

'This newsletter is translated from the Japanese edition distributed on December 22nd.
Center for Risk Management Strategy at Deloitte Touche Tohmatsu LLC.

Global Risk Watch Newsletter

U.S. tax cut – what it means for the economy, etc.

Global Risk Watch Vol.33
28 December 2017

=====

«index»

1. [# U.S. tax cut – what it means for the economy \(Tsuyoshi Oyama\)](#)
2. [# The real race begins now: the final agreement on the Basel III reform \(Shiro Katsufuji\)](#)
3. [# Fiscal risks associated with large scale tax cuts \(Toshikazu Kumagai\)](#)
4. [Seminars, Conferences & Publications](#)

=====

3. Highlight of Indicator for this Month

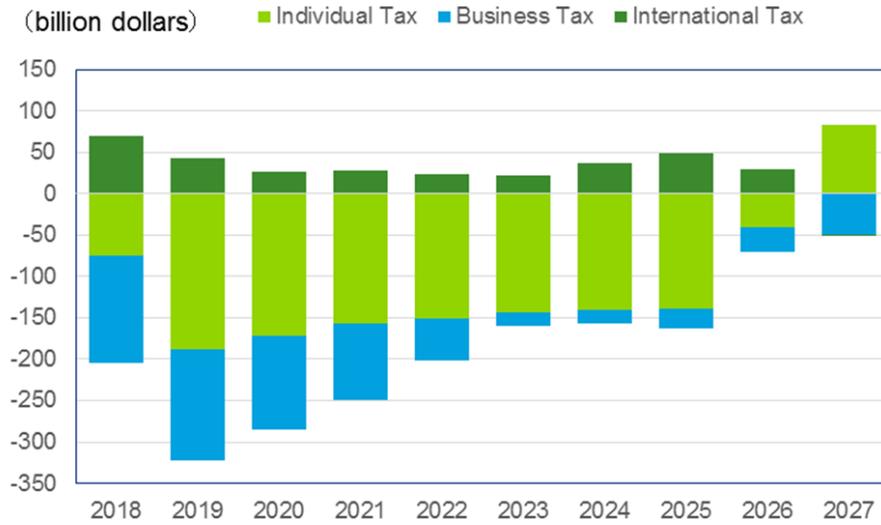
Fiscal risks associated with large scale tax cuts (Toshikazu Kumagai, Manager, Center for Risk Management Strategy at Deloitte Touche Tohmatsu LLC)

Large scale tax reform, a hot button issue in the 2016 US Presidential election, looks close to passing.* Republicans announced on December 14th that they had reached a consensus deal on the Congressional and Senate versions of the bill. The deal will lower the corporate tax rate from 35% to 21%, will lower the top bracket personal tax rate (which will then expire in 2025), as well as lower the tax on capital returning from foreign subsidiaries. According to documents published by House Republicans, the forecast deficit of USD 1.45 trillion from 2017-2017 stays with the legislated deficit budget of USD 1.5 trillion. Breaking down the tax cuts, the deficit comes mostly from the drop in personal taxes though there is expected to be a slight increase in collections from the taxation of international assets (Figure 1).

While much emphasis has been put on the potential economic effects of these cuts, it is also important to consider potential fiscal risks. Looking at the movement of the US fiscal balance (compared to GDP), while the deficit has recovered since its explosion post financial crisis, it is once again on trend to balloon (Figure 2). The Congressional Budget Office also confirmed this trend, stating in June 2017 that it expected the deficit to continue to grow into 2027. Keeping the forecast GDP as is and taking into account the reduction in tax collections, the US could quickly tumble into a double digit deficit – worse even than the issues the country faced in the 1990s (Figure 3).

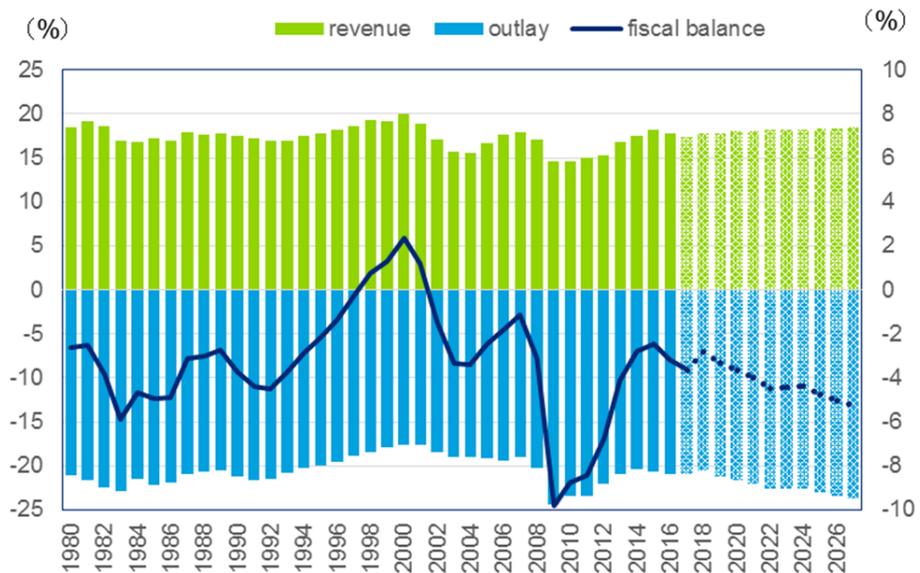
There is of course a chance that the situation can rectify itself, either through behaviour changes in household or companies, increasing revenues, or should GDP itself grow thereby pushing up the denominator in the GDP to debt ratio. However, as the bill's detractors point out should the economy underperform the tax cuts' predicted affects, the deficit explosion will certainly end up classified as a risk.

Figure 1 : Effects of Tax Reform



Source: US Congressional Budget Office

Figure 2 : Fiscal Balance Outlook



Source: US Congressional Budget Office

Note: Figures from 2017 are forecasts from the US Congressional Budget Office

Figure 3 : The Effects of Tax Reform on the Fiscal Balance



Source: US Congressional Budget Office, House of Representatives, Deloitte Touche Tohmatsu LLC Analysis

[Home](#) | [Security](#) | [Legal](#) | [Privacy](#)

Deloitte Tohmatsu Group (Deloitte Japan) is a collective term that refers to Deloitte Tohmatsu LLC, which is the Japan member firm of Deloitte Touche Tohmatsu Limited (DTTL), a UK private company limited by guarantee, and firms affiliated with Deloitte Tohmatsu LLC that include Deloitte Touche Tohmatsu LLC, Deloitte Tohmatsu Consulting LLC, Deloitte Tohmatsu Financial Advisory LLC, Deloitte Tohmatsu Tax Co., DT Legal Japan, and Deloitte Tohmatsu Corporate Solutions LLC. Deloitte Tohmatsu Group is known as one of the largest professional services groups in Japan. Through the firms in the Group, Deloitte Tohmatsu Group provides audit & assurance, risk advisory, consulting, financial advisory, tax, legal and related services in accordance with applicable laws and regulations. With about 11,000 professionals in nearly 40 cities throughout Japan, Deloitte Tohmatsu Group serves a number of clients including multinational enterprises and major Japanese businesses. For more information, please visit the Group's website at www.deloitte.com/jp/en.

Deloitte provides audit & assurance, consulting, financial advisory, risk advisory, tax and related services to public and private clients spanning multiple industries. Deloitte serves four out of five Fortune Global 500® companies through a globally connected network of member firms in more than 150 countries and territories bringing world-class capabilities, insights, and high-quality service to address clients' most complex business challenges. To learn more about how Deloitte's approximately 245,000 professionals make an impact that matters, please connect with us on [Facebook](#), [LinkedIn](#), or [Twitter](#).

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see www.deloitte.com/about to learn more about our global network of member firms.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the "Deloitte Network") is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.

© 2017. For information, contact Deloitte Touche Tohmatsu LLC.