Rosy White House tax cut forecast clashes with independent analysis

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WASHINGTON/NEW YORK (Reuters) - The White House promoted President Donald Trump's tax cut plan on Friday with a forecast of faster U.S. economic expansion and wage growth, as independent analysts said the plan would swell the budget deficit and provide little spark to the economy.

The rival projections reflected the many unknowns swirling around the plan, expected to be unveiled in legislative form on Wednesday. Republicans were still undecided on some of the hardest parts, such as how to pay for the costly cuts proposed.

Weeks and possibly months of debate lie ahead for a project that Trump promised to tackle in his 2016 election campaign. In September, he unveiled a rough framework for cutting taxes. Now he wants Congress to approve a bill, which would mark his first major legislative victory, before the end of the year.

The Trump plan for tax cuts of the sort normally reserved for times of economic recession is taking shape in Congress amid signs the economy is already growing briskly.

Gross domestic product increased at a 3 percent annual rate in the July-September period, supported by strong business spending on equipment, the Commerce Department said on Friday.

The economic recovery begun under former President Barack Obama after the 2007-2009 recession is in its eighth year and showing little signs of fatigue amid a tightening labor market.

“It's hard to say that we need to have tax cuts at the individual level ... you don't need to provide further fiscal stimulus when the economy is already strong,” said **Bernard Baumohl, chief global economist at the Economic Outlook Group** in Princeton, New Jersey.

Faced with improving economic prospects, Republicans have shifted their rhetoric on tax cuts away from getting the economy moving again to keeping it on an expansion track.

An analysis released by White House economic adviser Kevin Hassett said slashing the top federal corporate tax rate and letting businesses write off the full cost of most capital investments immediately, as proposed in the plan, would bring faster growth and higher wages.

Hassett's projections envisioned a 3 percent to 5 percent increase in GDP that, over 10 years, could represent an additional $700 billion to $1.2 trillion in economic output.

But the Tax Policy Center, a nonprofit Washington think tank, released an analysis that concluded the Trump tax plan would not produce a significant, permanent economic boost.

The group said the plan would reduce federal tax revenue by roughly $2.4 trillion over the next decade and by over $3 trillion in the decade after that, adding significantly to a U.S. national debt that already exceeds $20.4 trillion.
The center said Trump's tax cuts would drive new activity at first, but that the impact would be blunted in later years by rising deficits, forcing more federal borrowing to finance the tax cuts and driving up borrowing costs for the private sector.

Hassett told reporters he does not expect tax reform to add significantly to the deficit. But he conceded that it would become "a big negative" if economic growth failed to materialize and the debt level soared.

The framework of Trump's plan unveiled last month called for reducing the corporate tax rate to 20 percent from 35 percent, the small business rate to 25 percent from up to 39.6 percent and the top individual rate to 35 percent from 39.6 percent.

It also called specifically for repealing the estate tax on inheritances and the alternative minimum tax, both of which are typically paid by the country's highest-income earners.

Less clear were the plan's proposals to reduce the number of tax brackets, enhance the child tax credit and possibly put new limits on popular 401(k) retirement pension plans.

Because details of the unfinished tax legislation are unknown, its economic impact is unclear, said Omer Eisner, chief market analyst at Commonwealth Foreign Exchange in Washington.

Hours after the Commerce Department reported stronger-than-expected third quarter U.S. economic growth of 3 percent. Hassett said the data did not undercut the need for tax cuts.

He said economic expansion and stronger stock market performance could be undermined if the Republican-controlled Congress fails to enact the tax cuts. “Firms are optimistic both because of regulatory reform but also because they expect corporate tax reform and overall tax reform,” Hassett said. “The thing that I‘m worried about is that if those expectations prove to be incorrect, then I would expect business capital spending to go back to a disappointing path and equity markets to decline as well.”

Kevin Brady, chairman of the U.S. House of Representatives tax committee, said progress was being made toward satisfying Republicans who have held back support for the tax plan because it could end a deduction for state and local taxes. “I‘m hopeful ... we can find a good solution for them,” Brady said.

Reporting by David Morgan and Lucia Mutikani in Washington and Richard Leong in New York; Writing by Will Dunham; Editing by Kevin Drawbaugh and Tom Brown

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