



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 owners](#)⁴ 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.¹⁰ It is not a small business. It was the [48th largest U.S. private company](#) in 2016, with 22,450 employees and \$9.5 million in revenues.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?

Income Tax Rate	Income Threshold for Individual Taxpayers	Income Threshold for Married Taxpayers Filing Jointly
39.6%	Over \$418,400	Over \$470,700
35%	\$416,700 - \$418,400	\$416,700 - \$470,000
33%	\$191,650 - 416,700	\$233,350 - \$416,700
28%	\$91,900 - \$191,650	\$153,100 - \$233,350
25%	\$37,951 - \$91,900	\$75,901 - \$153,100

Source: IRS data from [Forbes](#)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,¹³ including:

- Deep cuts to K-12 education and college financial aid, eliminating subsidized loans helping [6 million students](#) afford college each year.¹⁴
- Elimination of after-school and summer programs for [almost 2 million students](#).¹⁵
- Cuts to job training and employment services, depriving [570,000 people of help](#) in 2018.¹⁶
- [Elimination of funding](#) for Special Olympics education.¹⁷
- [Cuts to support](#) for child care, Head Start, and other early childhood education services.¹⁸

Endnotes

- ¹ TPC, Table T17-0078 – “Sources of Flow-Through Business Income by Statutory Marginal Tax Rate; Current Law, 2017” (March 2017). <http://www.taxpolicycenter.org/model-estimates/distribution-business-income-march-2017/t17-0078-sources-flow-through-business>
- ² TPC, “A Preliminary Analysis of the Unified Framework” (Sept. 29, 2017), Table 1. http://www.taxpolicycenter.org/sites/default/files/publication/144971/a_preliminary_analysis_of_the_unified_framework_0.pdf
- ³ *Ibid.* See note (a).
- ⁴ TPC, Table T17-0078
- ⁵ TPC, “Options to Reduce the Taxation of Pass-through Income” (May 15, 2017), p. 8. <http://www.taxpolicycenter.org/sites/default/files/publication/141541/options-to-reduce-the-taxation-of-pass-through-income.pdf>
- ⁶ *Ibid.*
- ⁷ TPC, T17-0080 - Sources of Flow-Through Business Income by Expanded Cash Income Percentile; Current Law, 2017 (March 20, 2017). <http://www.taxpolicycenter.org/model-estimates/distribution-business-income-march-2017/t17-0080-sources-flow-through-business>
- ⁸ TPC, T17-0166 - Distributional Effect of a 25-Percent Top Rate on a Broad Definition of Pass-Through Income, Baseline: Current Law with AMT Repealed and 12/25/33 Rate Structure, by Expanded Cash Income Percentile, 2018 (May 15, 2017). <http://www.taxpolicycenter.org/model-estimates/options-taxing-pass-through-income-preferential-rates-may-2017/t17-0166-distributional>
- ⁹ Department of the Treasury, Office of Tax Analysis Working Paper 104, “Business in the United States: Who Owns It and How Much Tax Do They Pay?” (Oct. 2015), Fig. 4, p. 34. <https://www.treasury.gov/resource-center/tax-policy/tax-analysis/Documents/WP-104.pdf>
- ¹⁰ Sheri A. Dillon and William F. Nelson, Morgan, Lewis & Bockius LLP, “Re: Status of U.S. federal income tax returns” (March 7, 2016). <http://americansfortaxfairness.org/wp-content/uploads/Trump-tax-attorney-letter.pdf>
- ¹¹ CNN Money, “Trump Organization is now America's 48th largest private company” (Dec. 15, 2016). <http://money.cnn.com/2016/12/15/investing/trump-organization-48th-largest-private-company/>
- ¹² Forbes, “IRS Announces 2017 Tax Rates, Standard Deductions, Exemption Amounts And More” (Oct. 25, 2016). <https://www.forbes.com/sites/kellyphillipserb/2016/10/25/irs-announces-2017-tax-rates-standard-deductions-exemption-amounts-and-more/#15a214865701>
- ¹³ *The New York Times*, “How Trump’s Budget Would Affect Every Part of Government” (May 23, 2017). <https://www.nytimes.com/interactive/2017/05/23/us/politics/trump-budget-details.html?q=education>
- ¹⁴ Center for American Progress (CAP), “How the Trump Budget Threatens the American People” (May 26, 2017). <https://www.americanprogress.org/issues/economy/reports/2017/05/26/433065/trump-budget-threatens-american-people/>
- ¹⁵ NPR, “Under Trump Budget, Nearly 2 Million Kids May Lose After-School Care” (May 2, 2017). <http://www.npr.org/sections/ed/2017/05/02/526452564/under-trump-budget-nearly-2-million-kids-may-lose-after-school-care>
- ¹⁶ CAP, “Trump Budget.”
- ¹⁷ *The Washington Post*, “Here are K-12 education programs Trump wants to eliminate in 2018 budget” (May 18, 2017). https://www.washingtonpost.com/news/answer-sheet/wp/2017/05/18/here-are-k-12-education-programs-trump-wants-to-eliminate-in-2018-budget/?utm_term=.a8487f3b48c9
- ¹⁸ National Women’s Law Center, “Trump Budget Would Reduce Families’ Access to Early Care and Education” (July 2017). <https://nwlc.org/wp-content/uploads/2017/08/Trump-Budget-Would-Reduce-Families-Access-to-Early-Care-and-Education-Final.pdf>