U.S. SENATOR BOB CASEY
RANKING MEMBER *Special Committee on Aging*

A Hidden Tax Increase

Republican Tax Scheme Adopts Chained CPI-U and Puts Social Security at Risk

The House of Representatives and Senate Republican tax plans include a sneaky tax hike that would change how the tax code measures inflation. This tax scheme would base inflation adjustments in the tax code on chained CPI-U and push workers into higher tax brackets more quickly over time, resulting in workers paying more in taxes than they would under the current measure of inflation. The change could also make it easier for Republicans to, at a later date, apply chained CPI-U to the inflation adjustment process used when calculating Social Security cost-of-living adjustments (COLAs). When applied to Social Security benefits, chained CPI-U would reduce already meager benefits for older adults and people with disabilities.

Adopting Chained CPI-U Threatens Tax Payers

The Republican tax plan would replace the currently used consumer price index for all urban consumers (CPI-U) with a measure called chained CPI-U. Due to differences in the formulas used to calculate the two indexes, chained CPI-U generally shows less inflation happening over time. Since 2000, the annualized growth rate of the CPI-U has been 2.1%, while chained CPI-U's has been only 1.8%. This means inflation adjustments made every year to parts of the tax code, such as tax brackets, would be more meager if chained CPI-U replaced CPI-U. This could significantly impact low-income and middle-class Americans.

- **It directly increases Americans' tax bills**. This change will more quickly force American workers into higher tax brackets over time. For example, the Senate Republican tax plan would separate the 12% and 22% tax brackets at $38,700 in 2018. Over the next decade, if that dollar figure were adjusted using the current inflation measure, it would rise to roughly $46,650 by 2027. If it were adjusted using chained CPI-U, however, it would only rise to $45,620.[1] This means that under the Republican plan, workers earning $46,000 in 2027 would face a top marginal tax rate of 22%, compared to a 12% top marginal tax rate if the current measure of inflation were still being used.

  The impact of this change on families' tax bills would only grow over time. Over the next decade, the Joint Committee on Taxation estimates Americans would pay roughly $130 billion more in taxes under this measure compared to if the inflation measure were left unchanged. That is $130 billion taken from the pockets of hard-working Americans to pay for enormous tax cuts for the wealthy and large corporations.

- **It opens the door to attacks on Social Security and retirement benefits**. If legitimized through the Republican tax plan, chained CPI could later be used for the calculation of Social Security and military retirement benefits. Adopting chained CPI-U to calculate Social Security COLAs would make already insufficient COLAs even smaller. This would cause a direct benefit reduction for the roughly 62 million Americans who rely on Social Security retirement or disability benefits.

  The average retired worker Social Security benefit amounts to just over $16,000 per year, and over one-third of Social Security beneficiaries rely on Social Security for 90% or more of their income. Between the cost of housing, health care, food, and other essentials, the limited and fixed incomes of older Americans are already stretched too thin. Older adults, people with disabilities, and veterans simply cannot afford a benefit cut, meaning they cannot afford to adopt the chained CPI-U.

[1] Calculation assumes that CPI-U and chained CPI-U will grow at the same annualized growth rate seen between 2000 and 2016.