THE “TRUMP LOOPHOLE”: KEY FACTS ABOUT THE TRUMP-GOP FAKE “SMALL” BUSINESS TAX CUT

The so-called “small” business tax cut in the Trump-GOP tax plan, which would lower the business tax rate from 39.6% to 25%, is a fake because it will primarily benefit wealthy businesses, such as Wall Street hedge fund managers, big law firms and real estate developers like Trump.

The new 25% tax rate would benefit pass-through businesses, which include sole proprietorships, partnerships, limited liability corporations (LLC’s) and S corporations. These businesses pay no federal income taxes as a business, unlike typically larger businesses known as C corporations. Instead, their profits and losses pass through to their owners, who pay their business taxes on their personal tax returns at individual tax rates, which range from 10% to 39.6%. Pass-throughs are the most common form of business, although only 14% of pass-through business owners would benefit from this tax cut because most businesses already pay a rate of 25% or less.¹

The GOP plan to slash the top tax rate that business owners pay from 39.6% to 25% will lose $770 billion over 10 years, according to the Tax Policy Center (TPC).²
Up to about 17% of the revenue loss will be due to tax avoidance and cheating.³ High-income individuals will shift from being employees for tax purposes to being a business, so their salaries or wages can be reclassified as pass-through income subject to the low 25% tax rate.

Trump’s business tax cut will overwhelmingly benefit the wealthy—hedge fund managers; rich lawyers, doctors and dentists; and real estate developers like Trump.

According to the Tax Policy Center:

• Just 14% of business owners⁴ and only 4% of all taxpayers would get this tax cut.⁵
• The top 1% will get nearly 90% of this tax break—an average tax cut of $32,500 each year.⁶ That’s because the top 1% gets more than half of all pass-through income (52.3%).⁷
• Just 4.3% of households in the middle of the income distribution would get a tax cut, averaging $650; 2% of households in the middle would pay $600 more in taxes.⁸
• A large share of pass-through income flows to Wall Street. In 2011, 70% of partnership income went to the financial industry and related holding companies.⁹
This business tax break is known as the “Trump Loophole” because the president will benefit enormously from it, as he generates most of his income from pass-through businesses.

- The Trump Organization, from which President Trump generates his income, is made up of more than 500 pass-through entities, according to his lawyers.\textsuperscript{10} It is not a small business. It was the 48\textsuperscript{th} largest U.S. private company in 2016, with 22,450 employees and $9.5 million in revenues.\textsuperscript{11}
- If the Trump Loophole becomes law, the president will pay the same 25\% tax rate that a small business owner making $80,000 a year on Main Street would pay, as shown in the table. A married couple making $450,000 a year as a pass-through business could cut their tax rate from 35\% to 25\%. This begs the larger question about tax fairness: Why should that couple be able to pay a 25\% tax rate whereas another couple making $200,000 in wages or salaries would pay a 28\% tax rate?

<table>
<thead>
<tr>
<th>Income Tax Rate</th>
<th>Income Threshold for Individual Taxpayers</th>
<th>Income Threshold for Married Taxpayers Filing Jointly</th>
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</thead>
<tbody>
<tr>
<td>39.6%</td>
<td>Over $418,400</td>
<td>Over $470,700</td>
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<tr>
<td>35%</td>
<td>$416,700 - $418,400</td>
<td>$416,700 - $470,000</td>
</tr>
<tr>
<td>33%</td>
<td>$191,650 – 416,700</td>
<td>$233,350 - $416,700</td>
</tr>
<tr>
<td>28%</td>
<td>$91,900 - $191,650</td>
<td>$153,100 - $233,350</td>
</tr>
<tr>
<td>25%</td>
<td>$37,951 - $91,900</td>
<td>$75,901 - $153,100</td>
</tr>
</tbody>
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Source: IRS data from Forbes\textsuperscript{12}

The GOP’s $770 billion business tax cut benefitting the wealthy is more than double the $346 billion cut to education, training, employment, and social services proposed in Trump’s 2018 budget.

Trump’s 2018 budget would cut $346 billion over 10 years from a variety of programs in the “education, training, employment, and social services” category,\textsuperscript{13} including:
- Deep cuts to K-12 education and college financial aid, eliminating subsidized loans helping 6 million students afford college each year.\textsuperscript{14}
- Elimination of after-school and summer programs for almost 2 million students.\textsuperscript{15}
- Cuts to job training and employment services, depriving 570,000 people of help in 2018.\textsuperscript{16}
- Elimination of funding for Special Olympics education.\textsuperscript{17}
- Cuts to support for child care, Head Start, and other early childhood education services.\textsuperscript{18}
Endnotes

3 Ibid. See note (a).
4 TPC, Table T17-0078
6 Ibid.
16 CAP, “Trump Budget.”