Trump Embraces GOP Tax-Cut Orthodoxy

Exclusive: Not even five months into his presidency, Donald Trump has retreated from key populist promises by moving to slash taxes on the rich and throw millions of Americans off health insurance, writes Jonathan Marshall.

By Jonathan Marshall

President Trump earned headlines — and worldwide condemnation — for his announcement June 1 that he was pulling the United States from the Paris climate accord, an agreement signed by 195 nations to fight runaway global warming.

Just a week later, however, Trump attracted almost no attention when he rejected another important Paris accord — this one to fight international tax avoidance by multinational corporations.

The landmark agreement, signed by more than 70 countries, including members of the European Union, India and China, sets certain minimum standards for tax treaties. In particular, it curbs the abusive practices of companies that manipulate the flow of their income between subsidiaries to take advantage of low tax rates in jurisdictions like Luxembourg, where secret tax rulings have helped hundreds of multinational firms drastically reduce their payments.

One such firm was Amazon, which candidate Donald Trump accused of "getting away with murder tax-wise," before he abandoned his populist pretenses. This March, a U.S. tax court judge upheld as legal a $1.5 billion tax dodge by the online retailer, which developed an initiative called Project Goldcrest to shift billions of dollars of profits into Luxembourg.

After the second Paris no-show, critics denounced the Trump administration for once again abdicating its responsibilities. "By retreating from the agreement at this point, the U.S. is forfeiting leadership in yet another forum," said Clark Gascoigne, deputy director of the Financial Accountability and Corporate Transparency Coalition.

But Gascoigne had it wrong. Trump *is* leading — in the opposite direction. In late April, he signed an executive order seeking to delay or suspend any significant tax regulations issued by the Obama administration in 2016 that "impose an undue financial burden on United States taxpayers."

Experts pointed out that the chief targets of Trump's order were rules imposed by President Obama to make it tougher for American companies to move headquarters abroad to pay lower U.S. taxes. These rules helped kill a merger last year between U.S. pharmaceutical giant Pfizer and an Irish company, Allergan, which was driven by the prospect of saving tens of billions of dollars in U.S. taxes.

Even without its merger, Pfizer managed last year to keep $194 billion in profits offshore, with the help of 181 subsidiaries in various tax havens, according to U.S. PIRG. Apple beat even that record, reportedly avoiding more than $65 billion in U.S. taxes by parking $215 billion in profits offshore. A 2014 study of 307 large American companies determined that they had collectively stashed *two trillion dollars* abroad.

Tax avoidance by multinational firms costs the United States Treasury roughly $190 billion a year, according to new estimates published by the World Institute for Development Economics Research.

Rates of corporate tax avoidance are soaring. A 2014 study by Gabriel Zucman, an economist at the London School of Economics, estimated that a fifth of all U.S. corporate profits are now booked in offshore tax havens. That represented "a tenfold increase since the 1980s," Zucman observed. "Over the last 15 years, the effective corporate tax rate of US companies has declined from 30 to 20 percent, and about two-thirds of this decline can be attributed to increased profit-shifting to low-tax jurisdictions."

Individuals Evade Taxes, Too

Zucman also estimated—as a lower bound—that wealthy U.S. households had parked about $1.2 *trillion* in cash, stocks, and bonds in foreign tax havens. Counting art, jewelry, gold, real estate and other real assets, would almost certainly multiply that number, he added.

These estimates are highly uncertain, of course, since owners generally don't disclose such holdings to the authorities, and "strikingly, more than 20 percent of the world's cross-border equities have no identifiable owner," Zucman noted. But the notorious "Panama Papers" leak, as well as leaked documents from Luxembourg and Swiss banks, make Zucman and other researchers confident that tax avoidance and illegal evasion by the ultra-rich are flourishing as never before.

A great deal of tax evasion goes on simply through non-reporting of income, without the use of foreign banks or tax shelters. A reputable 2011 study of America's "underground economy" estimated that nearly a fifth of reportable income was not, in fact, disclosed to the IRS. The loss to the Treasury from such cheating amounts to a staggering $500 billion annually, equal to all non-military discretionary federal spending combined.

Instead of combating such abuses, President Trump and Congressional Republicans are doing everything in their power to cut tax rates on the rich and undercut enforcement of existing tax laws.

The Republican-sponsored American Health Care Act, for example, is a $700 billion tax cut for the rich dressed up as an alternative to President Obama's Affordable Care Act. Forty percent of the tax savings would accrue to the top one percent of earners, according to a study by the Tax Policy Center.

Trump's proposal to scrap the estate tax would benefit only the very wealthiest individuals – about 5,500 per year – whose estates exceed the $5.5 million federal exemption enough to be taxable. Many of the prospective beneficiaries, of course, are the same billionaires who lavish so much money on GOP candidates and political action committees.

"In a major jolt of support for President Trump, the powerful political network overseen by conservative billionaire Charles Koch is launching a multimillion-dollar campaign to drive Trump's tax plan through Congress," *USA Today* reported in May. The Kochs' network, which pools contributions from 550 super-rich donors, "plan(s) to spend $300 million to $400 million on policy and political campaigns ahead of the 2018 elections," the paper said.

More Tax Cuts

Trump and House Speaker Paul Ryan also propose to slash tax rates on personal business income, from a top rate of 39.6 percent to as little as 15 percent. The plan, if passed, would cost the Treasury nearly $2 trillion over the next decade, while a major share of the benefits would go to households with incomes of more than $1 million a year (including Donald Trump), according to the Center on Budget and Policy Priorities.

The plan would also encourage widespread tax avoidance by individuals who would try to reclassify their salaries as "business income" to pay lower rates.

The IRS, for its part, would be nearly powerless to stop such abuses. Over the past five years, the *New York Times* reports, "congressional Republicans have taken out their anti-tax wrath on the Internal Revenue Service, cutting its budget by nearly $1 billion, reducing its staff by about 17,000, and even threatening to impeach its chief."

Their goal is not to reform the IRS but to cripple it so wealthy tax evaders have nothing to fear. The agency has lost 5,000 revenue agents and investigators since 2012, allowing numerous cases of suspected fraud to go unchecked and tens of billions of dollars in revenue to go uncollected.

"I'm appalled, that's all I can say," said Lawrence B. Gibbs, who served as IRS Commissioner under President Reagan from 1986 to 1989. In light of the nation's challenges, he added, “the one thing people ought to agree on is that we should have a revenue system that works and works well.”

Most Americans do indeed agree, even if Republican legislators and President Trump do not. The latest Pew Research Center survey found that six in 10 Americans were bothered “a lot” by the failure of some corporations and wealthy people to pay their fair share of taxes. Reflecting that sentiment, 56 percent of respondents said the federal tax system is unfair, the highest recorded in two decades.

Perhaps more surprisingly, Americans also feel in general that they are not overtaxed. There’s a good reason for that: Americans have one of the lowest tax burdens of any developed country. Of 36 developed nations, only Korea, Chile, and Mexico tax a smaller share of their total national income.

We’ve come a long way in the two years since economist and columnist Paul Krugman, while harboring no illusions about candidate Trump, praised his professed “willingness to raise taxes on the rich” and his “positive words about universal health care.” Along with most of his other promises, Trump shelved those popular notions when he took office. Today, the billionaire tax dodger pursues only the most orthodox of all Republican agendas: make the rich richer, at the expense of everyone else.

Jonathan Marshall is a regular contributor to Consortiumnews.com.