# Are Tax Cuts Good? Apparently, It Depends on Who Proposes Them...

The Trump administration has recently proposed significant tax reform including tax cuts. These proposals have been met with opposition from Democrats in Congress. Their main argument is that the proposed cuts will disproportionately benefit the wealthier taxpayers and don't do enough for middle-class Americans.

If the proposed cuts are adopted, the median family in the United States will save about $420 per year. However, taxpayers in the top 20 percent will save approximately $10,610 per annum. This would seem to support the notion that tax cuts are not favoring the middle class. However, a broader understanding of who pays taxes provides a different context through which to understand tax cut dynamics.

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History has shown that tax cuts are economically stimulative as they provide more money for businesses to create jobs and more disposable income for individuals to spend. And this is not a partisan opinion: Democrat John F. Kennedy and Republican Ronald Regan cut taxes significantly in the early 1960s and mid-1980s respectively, and the economy grew robustly shortly thereafter. I wasn't following politics or the economy back in those days, but I wonder if Republicans in the early 1960s and Democrats in the mid-1980s objected so vehemently to those proposals?

Over the past several decades, it is clear that tax policy has been profoundly impactful on the real estate industry as market participants, particularly in the capital markets space, are highly sensitive to changes in tax policy. Tax reform of 1986 produced a cyclical peak in sales volume, and in 1998 Democrat Bill Clinton dropped capital gains taxes from 28 percent to 20 percent causing a huge spike in property sales. And sometimes just the threat of tax increases will cause action on behalf of investors. In 2012, leading up to the general election, there was a lot of talk about increasing capital gains taxes. This was in addition to the 3.8 percent capital gains tax increase imbedded in the Affordable Care Act. This produced more sales in the fourth quarter of 2012 than any other quarter we have seen going back to at least 1984.

With regard to the currently proposed cuts, the facts are, according to the nonpartisan Congressional Budget Office, that higher earning taxpayers pay a disproportionally more burdensome "fair share" of all federal income taxes paid.

According to the CBO, the top 20 percent of taxpayers in America pay 88 percent of all federal income taxes paid, or $1.2 trillion per year ($47,000 per taxpayer). The next 20 percent of taxpayers pay $175 billion in total federal taxes ($7,000 per taxpayer), while the bottom 60 percent of taxpayers pay virtually nothing; and actually they receive about $17 billion from the government in the form of refundable tax credits (-$200 per taxpayer).

If we look at the tax code over time, it has gotten progressively favorable for those below the top thresholds. While the top 1 percent of taxpayers earn about 15 percent of all income, they pay about 38 percent of all taxes. Therefore, they pay about 2.6 times the income they earn on a percentage basis. For this group, this is about the same ratio as it was in 1998. For the bottom 80 percent of taxpayers, since 1979, the tax burden has dropped from about 5.4 percent to 0.1 percent.

Based upon these figures, it is not surprising that cuts disproportionally benefit those who earn more. However, as anyone who owns, or owned, a business of any size knows, if a company makes more money, they are very likely to hire more people to grow the business. Some politicians say, "Prove it." They clearly never owned a private sector business or even held jobs in the private sector.

While tax cuts may be a good thing for the economy, the jury is still out on how tax reform could impact the commercial real estate markets: 1031 exchanges, business interest deductibility and carried interest treatment all could change, which would not be good for real estate. And most importantly for the entire tri-state area, the elimination of state and local tax deductibility could be a roundhouse punch for our regional economy and our real estate market. The anticipation of these tax cuts are having an impact on the $5.8 trillion increase in value the equities markets have seen and the gross domestic product growth we have seen in the last two quarters. But how they will actually be implemented and the details of the reform will dictate how impactful they will be on the commercial real estate industry.

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