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TAX REFORM MAKES THE TAX SYSTEM EVEN MORE PROGRESSIVE!



By Stephen L. Bakke  January 1, 2018

Here's what provoked me:

Republicans have done a horrible job of explaining and selling the new tax reform legislation. While the democrats are pounding the media with misleading and pessimistic information about the tax reform, republicans seem to take the "high road." This brief commentary is part of my ongoing effort to explain my understanding of tax reform from different angles and perspectives. This focuses specifically on the democrats' obsession with having a progressive tax system in which the rich carry the burden. They should be happy with the new reform because they are getting an even more progressive system.

Here's my response:

Tax Reform Makes the Tax System Even More Progressive!

Democrats prefer a progressive system in which rich folks contribute proportionately more taxes. They don't understand, or won't admit, this tax reform gives them the more progressive system they desire. Consider:

- The middle 50% receive proportionately more tax relief from the legislation than the top 25%. The middle 50% will contribute a smaller percentage of total tax collections than previously.
- The percentage of taxes contributed by the wealthiest 25% will rise as a result of this reform.

Doesn't that precisely describe a more progressive tax system? Those are realities even though total dollars of relief for the top 25% will be greater than for the middle 50%. But that's inevitable given the middle 50% contributed only about 13% of Federal taxes prior to reform, leaving the top 25% to contribute 87%.

Information from the St. Louis Federal Reserve indicates the most dependable way to increase tax revenue is by expanding GDP – raising rates won't work. Do we want tax reforms that are expansionary, even if more progressive (to satisfy democrats), and which have a good chance of raising more revenue? All those can be achieved if meaningful tax relief is given across the board. The new legislation provides this opportunity.