GOP's 2017 tax plan came down hardest on California, researchers say

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When the Republican Party rammed through tax changes in 2017, it wasn't a surprise that the rich got richer.

But in a just-published paper by the Federal Reserve Bank of Atlanta, UC Berkeley economist Alan Auerbach and seven co-authors have uncovered eye-opening results of that hurried blitz, namely: red state rich did better than blue state rich.

The Tax Cut and Jobs Act of 2017 (TCJA) rewrote how corporate and personal federal income taxation would be calculated, including limiting SALT (state and local property, income and sales taxes) deductibility to $10,000.

States with high SALT tend to vote Democratic. And the state that got hit hardest of all is one of the bluest, California. Nowhere are there more state and local taxes than California, although New York and New Jersey were hit, too.

"It was targeted that way; it was intentional; it was no surprise," Auerbach says. "For a long time, people on the right have argued that having deductions for state and local taxes encourages state and local governments to spend more money.

"If California spent more, then California taxes would go up and those taxes could be deducted from the federal income tax. They saw that as the federal government supporting the California government. And for a conservative who doesn't like government spending, that idea is painful."

The research paper ranked all 50 states and the District of Columbia in terms of how much wealth local households stood to gain from the income tax cuts in the new law.

The analysis found that Californians could expect to benefit the least from the tax bill in terms of lifetime benefits the law provides, assuming the personal income tax provisions that are currently set to expire in 2025 are made permanent.

The study determined that California households will, on average, get a 0.9 percent increase in spending while at the other end of the spectrum, Wyoming households have a projected gain of 2.1 percent. The 10 states doing the least well in this category were all blue states.

Auerbach says changes to the tax law and a modification to how withholding taxes were made led to many people who were used to getting money back either getting much less or actually paying when their 2018 taxes were calculated.

"They (the tax law writers) wanted to show people more money in their paychecks," Auerbach says. "They wanted the tax plan to have an immediate benefit. At the same time, they could have phased in the SALT provisions, but they didn't, the reason being they needed that immediate revenue while they were cutting taxes all over the place."

Will the results of the tax law be a factor in the 2020 elections? Auerbach says the research doesn't lead to an immediate conclusion.

"There is a sense among Democratic (presidential) candidates that this has been an administration for the rich," he says. "Percentage wise maybe it hasn't helped the rich that much more than the poor, but if you get a 2 percent saving on $1 million, that means $20,000. If you have $10,000, then you just have $200."

The research put in by Auerbach and David Altig, research director of the Federal Reserve Bank of Atlanta, Patrick Higgins, a policy director of the Fed in Atlanta, Boston University's Laurence Kotlikoff and Victor Ye and Darryl Koehler, Michael Leiseca and Ellyn Terry of the National Bureau of Economic Research, supports the Republican assertion that the average taxpayer across the country will benefit at least a little financially from the plan, which reduced the top marginal tax rate, doubled the standard deduction and raised the threshold for the

Alternative Minimum Tax.

But the research underscores the unevenness with which the law impacts taxpayers across the country. The primary reason, the authors say, is the $10,000 cap placed on SALT deductions. The report says that without the cap, households in blue states would have gained more wealth, on average, than their red state counterparts.

Figures from the California Franchise Tax Board say that about 2.6 million Californians deducted more than $10,000 in state at local taxes in 2015. Of that group, about 1 million will owe more taxes, about $12 billion worth, in 2018. Of that, about $9 billion will be paid by Californians making in excess of $1 million.

"It's hard to answer the question as to what were they thinking," Auerbach says of the hurried legislation. "In six weeks, there were no public hearings. Often with bills like this there are long documents listing the reasons for the changes. This time, there was none of that.

"What limited analysis they did do was for high incomes against low incomes nationally. There wasn't much discussion of the impact in different states. Now that we have this analysis, we can see what's happened."

Provided by University of California - Berkeley

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