Taxation Policy for *Party Rodeo*

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I. Introduction

The United States of America thrives on the national federal budget to sustain and advance strong national security, infrastructure, and welfare. Every social program, from education to police forces to business assistance, requires funding, and it is easy to assign appropriate amounts of monies to such programs. However, none of this is possible without a responsible and fair taxation plan. It will be necessary to enact equitable taxes with fewer loopholes, so the wealthiest corporations can fairly contribute to the strength of the United States without stifling domestic production. Similarly, it is essential to reduce taxes on average Americans to allow them to utilize their wealth in the economy by decreasing income and estate taxes. Finally, taxes must be allocated towards the national debt without intensely cutting spending, as both social programs and the debt must be focused on for the United States' sustainability. [1]

II. Background

In 2017, President Donald Trump passed the Tax Cuts and Jobs Act of 2017 (TCJA). The act had adverse effects on taxation in the United States. Reflective of the name, a majority of the bill cut income taxes by 1-4% per bracket[1] and slightly expanding each bracket's taxable income range.[2] Also, personal exemptions, federal income tax deductions calculable upon filing taxes for circumstances such as student loans or dependents,[3] were eliminated. Instead, deductions

[1] 1. Davis, Lance. "2016 Tax Bracket Rates." Bankrate. Bankrate.com, December 14, 2017. https://www.bankrate.com/taxes/2016-tax-bracket-rates/.

2. Amir El-Sibaie, "2019 Federal Income Tax Brackets: 2019 Tax Brackets and Rates," Tax Foundation, November 14, 2019, https://taxfoundation.org/2019-tax-brackets/.

3. Rebecca Lake, "What Is a Personal Exemption?," SmartAsset (SmartAsset, December 9, 2019), https://smartasset.com/taxes/personal-exemption)

specified to children or other previous qualifiers were formulated to replace the personal exemptions.

The TCJA also overhauled corporate income taxes. Previously, corporation income tax was divided into eight brackets with amounts of taxable income and a minimum taxed dollar amount and a percentage ranging from 25% to 35% above the required minimum. With the introduction of the TCJA, the corporate tax bracket was eliminated and replaced with a flat rate of 21% of taxable income.[4] Other corporation policies were also adjusted. Before 2017, corporations were subject to filing their taxes twice, the second the Corporate Alternative Minimum Tax, and paying the higher calculated taxes. This was implemented to assure that a profitable corporation would pay some amount of taxes and not be able to use tax deductions and operational losses to reach a zero-sum taxation amount.[5] After the 2017 act, the alternative filing was repealed. Further reforms were made, where small businesses investing in new capital can write off a more substantial amount of the costs of these investments, as well as writing off a higher percentage of investments for all corporations.[6] Additionally, interest in operational business loans was previously fully deductible but now cannot exceed 30% of the corporation's income if the corporation makes more than $25 million. Finally, changes were made to pass-through businesses. A pass-through business, or S-Corporation, is a form of corporate taxation where the business is still considered its own entity, but its finances apply to a person's own finances. While the business's income was previously taxed at the same rate as a personal income and

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[2] 4. Jean Murray, "Learn About Corporate Tax Rates and How to Calculate What You Owe," The Balance Small Business (The Balance Small Business, May 9, 2019), https://www.thebalancesmb.com/corporate-tax-rates-and-tax-calculation-397647)

5." How Did the Tax Cuts and Jobs Act Change Business Taxes?," Tax Policy Center (Urban & Brookings), accessed January 13, 2020, https://www.taxpolicycenter.org/briefing-book/how-did-tax-cuts-and-jobs-act-change-business-taxes)

6. Ibid

company losses were deductible from the any of the individual's income sources, the TCJA created a business income deduction, reducing the owner's overall tax rate, as well as a business losses deduction up to a certain amount.

President Trump's Tax Cut and Jobs Act of 2017 effectively:

- Overall decreased income taxes
- Decreased available deductions
- Significantly decreased corporate taxes
- Promoted small businesses with new small-business centric policy
- Decreased tax deductions for larger corporations

The tax cuts were intended to boost the economy. This was to be done through promoting small business investment and expansion, increasing disposable income in individuals' paychecks, nurturing international corporate activity in the states, and trickle-down style increases in salaries by allowing corporations space to reinvest more money.

III. Effects of Current Policy and the State of U.S. Revenue

The TCJA had adverse effects on the federal government's revenue and holds sub-par projections for the future. With the implemented income tax cuts, most Americans did have an increase in take-home pay, but only by a marginal amount. In contrast, the highest income individuals saw a substantial increase in their disposable income.[8] However, the United States did see an increase in individual tax revenue from 2016 to 2018 by roughly $140 billion,[9] possibly thanks to the unemployment rate decreasing by over a full percent in the same period.[10]

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[3] 7. "How Did the Tax Cuts and Jobs Act Change Business Taxes?," Tax Policy Center

8. Scott Horsley, "After 2 Years, Trump Tax Cuts Have Failed To Deliver On GOP's Promises," NPR (NPR, December 20, 2019), https://www.npr.org/2019/12/20/789540931/2-years-later-trump-tax-cuts-have-failed-to-deliver-on-gops-promises)

While advertised to help average Americans, the TCJA had little to no effect for low and middle-income taxpayers while having little effect on the federal tax revenue.

The other half of the TCJA, cutting corporate taxes, also had little beneficial effect. While both small businesses and giant transnational corporations received a substantial tax break, the U.S. budget suffered at the expense of increased corporate profits. U.S. corporate income tax revenue decreased by 31%, or $95 million, from 2017 to 2018, an unprecedented drop in the last twenty years. The TCJA did little to curb corporate taxation loopholes, allowing companies such as Amazon, Netflix, Halliburton, General Motors, and many more not just to pay zero federal income taxes, but receive rebates from the federal government.[11] Alongside a massive revenue loss, the act failed to fulfill the goal of economic revitalization. While it did have a bolstering effect very early on, investments dropped off only two quarters later, and the economy is projected to grow at a lower rate than in 2010.[12]

Finally, with the 2019 federal tax revenue of $3.4 trillion and spending of $4.4 trillion, the federal deficit grew by $984 billion.[13] This is an incredible budget deficit for the U.S. outside of wartime or recessionary economic stimulation,[14] further adding to the ever-increasing United States debt of over $22 trillion. In totality, the current U.S. tax policy:

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[4] 9. "Budget and Economic Data," Congressional Budget Office, May 2019, https://www.cbo.gov/about/products/budget-economic-data#2)

10. "Bureau of Labor Statistics Data," U.S. Bureau of Labor Statistics (U.S. Bureau of Labor Statistics, January 13, 2020), https://data.bls.gov/timeseries/LNS14000000)

11. Kathryn Kranhold, "You Paid Taxes. These Corporations Didn't.," Center for Public Integrity, accessed January 13, 2020, https://publicintegrity.org/inequality-poverty-opportunity/taxes/trumps-tax-cuts/you-paid-taxes-these-corporations-didnt/)

12. Horsley, "After 2 Years, Trump Tax Cuts Have Failed To Deliver On GOP's Promises"

13. "Treasury: 2019 Deficit Was $984 Billion," Committee for a Responsible Federal Budget, November 7, 2019, http://www.crfb.org/blogs/treasury-2019-deficit-was-984-billion)

[5] 14. Horsley, "After 2 Years, Trump Tax Cuts Have Failed To Deliver On GOP's Promises"

- Increased take-home pay
- Had little effect on the individual income tax revenue
- Decreased corporate income tax rates significantly
- Decreased corporate income tax revenue by $95 billion
- Increased the budget deficit by $984 billion
- Did not boost the economy, but sustained growth

IV: Policy Options and Objectives

An in-depth reform of the U.S. taxation policy needs to enacted alongside a responsible spending policy to seek the best interests of the country. Taxation policies will focus on balancing the budget, providing enough revenue to sustain necessary spending, and ensuring a stable and accessible economy. There are multiple policy options that may work in tandem to reach the three main goals:

1. Individual Income Taxation Rates
   a. Increasing Income Taxes: Rates for individual income tax brackets could be increased by one percentage point in each bracket. The 22% tax bracket would increase to 23% until TCJA's expiration in 2025, where the pre-TCJA rate of 25% would be restored and increased to 26%. Additionally, the top two tax brackets, 35% and 37%, could have an addition point percentage, creating a 36% and 38% rate, added until 2025 when the rates are restored to 35% and 39.6% and would be increased to 36% and 40.6%. The first tax increase would add $905.4 billion to the U.S. revenue by 2028, and the second increase would add $123.4 billion by 2028,[15] resulting in a $1.03 trillion revenue increase. This could be used to counteract the increasing budget for mandatory spending such as Social Security and Medicare while decreasing the currently projected yearly budget surplus.

This would also serve to assist in balancing the budget in terms of revenue and providing necessary spending power for the enormous outlay necessary to sustain the country.

b. Multi-Job Tax Break: Many low-income Americans work multiple jobs to sustain themselves and their families. Roughly 13 million Americans worked two jobs the entire year in 2013, with a majority being women.[16] To stimulate lower income brackets that require more than one job, a tax break could be implemented to promote spending in their communities. As it stands, each income is combined and taxed together. Under a new policy, filers who are working multiple minimum-wage jobs could submit each job's income to be taxed at the rate that would apply to just that employment. For example, a single mom working two minimum wage jobs with limited hours averaged $20,000 a year at each business, would be expected to pay 22% of her $40,000 income assuming no deductions, resulting in a bill of $8,800. However, under the new policy, each income would be taxed at a 12% rate, resulting in a $4,800 tax. The $4,000 she would save would then be available to be saved towards retirement or college funds or spent in the market on consumer goods. This would invigorate some of the most struggling Americans and allow them and their families a chance to move up economically.

2. Corporate Income Taxation Rates

a. Reinstating Brackets and Corporate Alternative Minimum Tax: The repeal of corporate income taxes by the Tax Cuts and Jobs Act both rid of equitable corporate taxation as

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[6] 15. "Options for Reducing the Deficit: 2019 to 2028," Congressional Budget Office (Congressional Budget Office, December 2018), https://www.cbo.gov/system/files/2019-06/54667-budgetoptions-2.pdf)

16. U.S. Census Bureau, "About 13M U.S. Workers Have More Than One Job," The United States Census Bureau, July 16, 2019, https://www.census.gov/library/stories/2019/06/about-thirteen-million-united-states-workers-have-more-than-one-job.html)

well as allowed for zero-dollar taxes from some of America's largest companies. By repealing the 21% corporate income rate and reinstating the eight bracket system that was previously used,[16] much of the previously lost corporate income tax revenue can be restored. Additionally, the Corporate Alternative Minimum Tax filing may be reinstated to assure that companies are paying their full fair amount of taxes. With these two reimplementations, U.S. tax revenue can restore the nearly $100 billion lost under the TCJA, allowing for an increased budget to be spent on the mandatory and discretionary spending items of the budget.

b. Sustaining Deduction Limitations and Small-Business Promotion of TCJA: The TCJA was not entirely a failure in terms of tax reform. Policies such as increased write-offs for investments, increased single expense write of maximums for small businesses, and a limit on deductible losses from loan interest for corporations making more revenue than $25 million, all stimulate business investments while assuring large and established corporations do not abuse tax write-offs.[17]

3. Excise Tax

a. Value Added Tax: A valued added tax is a form of sales tax that takes into account the production of a production and taxes the consumer. Rather than only taxing the final transactional sale of a product, a value added tax taxes each productional step.[18] Most modern industrialized countries have a form of a value added tax with different products identified for the tax, but the U.S. should consider a narrow base of goods to receive a

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[7] 17. Jean Murray, "Learn About Corporate Tax Rates and How to Calculate What You Owe"
18. "How Did the Tax Cuts and Jobs Act Change Business Taxes?," Tax Policy Center

5% value added tax.[20] A narrow base would not include products considered to be necessary, such as food, clothes, or medical costs, but instead electronics, furniture, construction, etc. By the year 2028, a 5% value added tax could add a comfortable $1.9 trillion to federal tax revenue,[21] allowing a source to recover increased spending on social security or to be used on sustaining or funding new government programs. [8]

V: Policy Recommendations

Each proposed policy has it's own pros and cons. It is important to consider these while considering what would be the best course of action for the party, in terms of electability, practicality, and sustainability.

1. Individual Income Taxation Rates
    a. Increasing Income Taxes: The introduction of the TCJA created a severe deficit in the United States budget. It is incredibly vital to close the gap created by the current administration. An increased tax percentage in each income tax bracket, as well as an inflated rate for the two highest brackets, will have an overall positive effect, but potentially some negative consequences.
        i. Pros: Individual income tax revenue will be increased, providing more sustainable spending; the expiration of the TCJA in 2025 will allow for an even more significant increase in revenue; equitable taxation of higher income brackets allows for a more equal income distribution

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[8] 19. "Sales Taxes and Value-Added Taxes (VAT): Northeastern University," Northeastern University D'Amore-McKim School of Business, October 26, 2019, https://onlinebusiness.northeastern.edu/blog/whats-the-difference-between-sales-tax-and-value-added-tax/)

20. "Options for Reducing the Deficit: 2019 to 2028," Congressional Budget Office

21. Ibid

ii. Cons: Most Americans will be unsupportive of increased income taxes, especially those of higher income levels who have more disposable income to leverage in elections and lobbying; investments and savings will be decreased due to the decreased amount of disposable income available to individual Americans

Overall, increasing income tax rates is highly advisable. Tax revenue needs to be restored, and this option provides a substantial increase while only meeting mostly pre-TCJA standards, clarifying that such a policy would not hurt the economy very much as it has already been proven to work.

b. Multi-Job Tax Break: A tax break for some of the hardest working and most disadvantaged Americans has positives that easily outweigh the negatives.

i. Pros: Low income, working-class Americans will have a higher disposable income to spend on private businesses who, in cooperation with increased corporate taxes, would be providing higher tax revenues to the government; local economies will be stimulated, further stimulating their trade partners and the country as a whole; gain political support from lower-income Americans; small effect on tax revenues allows for sustainable spending; potential increase in savings and investments

ii. Cons: Decreased individual income tax revenue; more complicated tax system can lead to confusion when filing taxes, primarily by lesser education workers, causing a further decreased tax revenue and an increased necessity of the Internal Revenue Agency to enforce missing taxes or providing rebates; potentially unfair penalty for working only one job that pays more than two jobs but is still not a sustainable source of income

Pursuance of such a policy is recommended. Provided there is further consideration of implementation to avoid some of the cons, this policy could provide a strong economic base while overall cultivating savings, economic movement, and economic growth.

2. Corporate Income Taxation Rates
    a. Reinstating Brackets and Corporate Alternative Minimum Tax: The colossal loss of corporate tax revenue under the Tax Cuts and Jobs Act of 2017 meant a considerably worsened budget deficit. Bringing the tax system back to pre-TCJA rates will have an undeniably positive effect.
        i. Pros: Corporate income tax revenue can be restored by $100 billion, just in the first year, with increasing revenues every year; provide a much needed base for mandatory and discretionary spending; reinvest American profits into the United States, rather than being bounced around tax loopholes and into international accounts; stopping the trend of multi-billion dollar companies paying zero federal taxes, increasing public support
        ii. Cons: More confusing tax rates, potentially leading to mistakes in filing, especially by small businesses; decreased domestic investment by corporations; lack of support from large and powerful corporations and their Political Action Committees

    Pursing the reinstatement of pre-TCJA corporate income tax rates will have a tremendous positive effect and is highly advisable, even if rates must be slowly introduced to smooth the transition from the currently low rates.

    b. Sustaining Deduction Limitations and Small-Business Promotion of TCJA: The deduction limitations and policies promoting small businesses introduced with the TCJA incentivize growth and investment while protecting tax revenues from unnecessary tax write-offs.

i. Pros: Close tax loopholes, forcing larger corporations to pay a more fair and equitable tax; give small businesses more room to take risks on investments, as well as hold more funds for further investments and operational costs rather than spending it on taxes; increase investments and federal corporate income tax revenue

ii. Cons: More confusing tax codes may lead to mistakes in filing; decreased support from large and powerful corporations and their Political Action Committees

As big businesses dominate industries, it is crucial to protect and invest in small businesses. By providing them with incentives to grow, the economy can see growth from the ground up.

3. Excise Tax

a. Value Added Tax: A valued added tax would provide a much needed revenue stream. However, the complicated and foreign nature of such a tax could prove disastrous for the United States if implemented poorly.

i. Pros: Large revenue source not previously utilized; could allow for decreases in other taxes

ii. Cons: Complicated and could prove too tricky to apply to the U.S. economy retroactively; leaves space for increased tax evasion; similar to all sales tax, would disproportionally affect and hurt lower-income individuals as it would amount to a more significant percentage of their paychecks; lose the support of states for superseding sales taxes

While a value added tax would increase tax revenue significantly, it is not advisable to add such a tax at this time. However, if a cleaner or more sustainable version of a value added tax could be implemented, the policy option would be more advisable.

VI: Conclusion

Party Rodeo's success will be determined by the relatability, sustainability, and practicality of our stance on taxation. It is essential to take into consideration how to balance the federal budget, provide an economy Americans can suitably live in and enter the market, and propose policies that could lead to the party's election.