The Breach 309: Calculating the Human Cost of the Terrible Tax Bill
Learn more at Rewire.news.

Lindsay B.: Welcome to The Breach, your deep dive into authoritarianism and corruption in the era of Trump. I'm your host, Lindsay Beyerstein. The Breach is a production of Rewire.news, your home on the web for cutting-edge news and commentary on reproductive health, rights, and justice. If you're enjoying the show, please take a moment to rate and review us on Apple Podcasts. It really helps new people find out about the program.

My guest today is Chye-Ching Huang, Deputy Director, Federal Tax Policy, at the Center on Budget and Policy Priorities. She's here today to talk to me about the Republican tax cut that passed the Senate in the wee hours of Saturday morning. The bill is a massive shift of wealth from working people to the rich and corporations that adds $1.5 trillion to the deficit if the bill becomes law. The bill also repeals the individual mandate of the Affordable Care Act, which would add millions to the rolls of the uninsured and send everyone's insurance premiums skyrocketing.

Taxes aren't just numbers. They're about priorities, fairness, and our very way of life. This bill is the GOP's opening salvo in an all-out war against Medicare, Medicaid, and Social Security. This is class warfare, but the fight has only just begun. Chye-Ching, welcome to the program.

Chye-Ching H.: Thanks so much for having me.

Lindsay B.: This is the biggest overhaul of the tax system in our lifetime. What has it been like being in Washington, D.C. and watching this unfold?

Chye-Ching H.: It has been a little bit surreal. I think earlier in the process, we realized that Congress was going to try and rush this through very quickly. We predicted that the process would be designed in a way that would try to obscure the harmful impacts of this eventual bill. That's proved to be the case, but it's proved to be the case in ways beyond we were even able to anticipate. It's been an incredibly intensive process that has, in turn, hidden a bill that has outcomes that are even more harmful than we ever would have anticipated.

Lindsay B.: What were some of the ugly surprises that greeted you when it finally passed?

Chye-Ching H.: I think a lot of the things came reasonably early on in the process. Congressional Republicans set up a process by which they could enact a tax cut bill with only Republican votes in the Senate, so just 50 senators plus Vice President Pence breaking a tie if they needed him. They wrote themselves a way of doing that that would have allowed them to add $1.5 trillion in tax cuts to deficit over 10 years. We had anticipated that that would be heavily skewed to the top, and ultimately low and moderate-income people would be picking up the tab through budget cuts that they would demand later on in order to address deficits that the tax cuts had just enlarged.

In fact, the one thing that was somewhat surprising was just how much they prioritized tax cuts for the wealthy and corporations. They wrote this bill in a way that not only creates the risk of future harm through budget cuts but also immediately increases taxes on tens of millions of families to pay for the corporate rate cut, and also repeals a key provision of the Affordable Care Act that would leave 13 million more people without health insurance. There's a lot of harmful provisions that would immediately hurt people in this bill, and again, all of that flows towards high-income people.

Lindsay B.: Can you give us a sense of what a typical working family, middle-class family, what kind of changes they would see in their tax bill if this bill becomes law?

Chye-Ching H.: Sure. I think we need to break it into a few steps, because this highlights another way in which they've written the bill. In order to make their corporate tax cuts permanent, they have to comply with a rule in the Senate that they don't add deficits outside the budget window. They didn't have to decide that the thing they wanted to make permanent was the corporate rate cuts. They could have chosen to do anything else, but that's what they chose to do.

In order to pay for it in the long run, they have two provisions in place that pay for those corporate rate cuts. So, lower measure of inflation. That means that over time many middle-income filers will be pushed into higher tax brackets and face higher taxes. The value of the standard deduction would erode for low and moderate-income filers over time, and they would also face tax increases. They also have to pay for their permanent corporate rate cuts through repeal of the Affordable Care Act individual mandate, which we can talk about later on. In the long run, after 2025, most low and middle-income families have nothing to gain from this bill, and many indeed face tax increases in order to pay for those permanent corporate rate cuts.

That's the fundamental structure of the bill, and those are the things that they've chosen to make permanent. In the first few years, however, even when all of the individual income tax provisions are in place, it's really a mixed bag. 19 million low and moderate-income families would face tax increases even in 2025, when all of the individual income tax provisions are in place. Many middle-income families would also get tax cuts, but where you end up depends on an array of provisions that they've shuffled around on the individual income tax code, meaning taking away with one hand what they give with the other. Where you end up depends on where you live, the deductions that you take, the family structure that you have, and various other things.

Lindsay B.: I was shocked to hear that they're going to take away itemized deductions for freelancers. How much money could they actually be saving by stuff like that? Is that actually intended as a serious revenue-generating strategy, or is it basically just class warfare, sticking it to people that don't work for corporations directly?

Chye-Ching H.: They have had to really scour the code for things to pay for where they've prioritized giving tax cuts. Again, that's overwhelmingly to high-income people and to large, profitable corporations. I don't want to speculate too much as to the motive, but you do see prioritization and choices in what they've decided to repeal in terms of deductions and what they've decided to leave in place or indeed enlarge.

For example, one of the provisions that was added at the very last minute by an amendment was an increase in the ability of higher-income families to save through 529 plans in order to pay for effectively private school fees. They have certainly made choices where they want to retain or enlarge deductions and exemptions and where they've decided to repeal them. Another of the big, big revenue raises that they've had some focus is that they repealed state and local federal deductions of state and local income and sales taxes, and capped the deduction for property taxes. That flows through to creating a squeeze on state and local budgets and revenue, leaving them with the choice over time of either having to cut back on those services or raise revenue from other sources. Those other sources tend to be things that are more aggressive and fall more heavily on low and moderate-income people in states and localities.

Lindsay B.: Let me get it straight. They're squeezing regular people who pay taxes for public schools, but they just added an extra giveaway in the dead of night for people who want to send their kids to private and religious schools and pay for it out of pocket?

Chye-Ching H.: That is effectively the dynamic. You can see that baked into the fundamental tilt of the bill. You can look at basically the overall distribution, where low and moderate-income families by 2027, under $75,000, on average face tax increases, with large tax cuts going to millionaires. You can look at pairs of provisions, like the one that you just highlighted.

Another contrast that illustrates I think one of the fundamental dynamics of the bill is that there is a tax cut for the heirs of the wealthiest 0.2% of estates in the country. They increased the exemption level from $11 million per couple to $22 million per couple, so the heirs of every estate that is larger than $22 million per couple would get a tax cut of $4.4 million. At the same time, they have not extended their child tax credit extension to 10 million children and low-income working families. Those children would get at best a token increase of $75 in their child tax credit.

There are choices like that that are littered throughout the bill. Again, within the lots of moving pieces, the fundamental structure is that they've chosen to prioritize very big tax cuts like the estate tax cut, like the deep corporate rate cuts, and find other places to find savings.

Lindsay B.: Is it true that they threw in something that makes it easier to deduct your private aircraft?

Chye-Ching H.: Yeah. That is one of the smaller provisions in the bill. I don't know much about that particular policy choice, but I think, again, it's indicative of the scale of the rewrite of the tax code that we've been going through that I don't think there's any tax expert out there that really knows every single provision in this bill. We're going to be spending a long time finding out all the different changes in the tax code that have been made.

Lindsay B.: Some of them we can't even read, right, because they were scrawled in the margins in the early hours of the morning?

Chye-Ching H.: Yeah. I think again, it's really important to step back. We can talk about the way that it was passed on the Senate floor, absolutely. I don't think we've ever seen it. We're talking at 3:00-ish Eastern time on the morning after the bill was passed. It's now 3 p.m., and we still haven't seen the full, typed-up text that's not just the handwritten amendments in the margin. Things have been moving at an extraordinary pace.

Again, these process concerns are not just for the sake of process, although that is important in itself, but it's also a question of really understanding what's in this bill. Have members had the time to understand what this thing is doing, to hear from constituencies that are affected? In the case of an overhaul of the tax code, that's virtually every business and every household.

Lindsay B.: It really is alarming to see them rewriting the tax code with trillions going back and forth in the balance as they change each little thing with no discussion and no debate. This is the world's largest economy we're talking about here, and the people that are tinkering with it really have no idea how all the parts fit together. They can't, because they're not discussing them, or hearing from experts, or anything like that. It just shocked me.

Chye-Ching H.: Right. I think that it'll come out in the following weeks and even years as experts find the ways in which the provisions can be gamed. I wouldn't be surprised that the actual cost of this bill is larger than anticipated because of all the ways that lawyers and accountants will find to use the way that the law is written. I say that as a former tax lawyer myself.

I think the other big problem is that the very fundamental understanding of what this bill does, and who it helps, and who it hurts is not completely there. I think actually the public understands very well, and that speaks to the amazing work that a lot of advocates and analysts and commentators have been doing in explaining the overall tilt of this tax overhaul, but you still see, in the last week or two, GOP members, lawmakers who are selling this bill or who are explaining their position on it taking some positions that are really actually very misleading and are not indicative of what's in the bill. It's hard to tell really whether or not that's simply because people have not had the time to absorb what this thing does.

Lindsay B.: Do you think that Republicans are just out and out lying when they say that this bill is going to be revenue-neutral, or do you think they actually believe that?

Chye-Ching H.: Again, I think that's a really great question. I can't speak to the motivations or what's on their mind, but I think it's pretty indicative that we only had the Joint Committee on Taxation estimate of what this would do to the economy and how that would flow back through into revenue less than a week before the bill was actually passed, in fact very much less than that. Everything is a little bit of a blur given the amount of sleep I got over the last week, so I can't remember, but 28 or 48 hours before the bill was actually voted on. That's not a lot of time to absorb the official estimates from a nonpartisan committee on taxation that was set up to opine on these very issues what they're saying about what this bill does to the economy.

The fact was that their estimate was that this bill would come nowhere close to paying for itself. Up to that point, you'd heard GOP leaders relying on external estimates from economists who were far outside the mainstream to make their claims that this would pay for themselves. Again, it's hard to tell what led them to their positions, but the process really did not give a lot of time to absorb the official estimate from the mainstream estimator of what this bill would do.

Lindsay B.: Can we talk for a bit about the healthcare and health insurance implications of the bill that just passed?

Chye-Ching H.: Yeah. I think it's an incredibly important part of this bill. Again, they wrote themselves the ability to add $1.5 trillion to deficits with this tax bill. They added in the Senate a provision that repeals the Affordable Care Act's individual mandate, which is the requirement that most people enroll in adequate health insurance coverage. They did that effectively to enlarge their corporate rate cuts. Even with a $1.5 trillion bucket of money to play with, they didn't feel that they could get their tax cuts to be where they needed to be, and they needed to find other ways to pay for those provisions in order to keep the official cost at $1.5 trillion. Effectively, this was added to make those corporate rate cuts permanent.

What this does is it effectively creates all of those savings from people no longer being insured. The Congressional Budget Office estimates that 13 million more people will be uninsured because of the loss of this provision by 2027, and premiums in the individual market would go up by 10%. The way that the savings come about is that one of the big reasons that there are savings is that people are no longer having coverage. People who aren't finding out about the fact that they are eligible for Medicaid because they no longer go and search for their coverage options because they no longer have the mandate requiring them to do so don't sign up for Medicaid, don't get their coverage, and therefore generate government savings from lower Medicaid costs.

That's a similar pattern on the tax side, as well. Many people who are eligible for individual ... who can purchase coverage in the individual markets, when they go and search for their coverage options, they find out that they're eligible for premium tax credits that cover a substantial part or in some cases almost all of their cost that they save. Without the individual mandate to nudge people to go and look for those coverage options, people don't find out that they're eligible for those subsidies and no longer take them. That generates savings for the government, too.

Then with all those people leaving the individual market, it tends to healthier people, and premiums go up for everybody else.

Lindsay B.: Is this the death knell of the Affordable Care Act in disguise?

Chye-Ching H.: It's absolutely not, in the sense that there are a number of steps that lawmakers can take to strengthen the individual markets and to try to address and in fact reverse some of those coverage losses. I think one of the absolutely unfortunate things, however, is that the ACA has been a clear target of Republicans and that they've managed to slip into this tax bill what is effectively getting them a large way to the skinny repeal bill that was defeated in the Senate earlier this year. In fact, for some of them, it's said that they see that as a feature, not a bug, the fact that they are creating this undermining of the individual markets.

Lindsay B.: Susan Collins said that she agreed to sign on because President Trump said that he would support two bills to help fix the Affordable Care Act. Can you talk about what that means?

Chye-Ching H.: Yeah. Unfortunately, I think she's taken assurances that would not in fact protect the individual markets from the harm that the individual mandate has caused. There was on a separate track before this tax bill came into place a bipartisan effort to create some stabilization of the individual markets, and in particular to address some of the sabotage that the administration has been undertaking through its administrative decisions around not supporting and not paying various subsidies that are key to those markets. That package would have addressed some of those harms. Unfortunately, it doesn't reverse or help with any of the other harms, so I think unfortunately this is a promise that number one, we'll see if it's kept and whether or not anyone can offer that kind of assurance, but number two, doesn't actually get to the entire harm that this repeal of the individual mandate has caused.

Lindsay B.: It's entirely possible that neither of those two bills will ultimately become law, right?

Chye-Ching H.: Correct.

Lindsay B.: Even if Trump does support them?

Chye-Ching H.: Correct.

Lindsay B.: People have talked about the impact of this bill, if it ultimately becomes law, as changing our whole way of life. What kind of programs and government activities and just the stature of the U.S. in the world, what kind of decline are we looking at if we're losing these trillions of dollars?

Chye-Ching H.: I think that's a really great question, to be looking forward to how does this affect fundamentally revenues, and the budget, and the way that programs are funded. I think we want to take really seriously what Congressional Republican leaders have been saying, both in their budgets and recently, which is that these tax cuts for the wealthy are just the prelude to cutting vital programs. That could have really important impacts for families and the economy. In their budgets, in fact in the budget resolution that set off this entire process with this tax bill, they set out clear goals of deeply cutting Medicaid, Medicare, and other health programs, and they set up goals of cutting the part of the budget that funds education and training, transportation and infrastructure, medical research, childcare, eldercare, lots and lots of things that are really important to strengthening communities and the economy as a whole.

They justified those cuts, as I mentioned before, by pointing to existing deficits even before they added this additional $1.5 trillion in tax cuts for the wealthy. I think we need to be worried and ready to try to prevent what they have said will be the next step, which is that they want to do spending cuts maybe as soon as next year. I think they've been really, really clear about that. In fact, just two weeks ago, the first line of a Washington Times article was, "House Speaker Paul Ryan said Tuesday that Congress is going to turn next year to spending cuts to try to lower the deficit." That's the next step after cutting taxes. I don't think it's a secret that this is the potential harm that's coming.

Lindsay B.: There was a lot of talk in the run-up to the vote about triggers that would come into place if the bill ended up costing more than it was expected to. Did those actually make it into the final draft?

Chye-Ching H.: No. The irony is that the changes that were made in the last set of amendments actually increased the cost of the bill as officially scored and in fact increased the gimmicks that potentially hide the true cost of the bill. For the members and the senators that were saying all through the process that they were concerned about adding $1.5 trillion to deficits, let alone the potential $1.9 trillion or more that it really costs after you strip away some of those gimmicks, it's really just gotten worse through the process. Honestly, a trigger wouldn't have fixed that, but it's pretty startling to see how those fiscal concerns have really not borne out at all in any of the policies that have been adopted.

Lindsay B.: Really clarifies what the Republicans' priorities are.

Chye-Ching H.: Exactly. I think connecting that to the spending debate, they're being very clear that ... President Trump has said just a week ago that he wants to look strongly at welfare reform. Ways and Means Chairman Brady says he wants to do welfare reform after the bill. As you know, that's long been a code for cuts to programs that help families afford food and housing and other basic needs. Those are the things that they see as addressing deficits, not tax cuts, and not revenues. They couldn't be clearer about that.

Lindsay B.: The bill isn't law yet. The House has to vote on it again, and they have to do reconciliation. Is there still a chance for the opponents of the bill to turn this around?

Chye-Ching H.: I think it's really, really important that the House hasn't voted on the version of the bill that includes repealing the individual mandate, that includes this dynamic where the Senate let all the individual income tax cuts expire, but kept in place things that hurt low and moderate-income families to pay for permanent corporate rate cuts. There are some really big differences, and I think it's important for lawmakers to hear what constituents think about this bill as it moves forward through conference and then to the House.

I don't want to overstate the opportunity that there may be to turn this thing around. There's always, as we've seen many times in the healthcare debate, the possibility of something happening that turns things around. In addition, there are some issues that maybe we wouldn't prioritize or care about so much in terms of policy discussion but that could create issues between the House and the Senate as this moves forward as well. Who knows what could come as the next step?

I think the other important thing is that to the extent that people are hearing from constituents and others that they understand the contents of this bill, and they understand the impact that it's having on families, on healthcare, on the tax code, and the implications for the spending debate, I think it will make it harder for them as it passes to turn around and go and pretend that their coming spending cuts had absolutely nothing to do with the gigantic tax bill that they've just passed that increases after-tax incomes for the very wealthy.

Lindsay B.: It's interesting. If you look at the senatorial election map, most of the senators that are coming up for reelection in 2018 are in pretty safe conservative states, so they can afford to do these kinds of antics. Their constituents elected them to do basically that.

If you look at the House map, there are a lot of Republicans in relatively Democratically strong areas who might be vulnerable.

Chye-Ching H.: Also, there's a lot of ... I think it's been a little bit curious to me that there are a lot of both senators and members where this bill is very clearly a bad deal for their constituents, and for their states, and for their districts compared to the rest of the country. Again, I think we talked a little bit about this before, but some of the ways that the bill raises and loses revenue has very different impacts across different types of states. There are 19 states, the Institute for Taxation and Economic Policy estimated for example, that would be overall paying more in federal taxes after this bill than before it. Again, that's extraordinary in a bill that overall cuts taxes by $1.5 trillion over 10 years. There's been, again, not only within who it's helping but also geographically, clear priorities that this bill has decided on. It seems at the moment as though many senators and representatives are prepared to vote for this even though it may hurt their states disproportionately or their Congressional districts disproportionately compared to the rest of the country.

Lindsay B.: Geographically, who are the winners and who are the losers here?

Chye-Ching H.: Again, I'm drawing on some great analysis by the Institution for Taxation and Economic Policy. It tends to be that states that have higher state and local income tax deductions tend to do worse than the average state. That's a whole swath of states. It's not just what you would think of as blue states. There's a great map that one of my colleagues did that's up on our website that shows that there are lots of states where particularly the sales and income tax deductions, which are completely repealed, are a very large share of total deductions in those states. Again, there are a lot of states, localities, school districts across the country that rely on revenues that are supported at the federal level from this deduction that could feel pain over the long run from having to address a squeeze on their budget.

Lindsay B.: If people want to learn more, where can they go on your organization's website to find out how the tax bill might affect them?

Chye-Ching H.: I work for the Center on Budget and Policy Priorities. We are cbpp.org. At the moment, we've got a lot of tax real estate on our front page, so that's where you'll find most of the resources that I've talked about, including links to a lot of fantastic analyses by so many great organizations that have been just working so hard to figure out what this thing does and to explain it in ways that are accessible given, as you said, it's an incredibly complicated process. As we've also been talking about, the overall impact couldn't be clearer and more harmful.

Lindsay B.: Chye-Ching, that's all the time we have for today. Thank you so much for coming on the program.

Chye-Ching H.: Thanks so much for having me.

Lindsay B.: Now it's time for recommended reading, a handpicked selection to deepen your understanding of our bewildering political moment. This week's selection comes from our friends at Snopes.com. It delves a little deeper into the question of whether the tax bill includes a break for the owners of private jet. The verdict? Mostly true. Currently, flights sold by so-called aircraft management companies are subject to a 7.5% tax. You and I pay this tax every time we fly. There's a dispute over whether the term aircraft management company includes the companies that manage the aircraft of the super-rich. The IRS says it does, but the private jet managers withheld their taxes anyway, and the IRS basically gave up trying to collect them.

The Senate bill settles the dispute in the private jet companies' favor, meaning that the costs won't be passed on to their wealthy clients and ensuring that those rich enough to travel by private jet get out of a tax that the rest of us have to pay, a tax that funds air traffic control. You might be interested to know that private jets already account for 10% of flights under air traffic control but generate less than 1% of the taxes that fund the system. That's it for recommended reading.

The Breach is produced by Nora Hurley for Rewire Radio. Our executive producer is Marc Faletti. Our theme music is Dark Alliance performed by Darcy James Argue's

Secret Society, and I'm your host, Lindsay Beyerstein. Follow Rewire at Rewire_News for the latest on the issues that matter most. See you next week.