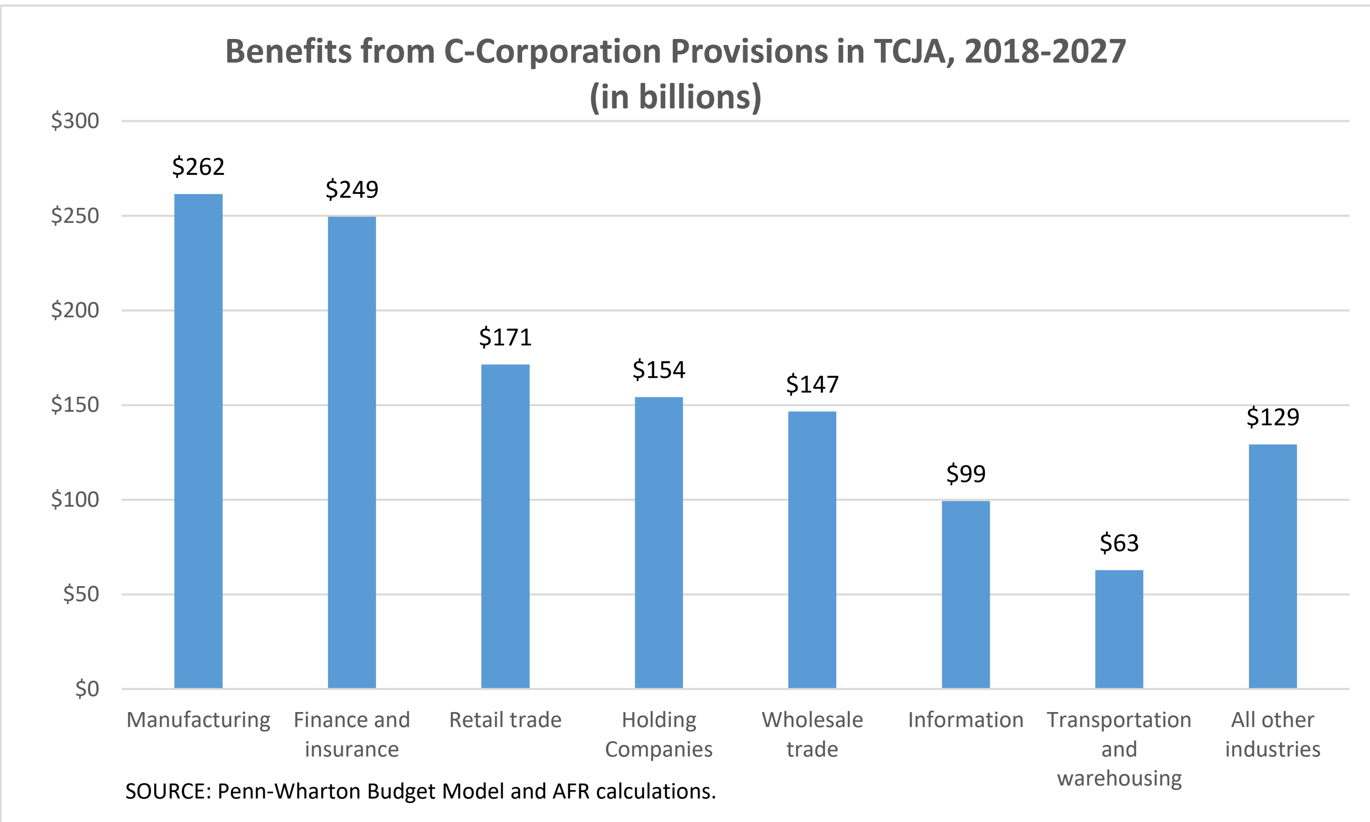
Americans for Financial Reform

Wall Street a Big Winner in New Tax Package

It's well known that the just-passed Tax Cuts and Jobs Act (TCJA) is overwhelmingly slanted toward the wealthy. Non-partisan analysts find that by 2025 the TCJA will give 25 percent of its benefits to the top one percent of households, with an average tax cut of $61,000 to families in the top one percent and just $900 to middle-class households. After most individual tax cuts sunset in 2025, the distribution becomes even more lopsided, with an amazing 83 percent of benefits going to the top one percent.[1]

What is less well known is the way the bill gives a hugely disproportionate share of its corporate tax benefits to just one industry – finance. A Penn-Wharton study of the TCJA tax breaks broken out by industry finds that over the next decade (2018-27) ***the financial industry gains almost $250 billion in tax benefits*** just based on the tax cuts for C corporations included in the bill.[2]

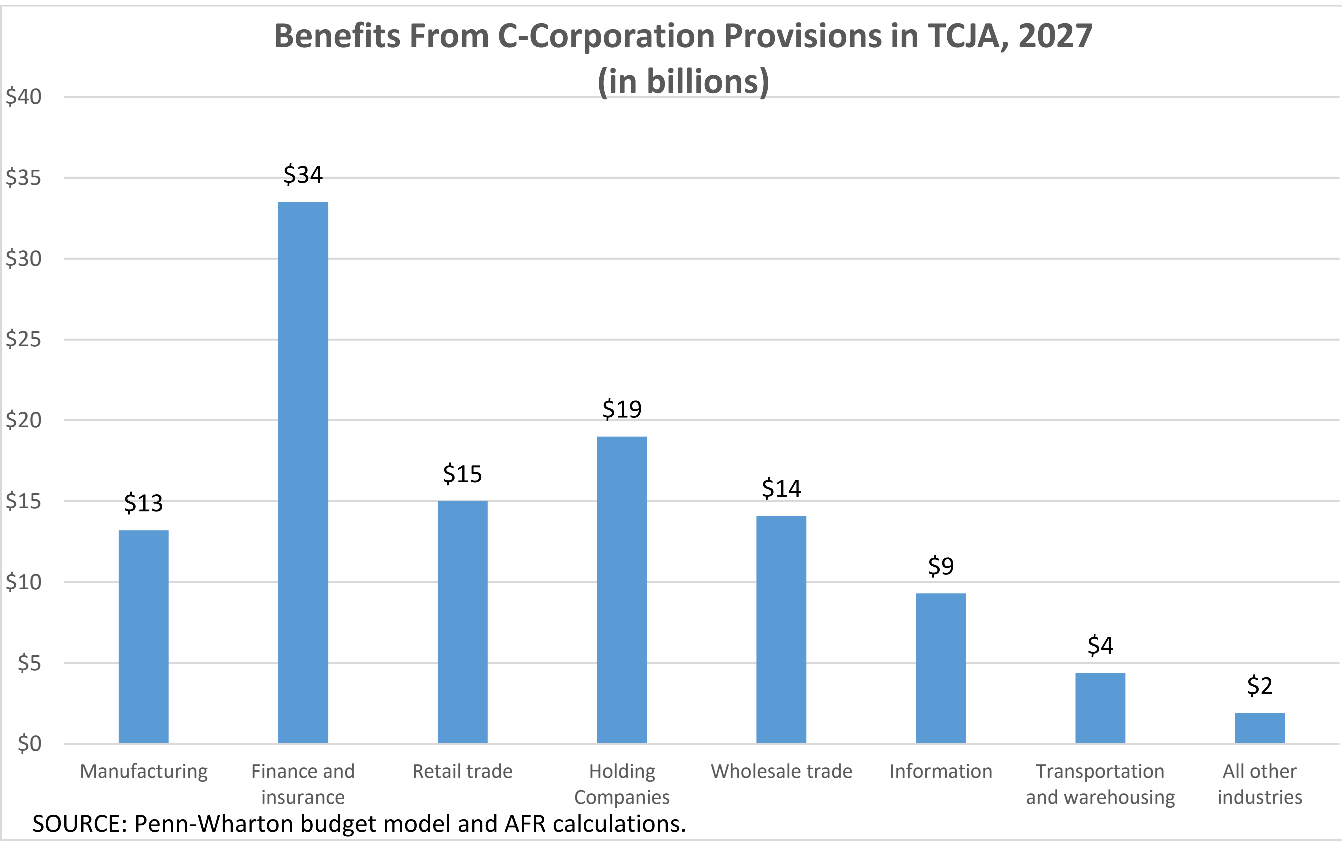


[1] Tax Policy Center, "Distributional Analysis of Conference Agreement for the Tax Cuts and Jobs Act", December 18, 2017. http://tpc.io/2kIhdyn
[2] Penn Wharton Budget Model, "The Tax Cuts and Jobs Act As Reported by the Conference Committee: Tax Effects by Industry", December 18, 2017. http://whr.tn/2DxIfAX

As shown in the chart above, that's the second most benefits gained by any industry and ***over one-fifth*** of the estimated total tax benefits from the C-corporation tax cuts in the bill.

But that figure underestimates how much finance will gain from this bill in the long run. One reason manufacturing appears to gain so much from the bill is that the TCJA accelerates pre-existing depreciation allowances and permits these allowances to be taken earlier. The benefits to manufacturing in the bill are thus front-loaded and over the long term the industry will not routinely experience tax breaks as large as it does in the next few years.

That's not true for finance. By the end of the decade, finance will be experiencing an even greater share of the bill's benefits. In fact, by 2027, a year that represents the long-term effects of the bill, ***finance gains over thirty percent of C-corporation benefits from the TCJA.***

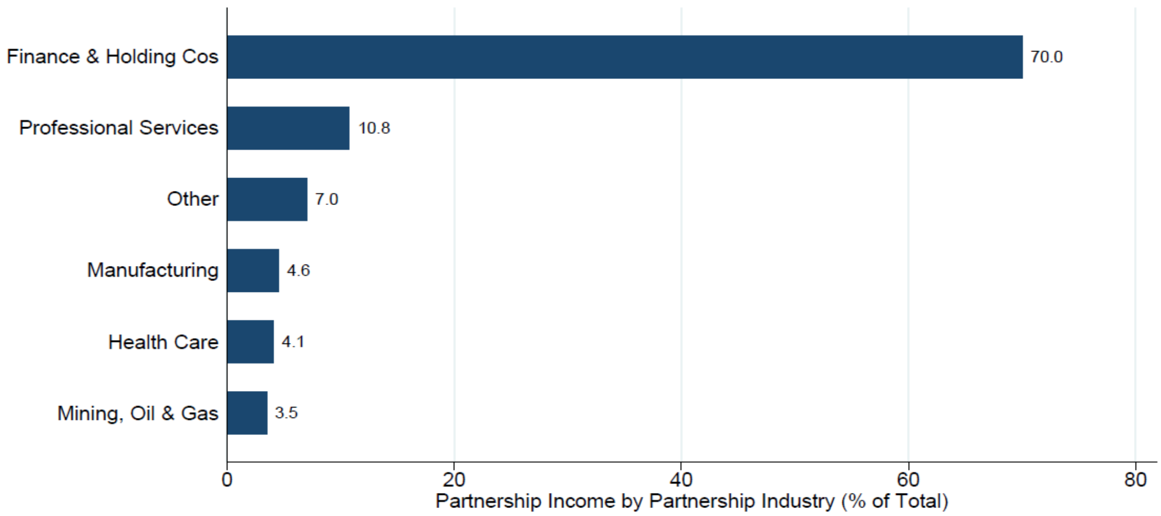


The situation in 2027 is representative of the long-term impacts of the TCJA.

Beyond massive benefits to financial sector C-corporations, Wall Street also stands to be a big winner from changes in the treatment of business pass-through income to individuals. The TCJA slashes tax rates on individual income from business pass-through entities like partnerships and S-corporations, at a cost to government of over $400 billion over the next decade.

But the industry distribution of partnership income from pass-through entities is also overwhelmingly weighted toward the financial sector. The figure below shows partnership income broken out by type of industry, from a recent study drawing on IRS data.[3]

Figure 4: Distribution of Partnership Income by Industry



As the chart shows, fully 70 percent of partnership income goes to the financial sector. They thus have much greater opportunities to benefit from cuts in tax rates for pass-through partnership income.[4] Since these cuts will only benefit taxpayers who pay individual rates higher than the new reduced pass-through rates, they will also go disproportionately to the wealthiest business owners and investors.

In sum, finance is the biggest long term winner from the C corporation tax cuts in the TCJA. The industry gains almost $250 billion over the next decade, and, unlike front-loaded benefits to manufacturing that come from accelerating pre-existing tax savings from depreciation, the financial sector benefits in the package are permanent and hence more costly over the long term. Wall Street also stands to gain greatly from the tax cut on pass-through entities like partnerships and S corporations because of the high percentage of partnership income that comes from the financial sector. The TCJA is a great deal for Wall Street.

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[3] Cooper, Michael et al, "Business in the United States: Who Owns It and How Much Do They Pay?" Office of Tax Analysis Working Paper 104, United States Treasury, October, 2015. http://bit.ly/2zaGhDk

[4] The drafters of the tax bill did include provisions seeking to restrict some owners of some types of financial partnerships and funds from benefiting from these cuts in tax rates on pass-through income. However, these do not apply to all financial entities and there are numerous ways to evade them. See Avi-Yonah, Reuven S. and Batchelder, Lily L. and Fleming, J. Clifton and Gamage, David and Glogower, Ari D. and Hemel, Daniel Jacob and Kamin, David and Kane, Mitchell and Kysar, Rebecca M. and Miller, David S. and Shanske, Darien and Shaviro, Daniel and Viswanathan, Manoj, "The Games They Will Play: An Update on the Conference Committee Tax Bill", December 18, 2017. Available at SSRN: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3089423