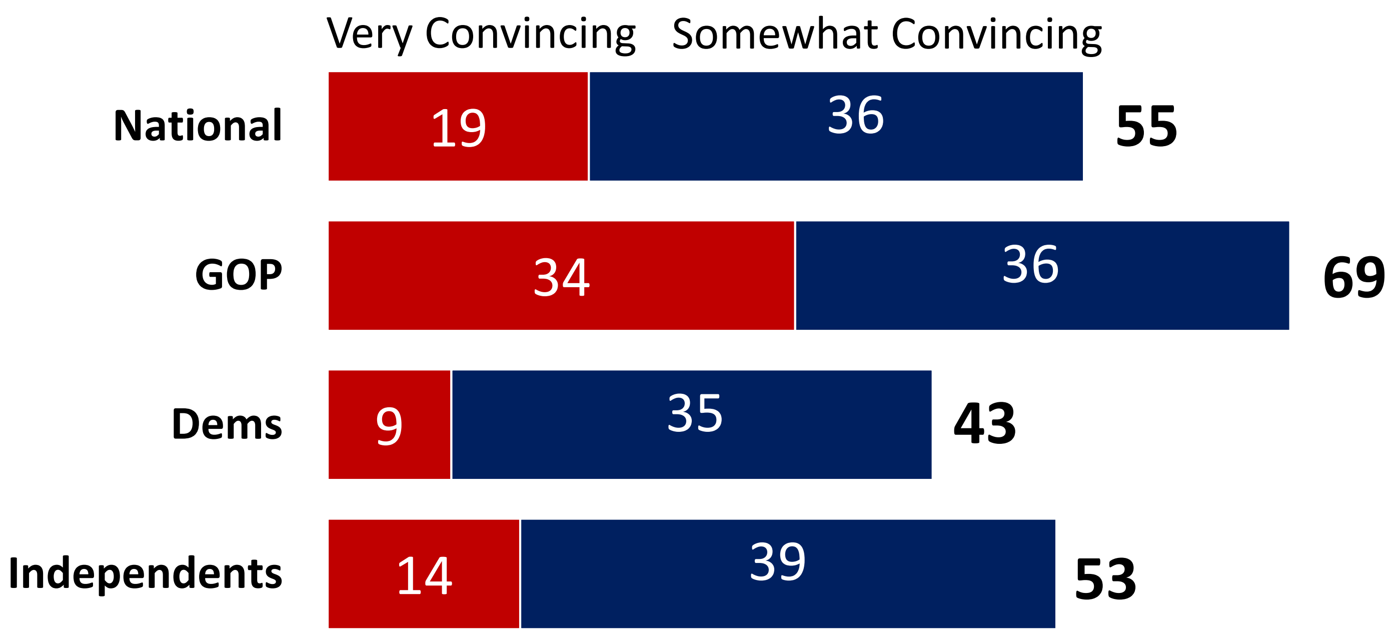
Another proposal relates to U.S. companies that have subsidiaries in other countries. Currently, such a U.S. company can deduct the taxes it pays in the other country, but then has to pay normal U.S. corporate income taxes on the remaining profits. U.S. companies do not have to pay the U.S. tax until it brings those profits back into this country.

The proposal is to eliminate the U.S. corporate income tax on profits made by subsidiaries in other countries.

Territorial Tax

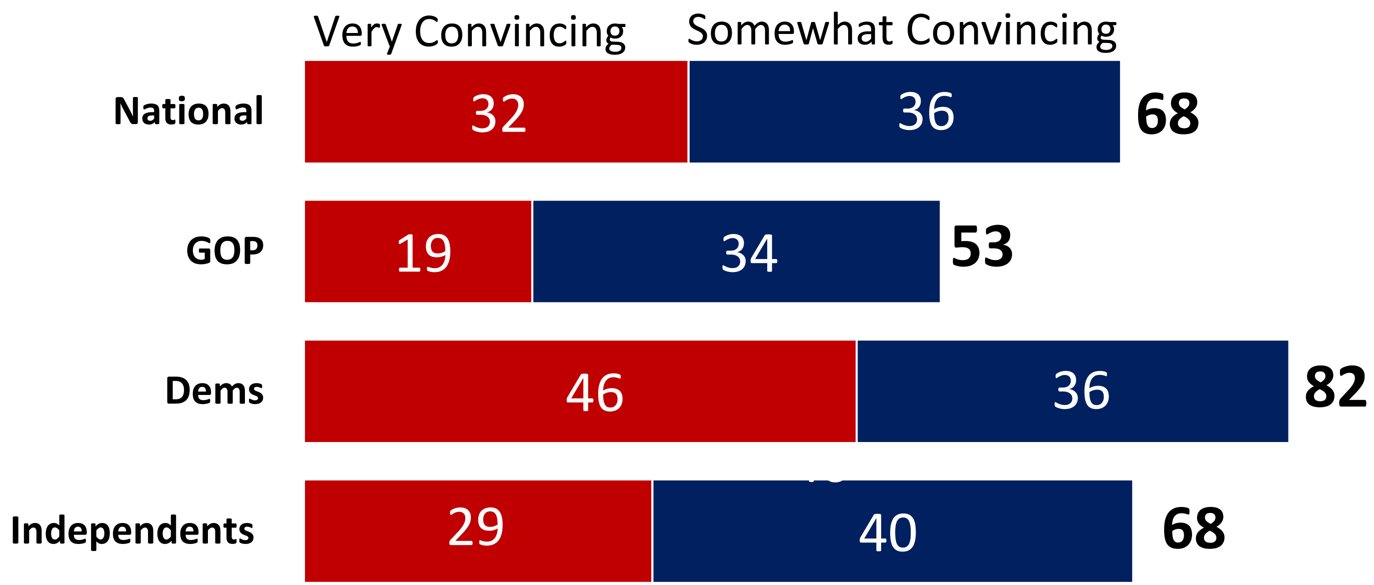
- Argument in Favor-

When U.S. companies are operating in other countries they are at a disadvantage because they not only have to pay local taxes but U.S. taxes as well. We need to help make U.S. companies more competitive by removing this burden. Furthermore, right now U.S. companies have a strong incentive to keep their profits abroad so as to delay paying taxes on those profits. Eliminating this tax would encourage companies to bring those profits back into the country and invest them here, helping to stimulate the U.S. economy and creating jobs.



Territorial Tax
- Argument Against -

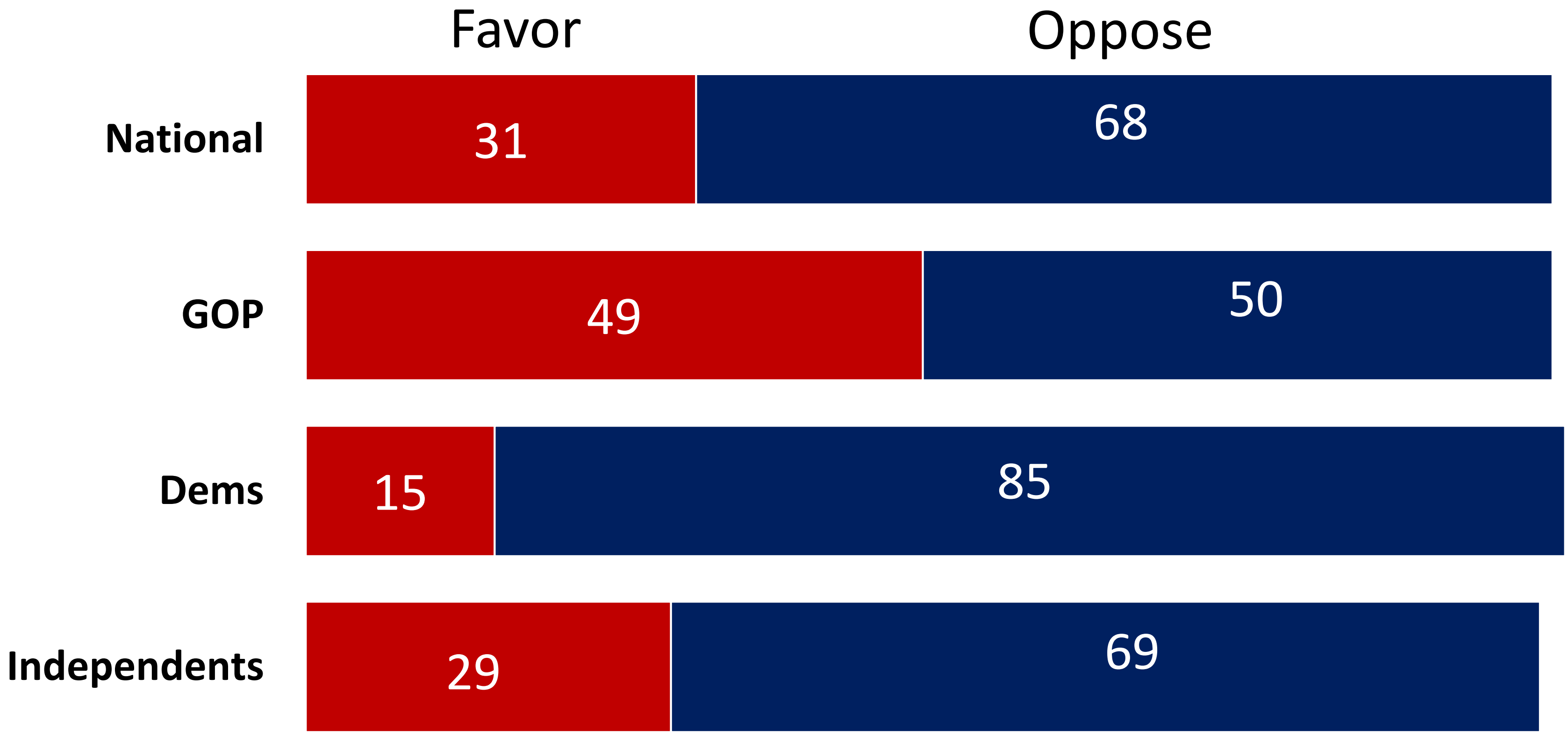
If we eliminate the tax on U.S. subsidiaries operating in other countries with lower tax rates than ours, we will be effectively encouraging those companies to invest in other countries rather than here. We will be encouraging them to export jobs overseas where taxes are lower. This will help drive down wages here. This whole idea is yet one more way that U.S. corporations are trying to avoid paying their fair share of taxes, driving up the deficit. If we want to stop encouraging those companies from keeping those profits abroad, we should tax them at a higher rate, not eliminate the tax.



Territorial Tax

- FINAL RECOMMENDATION-

So, in conclusion, do you favor or oppose the proposal to eliminate the U.S. corporate income tax on profits made by their subsidiaries in other countries.



Immediate Expensing

- PRESENTATION OF PROPOSAL -

We will now consider some possible changes to tax deductions. When money is spent on certain things it can be deducted from taxable income, thus lowering ones taxes.

As you may know, when businesses make investments in things like equipment they can deduct these costs, but they cannot deduct the full amount in the first year. Rather they must spread the deduction over a number of years based on how long the investment or equipment is useful to the company.

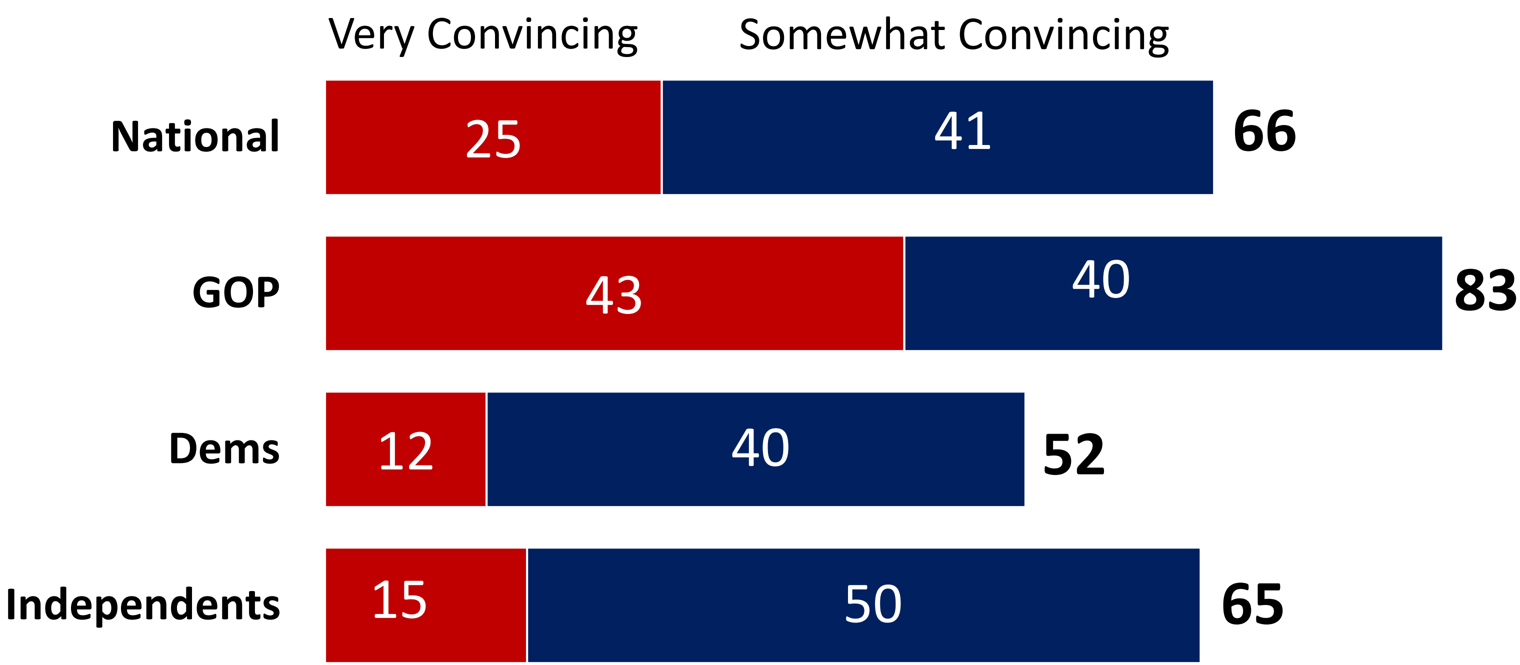
Another proposal is that for the next five years businesses would be allowed to deduct the full amount of their investments (other than buildings) in the same year they make the investment, rather than spreading it out over a number of years. This will result in a tax cut in that first year, but slightly higher taxes in later years.

Over the next decade, this reduction in taxes would reduce revenues to the federal government by $61 Billion.

Immediate Expensing

- Argument in Favor-

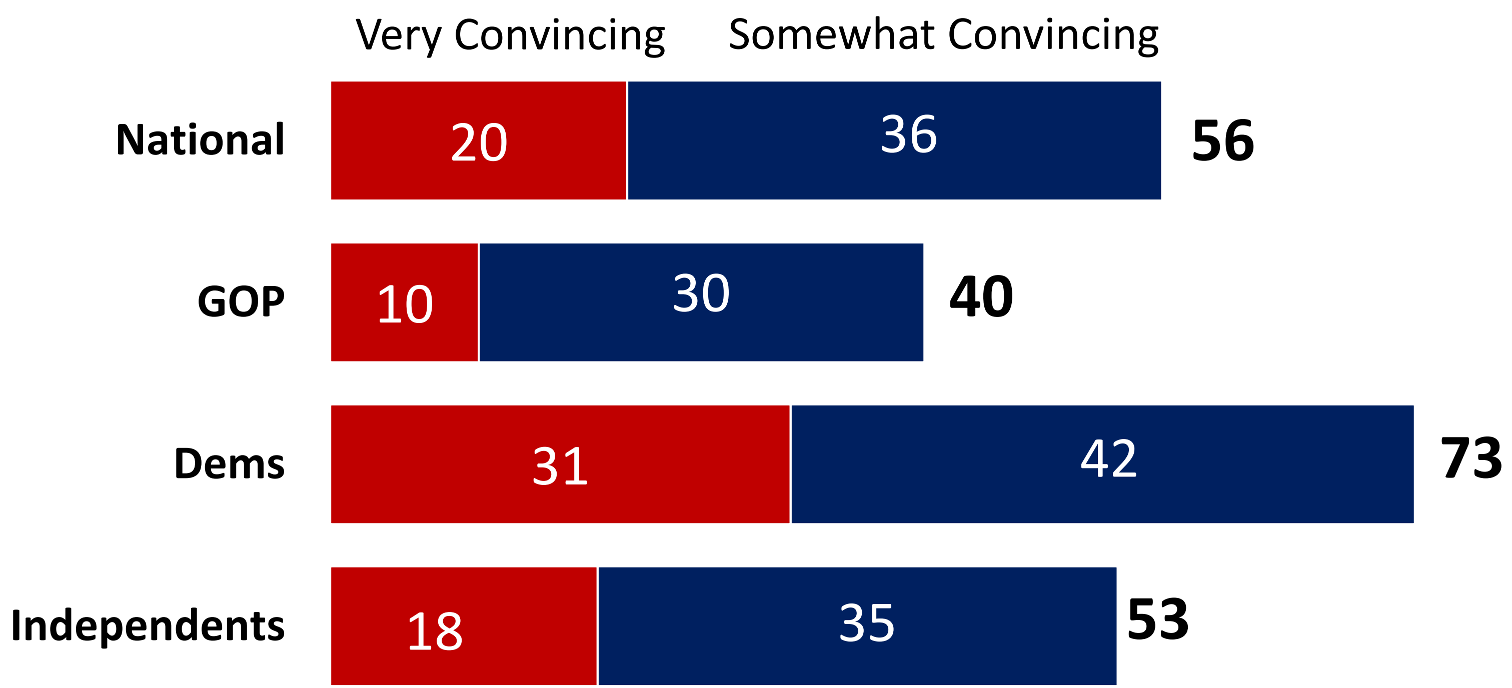
Giving businesses this tax break for the next five years will encourage businesses to invest more in their company, especially small businesses that have been putting off making upgrades. This will help their company to grow faster and will also help the companies they buy from. This will stimulate the economy and create more jobs, pulling more people into the workforce. The economy will grow and produce more revenues, offsetting the loss of revenue from the tax break.



Immediate Expensing

- Argument Against -

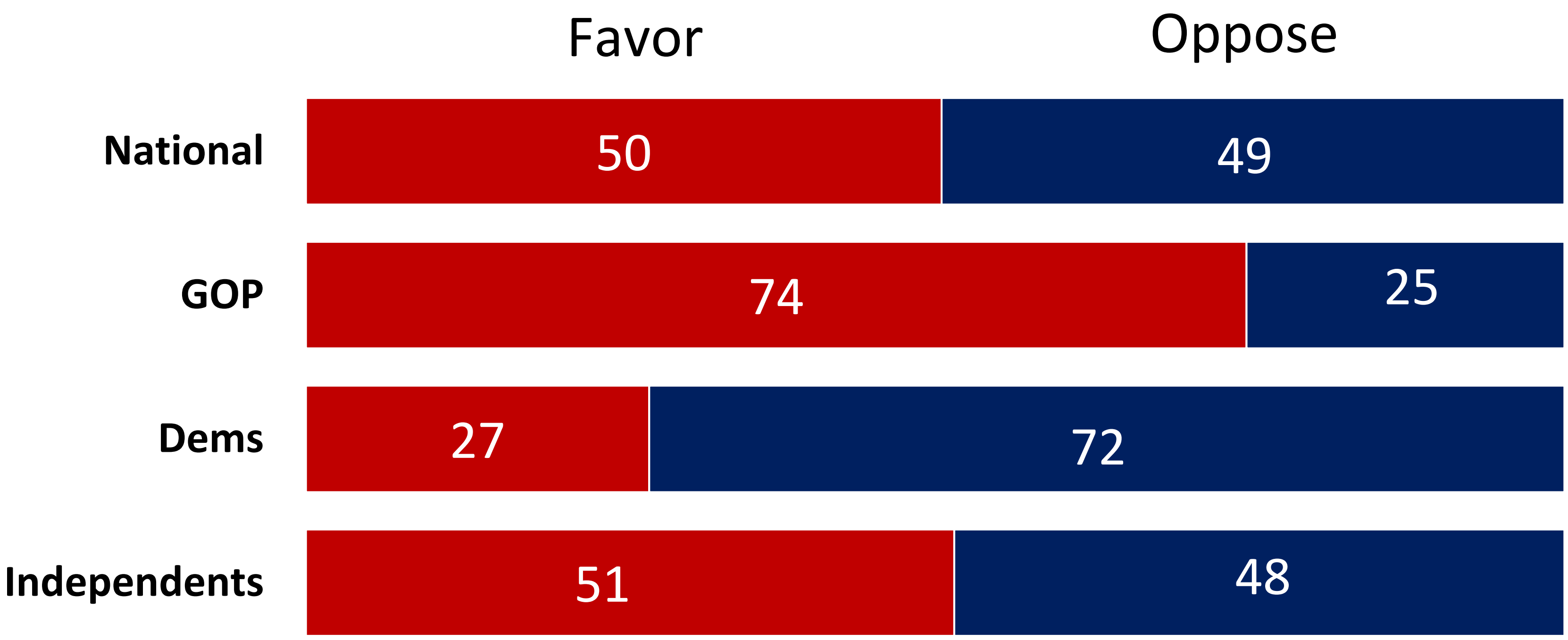
This idea is too risky. With unemployment already dropping this kind of stimulus is unlikely to lead to more growth and may well lead to inflation. Also, after the five years have passed, suddenly all these companies will have used up the deductions and will be hit with a bigger than usual tax bill--like the crash after a sugar high. This could contribute to a recession down the road.



Immediate Expensing

- FINAL RECOMMENDATION -

For the next five years, businesses would be allowed to deduct the full amount of their investments (other than buildings) in the year they make the investment. This will result in a tax reduction for those businesses during this period.



Mortgage Deduction

Lowering Mortgage Deduction Cap

- PRESENTATION OF PROPOSAL -

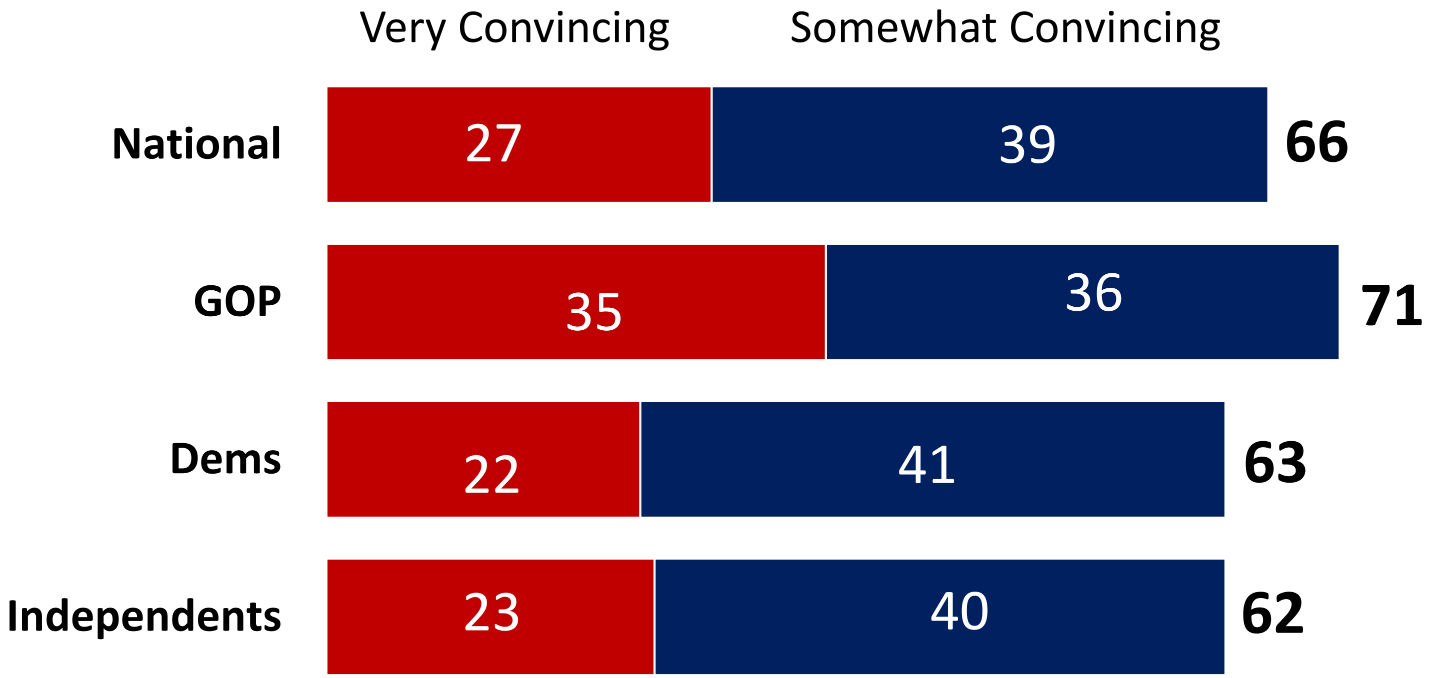
As you may know currently homeowners are able to deduct the interest they pay on up to $1 million of a home mortgage.

A proposal is being considered to lower the maximum amount of deductible interest for new mortgages to the interest paid on $500,000 on all home mortgages.

Lowering Mortgage Deduction Cap

- Argument in Favor -

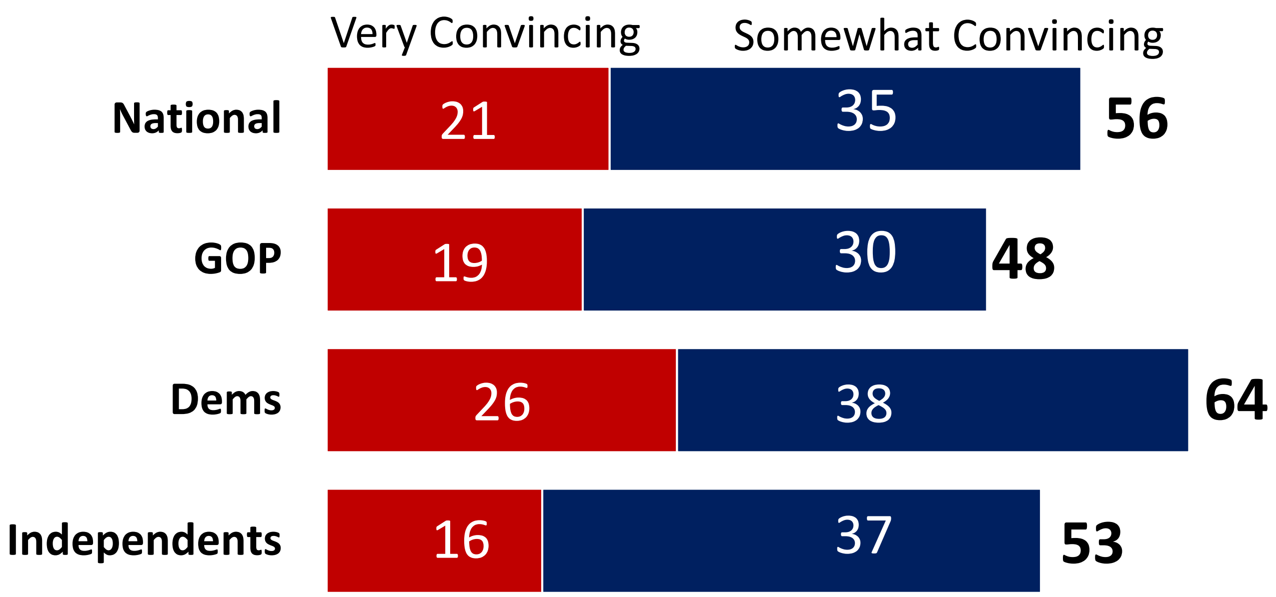
Right now, this deduction primarily benefits upper income people. More than half of those who benefit from the deduction have incomes above $100,000, and they get 81 percent of the benefit. This is because most middle-income people do not itemize their deductions and because their mortgages are not as big as wealthier people. Wealthy people already have plenty of deductions. Taxpayers should not be effectively subsidizing the mortgages on big fancy houses by giving them this tax break.



Lowering Mortgage Deduction Cap

- Argument Against -

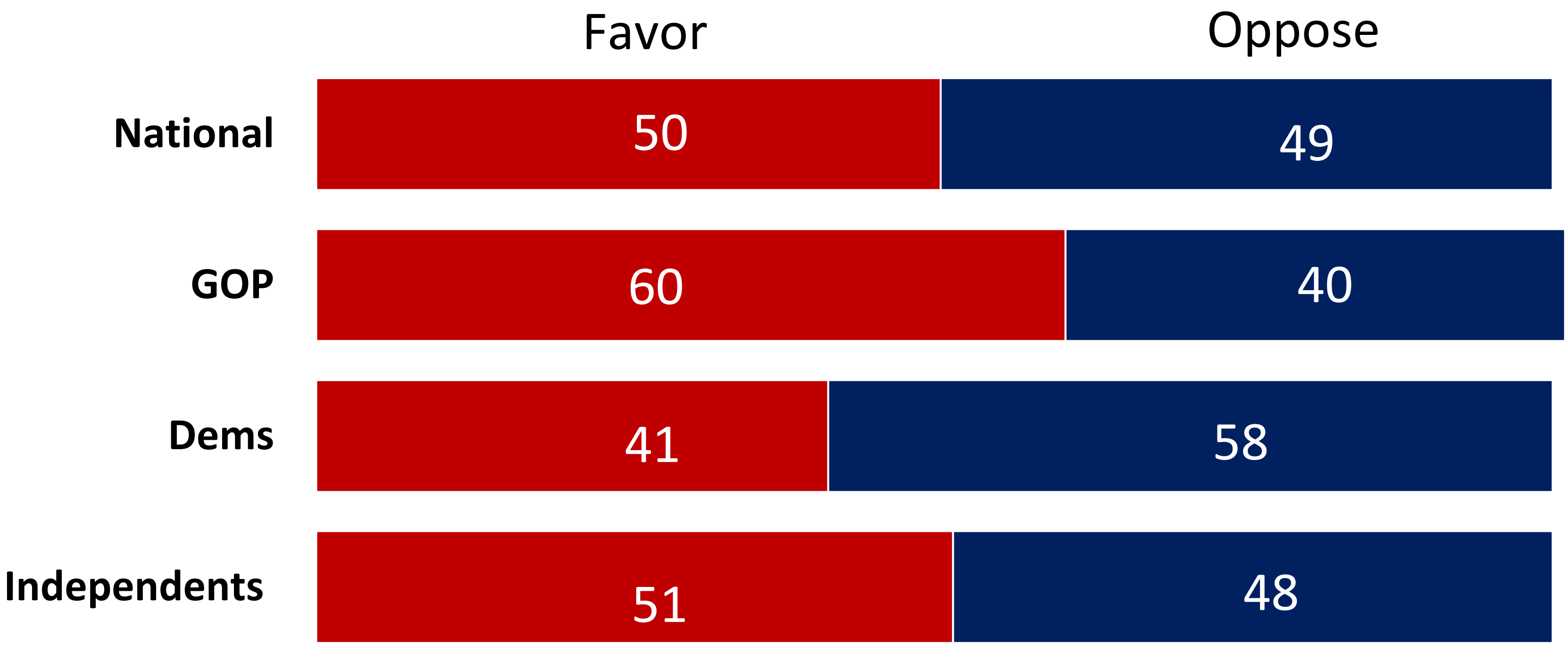
The entire real estate market is based on buyer's assuming that they will be able to deduct their mortgage interest. If this is scaled back—by half for many homeowners—this will discourage people from buying a new house. Sellers will have to reduce prices because buyers will no longer be able to afford the same level of mortgage payments if buyers cannot deduct as much. Homes are most Americans primary investment, and this will drive down the value of many of these houses. This would not be fair for those homeowners and could create a recession in home values.



Lowering Mortgage Deduction Cap

- FINAL RECOMMENDATION -

Do you favor or oppose the proposal to lower the maximum amount **of deductible interest for new mortgages to the interest paid on $500,000 on all home mortgages.**



Estate Tax

Estate Tax

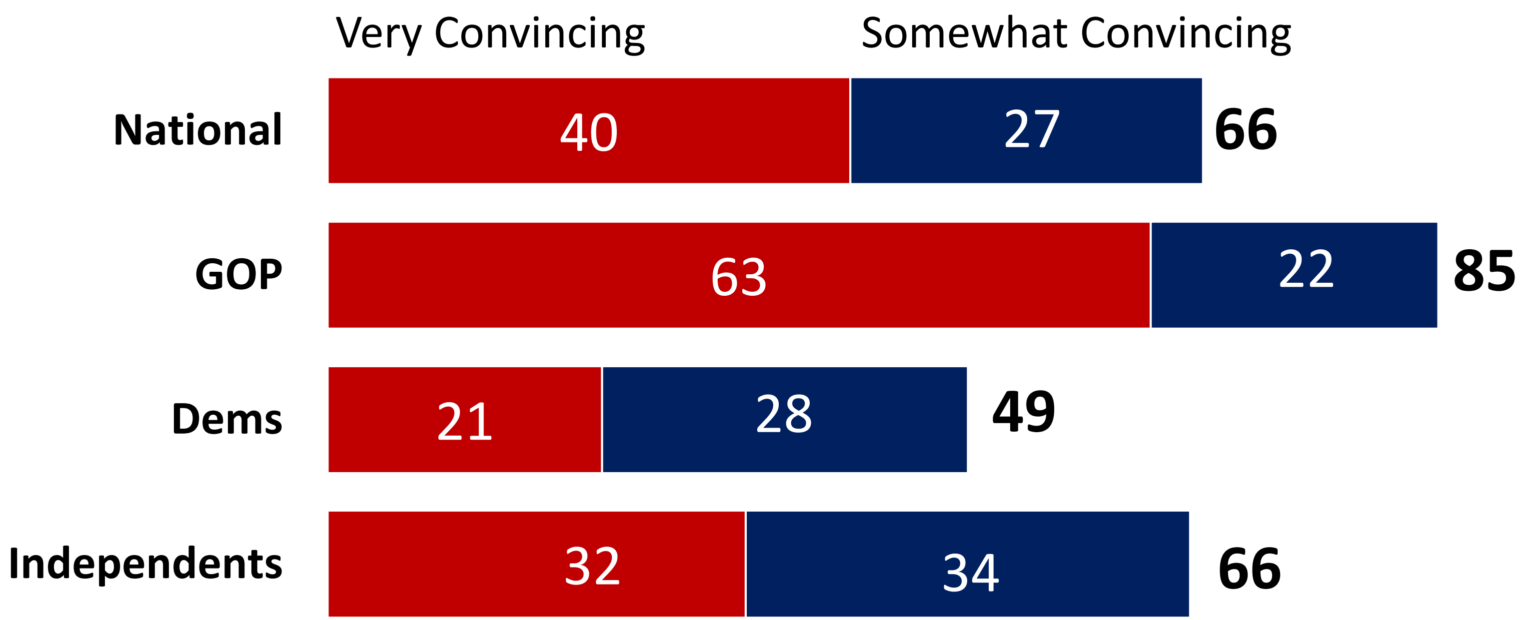
- PRESENTATION OF PROPOSAL -

- Eliminate the estate tax in six years
- In the meantime, double the amount that can be transferred tax-free for:
  - Estates willed by individuals from $5.49 million to $10.98 million
  - Estates willed by couples from $10.98 million to $21.96 million

Eliminating this tax would reduce federal revenues by approximately $20 billion a year.

Reducing, Then Eliminating, Estate Tax
- Argument in Favor-

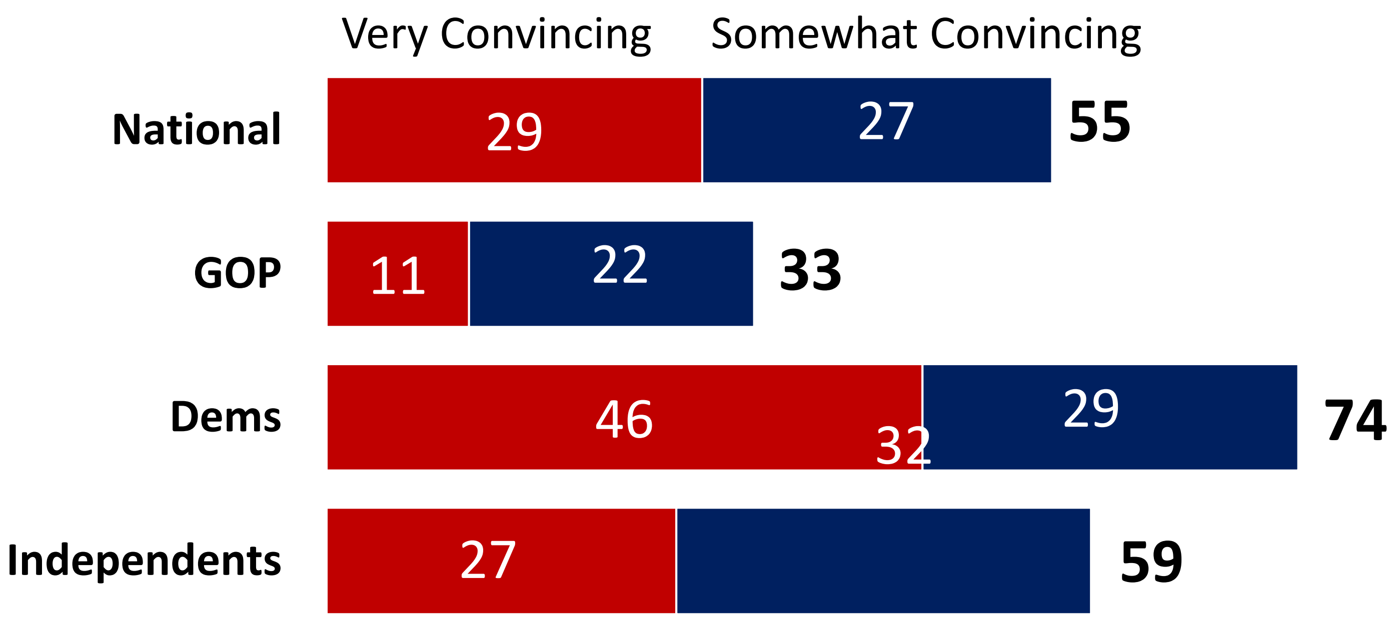
It's just not right for the government to get in between members of a family by taxing what children inherit from their parents. When somebody inherits cash, this was already taxed when it was earned, so it ends up being double-taxed. Why should we put an additional tax on someone who saves money and leaves it to her heirs but not someone who spends all her money on lavish living? More importantly when a child inherits assets like a house, a farm or a business, they may have to borrow money to pay the taxes or may end up having to sell the house, farm or business, which may have been in the family for generations.



Reducing, Then Eliminating, Estate Tax

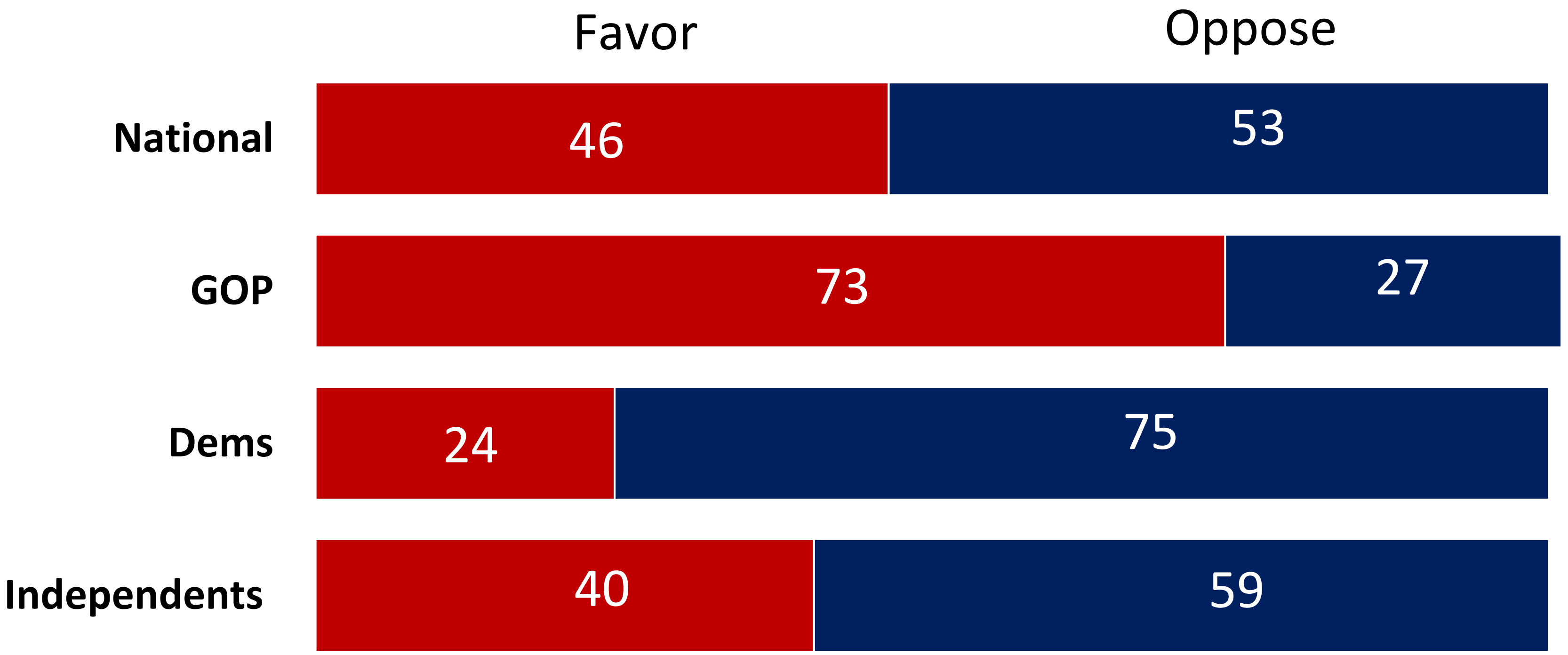
- Argument Against -

Just think about it. Wealthy parents can give nearly $11 million to their children with no taxes. And these wealthy children complain about not getting one hundred percent of the value over and above that amount? Furthermore, when they get assets that have gone up in value, no one ever has to pay the capital gains tax on that increase. The idea that children of these very wealthy parents will have to sell a family property because they cannot afford the taxes is a far-fetched scenario; research shows that it almost never happens.



Reducing, Then Eliminating, Estate Tax
- FINAL RECOMMENDATION -

So now, do you favor or oppose the proposal to **eliminate the estate tax in six years** and in the meantime **double the amount that can be transferred tax free** for estates willed by individuals from $5.49 million to $10.98 million, and for estates willed by couples from $10.98 million to $21.96 million?

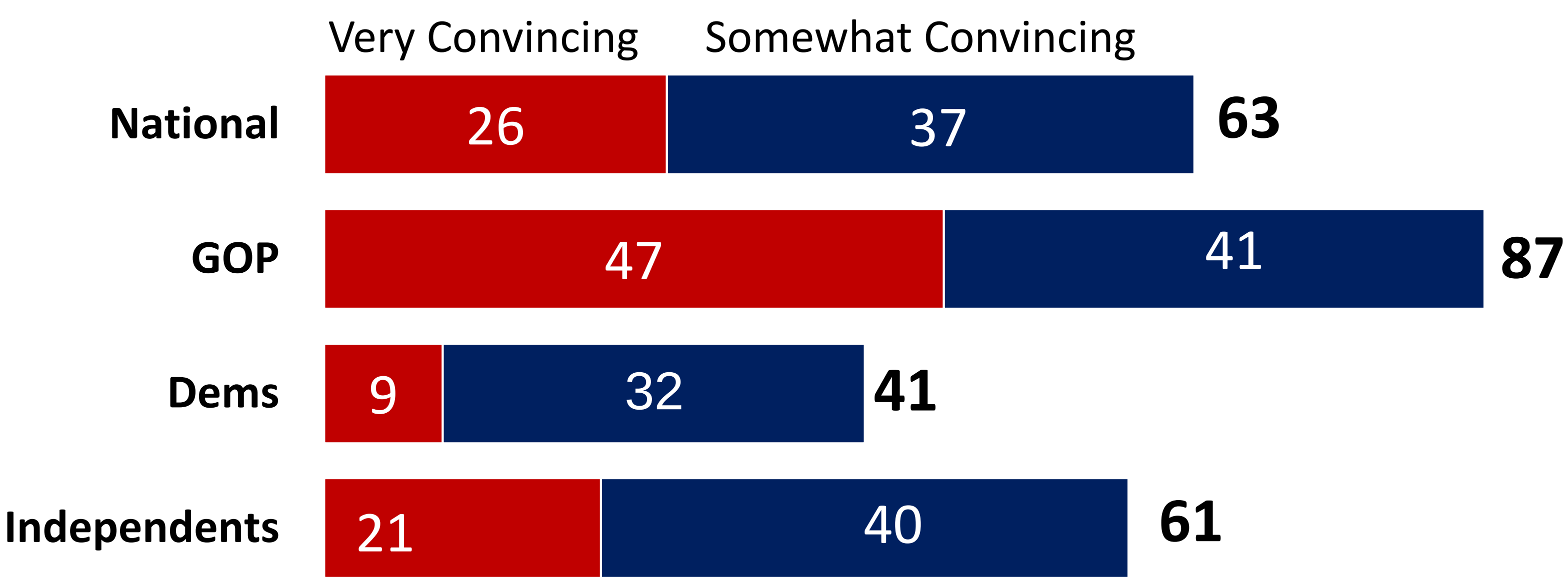


Whether Overall Tax Revenues Should be Reduced

Reducing Overall Tax Revenues

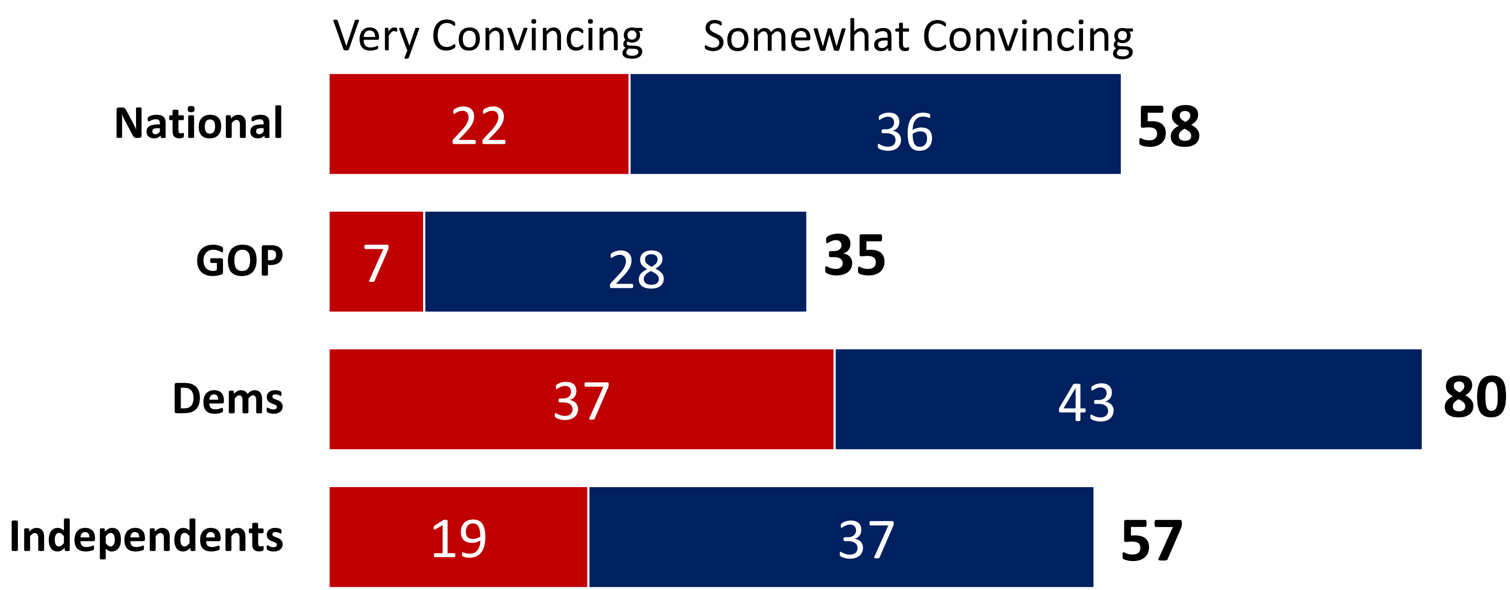
- Argument in Favor -

Reducing taxes is the key to making the economy grow. High taxes take money that could be used to grow the economy and create more jobs. High taxes reduce dividends, discouraging investors from taking the necessary risks with their capital and discourages work. All of this dampens the economy, while lower tax rates will energize the economy. In numerous cases when taxes were cut, the economy grew: including after the 1964 tax cut, or when capital gains went down in 1997. Now is the time to give the economy a boost.



Reducing Overall Tax Revenues
- Argument Against -

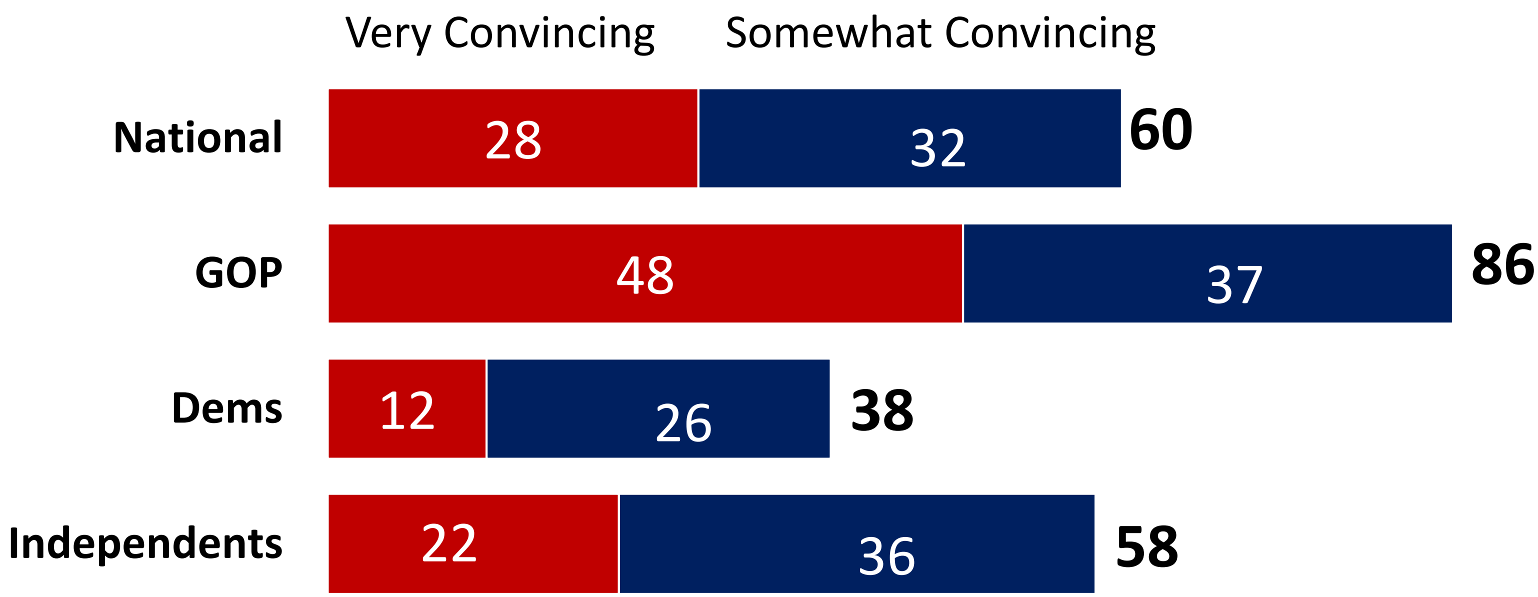
We still have a large deficit, more than half a trillion dollars. It would be unwise and shortsighted to cut tax revenues and make the deficit even worse. The deficit adds to the national debt, which is now $19.5 trillion—three quarters of the annual size of the entire U.S. economy. Because the government has to borrow more money, interests rates can go up, which hurts investment and job creation. Just paying the growing interest on this debt can swamp the budget. Whatever benefits that might come from cutting taxes overall would be overwhelmed by the harmful effects of increasing the deficit and the debt.



Reducing Overall Tax Revenues

- Argument in Favor -

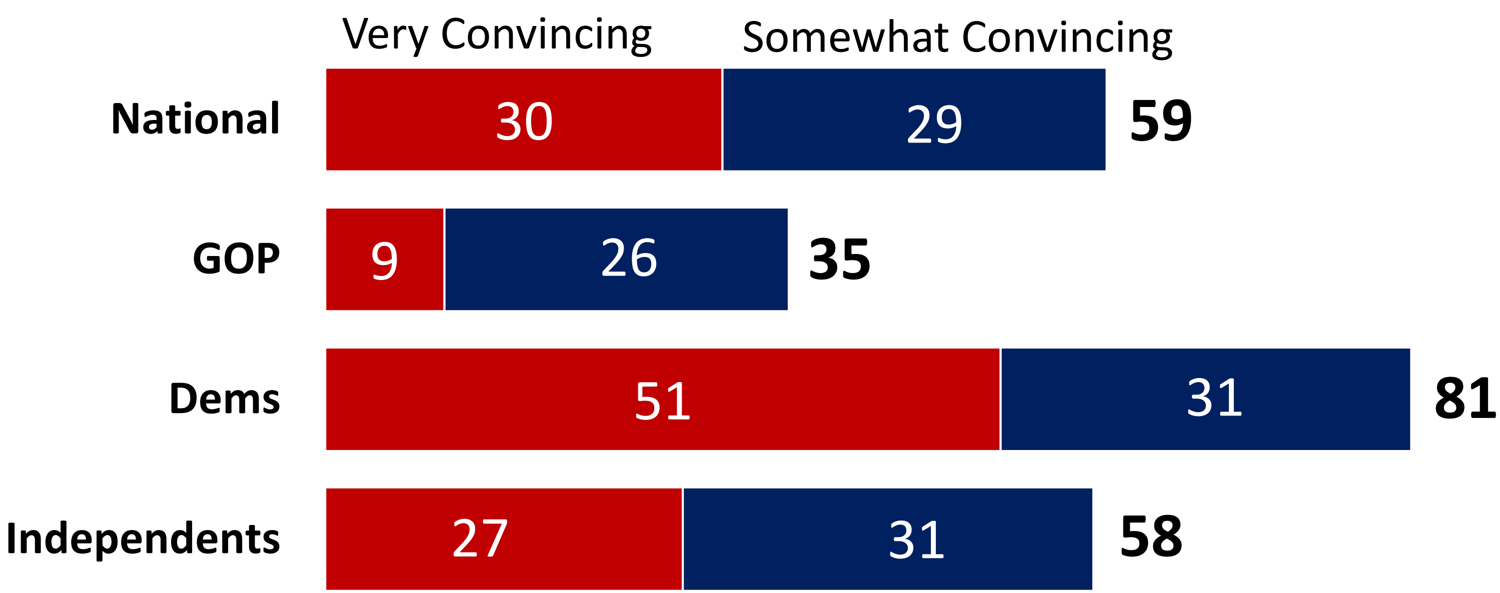
People get too concerned that cutting taxes will increase the deficit in the short run. They forget that cutting taxes gets the economy growing as companies have more money to invest and create jobs, and as people are encouraged to work more. When that happens, companies make greater profits and those profits are taxed, giving the government lots of income that it would not otherwise get. So, the tax cuts are a wise investment that will pay for themselves, at least in part, and maybe even completely. Lowering taxes will not only put more money in our pockets but they are a smart investment in our future.



Reducing Overall Tax Revenues

- Argument Against -

The idea that tax cuts will pay for themselves is wishful thinking and can be dangerous. Nearly all economists say only a small portion of the revenues lost from tax cuts comes back through growth. And tax cuts do not always stimulate growth. After 2001, when taxes were cut, the economy slowed. Recently, Kansas, cut taxes deeply and its economy did much worse than their neighboring states' economies. Kansas was forced to make drastic cuts to education, infrastructure and social services. We need to take a realistic approach and not gamble with our children's future.



Reducing Overall Tax Revenues

- FINAL RECOMMENDATION -