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# New Tax Law Uses Backdoor Method To Increase Taxes $134 Billion

*Says The Senior Citizens League*

**(Washington, DC)** The 2017 "Tax Cut and Jobs Act" uses an alternate measure of inflation that will increase what people pay in taxes in coming years, warns The Senior Citizens League. The new tax law adjusts the tax code for inflation by using the "chained cost – of - living adjustment (COLA)." "Over time, this method of adjusting for inflation will slow the growth of tax parameters such as the standard deduction, tax brackets, and the maximum amount that can be contributed to retirement accounts before taxes," says Mary Johnson, a Social Security policy analyst for The Senior Citizens League. "This backdoor change to the measure of inflation used to adjust taxes will mean a growing number of taxpayers will be bumped into higher tax brackets and see bigger tax bills in coming years," says Johnson.

Because it grows more slowly than the previous inflation adjustment which was based on the Consumer Price Index for Urban Consumers (CPI-U), the chained COLA will increase tax revenues by $134 billion over the next ten years, the Congressional Joint Committee on Taxation estimated in 2017. Johnson, who has studied the chained COLA since it's inception in 2000, says that the average difference between the index used to calculate it, and the CPI-U, can appear microscopic— about 0.25 percentage points on average — but over time that difference really adds up. "In a few years, U.S. taxpayers with only modest growth of income may find they are paying more in taxes," Johnson notes.

In addition to adjusting the tax code for inflation, some plans to reduce the federal deficit would use the chained COLA to index Social Security and federal retirement benefits, as a way to reduce the federal deficit. Doing so would cut COLAs of Social Security recipients, as well as retired federal workers and military retirees. Had the chained COLA been used to index benefits since 2018, for example, beneficiaries would have received an increase of 2.4 percent rather than 2.8 percent this year. For someone with average benefits, that's a difference of almost $6 a month less.

Those benefit cuts would compound over time. For example, if the chained COLA had been used to determine COLAs effective in 2018, retirees with an average benefit of $1,422 would receive an estimated $42 per month less at the end of ten years — a difference of more than $500 annually, compared to benefits indexed using the current method. According to projections by Johnson, over a 30 - year retirement, the chained COLA would reduce Social Security benefits by about 7 percent versus using the current index, the Consumer Price Index for Urban Workers and Wage Earners (CPI-W).

"Using the chained COLA in the tax code is a stealth tax increase that will cause bigger tax bills for tax payers over time," says Johnson. "Used to index the Social Security COLA, it would cut Social Security benefits by tens of thousands of dollars for retirees over the typical retirement," she adds.

The chained COLA is not popular with retirees. A 2018 survey by The Senior Citizens League found that only 14 percent of survey participants supported using the chained CPI to index Social Security benefits, while 48 percent were opposed, and 38 percent of survey participants were uncertain. To learn more and to participate in the 2019 Senior Survey, visit www.SeniorsLeague.org.

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*With 1.2 million supporters, The Senior Citizens League is one of the nation's largest nonpartisan seniors groups. Its mission is to promote and assist members and supporters, to educate and alert senior citizens about their rights and freedoms as U.S. Citizens, and to protect and defend the benefits senior citizens have earned and paid for. The Senior Citizens League is a proud affiliate of The Retired Enlisted Association. Visit www.SeniorsLeague.org for more information.*