AMERICANS FOR TaxFairness

SUMMARY: WORST FEATURES OF TRUMP-GOP TAX PLAN

This analysis is based on the tax plan framework released by President Trump, House Speaker Paul Ryan and other Republican leaders on Sept. 27, 2017,[1] *and analyzed by the non-partisan Tax Policy Center on Sept. 29, 2017.*[2]

1. **The Trump-GOP tax plan is not tax "reform," but massive tax cuts for the wealthy and corporations that will jeopardize Social Security, Medicare, Medicaid and education.**
   - The plan loses $2.4 trillion in federal revenue over 10 years. These tax cuts are not paid for by closing tax loopholes or limiting deductions, but instead add to the deficit.
   - This spike in the deficit will increase the likelihood of future deep cuts to Social Security, healthcare, education and other services. Such cuts are already in Trump's 2018 budget, which slashes $4.3 trillion from Social Security, Medicaid, education and other services.[3] The House budget slashes $5.8 trillion from Medicare, Medicaid, education and more.[4]

2. **The wealthy and corporations will get most of the tax cuts at the expense of working families who rely on Social Security, Medicare, Medicaid, and public education.**
   - The richest 1% will get 53% of the total tax cuts in 2018 and 80% after 10 years. Their annual taxes will be cut by $129,000 in 2018 and by $207,000 after 10 years (average).
   - The richest 0.1% will get 30% of the total tax cuts in 2018 and 40% in 10 years. Their taxes will be cut by $722,000 in 2018 and by more than $1 million in 10 years.[5]

3. **More and more middle-income people will pay higher and higher taxes.**
   - 3 out of 10 middle-class people making between $50,000 and $150,000 a year will pay more taxes under the Trump-GOP tax plan by the tenth year. It will cost them nearly $2,000 more, on average, depending on their income (range is $1,300 to $2,500).
   - In contrast, the number of people in the top 1% who will pay more in taxes under the plan drops over time: from 10.7% in 2018 to 9.8% 10 years later.[6]

4. **Corporate and business tax cuts make up the entire $2.4 trillion revenue shortfall and then some. The individual tax cuts are mostly paid for, although who pays is shifted from the wealthy to the middle-class.**
   - Corporate and business taxes, which are paid mostly by the wealthy, *decrease* by $2.6 trillion over 10 years. This is more than the $2.4 trillion revenue shortfall under the plan.
   - Taxes on individuals, including the estate tax, are cut by $2.9 trillion, but there is $3.2 trillion in revenue raisers to pay for those tax cuts. However, $2.9 trillion of the tax increases come from repealing all personal exemptions ($1.6 trillion) and eliminating the state and local tax (SALT) deduction ($1.3 trillion). Those two tax breaks affect many middle-income taxpayers.[7]

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DETAILS: 10 WORST FEATURES OF TRUMP-GOP TAX PLAN

CORPORATE AND BUSINESS TAX CUTS

1. **Corporate tax rates are slashed by more than 40%—from 35% to 20%—losing $2 trillion over 10 years.**[8] Corporations need to pay their fair share, not get a tax cut. Corporate profits are at near record highs, while corporate tax revenues are at record lows.[9] Profitable corporations are paying a U.S. tax rate of just 14%, according to the non-partisan Government Accountability Office.[10] Many pay nothing for years.[11] Only $1 out of $9 of federal revenue now comes from corporate taxes; in the mid-20th century it was $1 out of $3.[12] Moreover, 70% of corporate tax cuts benefit wealthier Americans.[13]

2. **Trump-GOP slashes the top tax rate on business income from hedge funds, law firms, real estate firms like Trump's, and other "pass-through" businesses from 39.6% to 25%, losing $770 billion.**[14] Many of these big-money outfits organize as partnerships or other business entities that allow them to pay business taxes at individual rates. **Claims that this is a small business tax cut is a complete hoax:** Less than 14% of pass-through business owners will get a tax cut from the new top 25% rate, as everyone else already pays that rate or less.[15] This tax giveaway would only benefit 4% of all taxpayers, primarily the richest.[16] The top one-tenth of 1% will get a tax cut of $270,000, on average.[17] As the sole or principal owner of 500 pass-through entities,[18] Trump will benefit handsomely,[19] from what's been aptly dubbed the **"**Trump Loophole."[20]

3. **Trump-GOP temporarily (for at least five years) allows corporations to immediately write off big purchases, costing $192 billion.**[21] Businesses would be allowed to immediately write off—or fully "expense"—the total cost of big-ticket purchases such as equipment and vehicles. Currently, they may deduct (or depreciate) only a portion of the expense each year over a multi-year period to reflect the progressive decline in the property's value. The wide cost range comes from uncertainty as to the tax cut's economic effect. The Tax Policy Center has questioned claims about the supposed economic boost from full expensing, suggesting expensing could instead retard growth.[22]

4. **Multinational corporations with profits stashed offshore could get a $600 billion tax cut.** Big American corporations hold $2.6 trillion in profits offshore on which they owe about $760 billion in U.S. taxes.[23] The new plan promises a big tax break on these profits, but it does not indicate the tax rate. The Tax Policy Center assumes a rate similar to what Trump and members of Congress have proposed previously, cutting the rate from 35% to just 8.75% on cash and only 3.5% on non-cash assets.[24] This will raise $160 billion over 10

years.[25] So, multinationals could get an undeserved tax break of about $600 billion. They should instead pay what they owe, just like working families and small businesses do.

5. **Trump-GOP potentially allows American corporations to dodge all U.S. taxes on foreign profits through a territorial tax system.** Under such a system, U.S. corporations would no longer pay taxes on profits booked offshore (although Trump's plan suggests there may be a minimum tax on profits in tax havens). A territorial system will encourage multinationals to shift even more profits and jobs offshore than they do now.[26] Analysis of a similar plan found a territorial tax system would lose $90 billion over 10 years.[27]

INDIVIDUAL TAX CHANGES

6. **The top tax rate on individuals would be lowered from 39.6% to 35%, and six other tax brackets would shrink to just two, losing $1.2 trillion.[28]** The new brackets are 12%, 25% and 35%. The lowest tax bracket rises from 10% to 12%—an increase on lower income Americans of 20%. The top rate decreases by almost an eighth—from 39.6% to 35%.

7. **The alternative minimum tax (AMT) would be repealed allowing wealthy taxpayers like Trump to use excessive deductions and other loopholes to sharply reduce or eliminate their tax bill, losing $440 billion.**[29] Trump could benefit massively: In 2005, the one year for which his tax returns have been made public, he made $153 million and, thanks to the AMT, paid $38 million in federal income taxes for a tax rate of 25%.[30] Without the AMT, he would have paid $31 million *less* in federal income taxes, and paid a tax rate of less than 4%.[31] That rate is less than the lowest-income Americans often pay.[32]

8. **Trump-GOP eliminates estate and gift taxes, losing $239 billion and boosting the inheritances of the very wealthy.**[33] The federal estate tax is paid only by estates worth at least $5.5 million, just 2 out of 1,000 estates,[34] or only 5,500 estates in all of 2017.[35] If Trump is worth the $10 billion he claims, his heirs could gain billions if his plan is adopted**.**[36]

9. **Trump-GOP repeals the deduction for state and local taxes (SALT), raising taxes on the middle class and undermining local public services.** Repealing SALT would raise $1.3 trillion over 10 years.[37] Taxpayers can deduct state and local property taxes, and either income or sales taxes, from their federal taxable income. Over a third of taxpayers making $50-75,000 use the SALT deduction, and over half of those making $75-100,000.[38] An average family in this last group would see their federal taxes jump by $1,800 if SALT is repealed.[39] In addition to boosting middle-class taxes, repeal of the SALT deduction will make local taxation more expensive, putting pressure on localities to cut budgets for services like roads and schools.

10. **Trump-GOP pulls a bait-and-switch with tax provisions working families rely on, increasing the standard deduction while eliminating the personal exemption, ultimately leaving many families worse off.** Taxpayers who don't itemize their deductions (which under the Trump-GOP plan may be limited to charitable contributions and mortgage interest) can take a standard deduction from their reportable income. The plan would roughly double the standard deduction to $12,000 and $24,000, losing $830 billion.[40] At the same time, the plan repeals the personal exemption, which reduces reportable income by

$4,050 this year for each member of a household. This would increase taxes on individuals by $1.6 trillion, many in the middle-class and especially on large families, nullifying the benefit of the increase in the standard deduction.[41]

Endnotes

[1] U.S. Treasury, "Tax Reform: Unified Framework for Fixing Our Broken Tax Code" (Sept. 27, 2017). https://www.treasury.gov/press-center/press-releases/Documents/Tax-Framework.pdf

[2] Tax Policy Center (TPC), "A Preliminary Analysis of the Unified Framework" (Sept. 29, 2017). http://www.taxpolicycenter.org/sites/default/files/publication/144971/a_preliminary_analysis_of_the_unified_framework_0.pdf

[3] Center on Budget & Policy Priorities (CBPP), "Trump Budget Gets Three-Fifths of Its Cuts from Programs for Low- and Moderate-Income People" (May 30, 2017). https://www.cbpp.org/sites/default/files/atoms/files/5-30-17bud.pdf.

[4] CBPP, "House GOP Budget Cuts Programs Aiding Low- and Moderate-Income People by $2.9 Trillion Over Decade" (Sept. 5, 2017). https://www.cbpp.org/sites/default/files/atoms/files/8-3-17bud.pdf.

[5] TPC, "Preliminary Analysis," p. 13, Table B1.

[6] *Ibid.* 13.5% of the tax units in the middle quintile will get a tax increase in 2018 and 27.8% in 2027.

[7] *Ibid.* p. 7, Table 1. The net business tax cut of $2.648 trillion is made up of $3.041 trillion in tax cuts that are partially offset by $393 billion in revenue raisers. $2.949 trillion in tax cuts for individuals (including the estate tax cut of $240 billion) are nearly fully paid for with $3.182 billion in new revenue.

[8] *Ibid.* See "Reduce corporate tax rate to 20% and repeal corporate AMT."

[9] Estimates are measured as a share of the economy/GDP. Americans for Tax Fairness and Economic Policy Institute, "Corporate Tax Chartbook: How Corporations Rig the Rules to Dodge the Taxes They Owe" (Sept. 2016), Figure 2. http://www.epi.org/publication/corporate-tax-chartbook-how-corporations-rig-the-rules-to-dodge-the-taxes-they-owe/

[10] Government Accountability Office, "Corporate Income Tax" (March 2016). Https://Www.Gao.Gov/Products/Gao-16-363

[11] Institute on Taxation and Economic Policy (ITEP), "The 35 Percent Corporate Tax Myth" (March 2017), p. 4. https://itep.org/wp-content/uploads/35percentfullreport.pdf

[12] Office of Management and Budget (OMB), Historical Tables, "Table 2.2: Percentage Composition of Receipts by Source." https://www.whitehouse.gov/omb/budget/Historicals

[13] TPC, "Would Workers Benefit from A Corporate Tax Cut? Not Much" (Sept. 8, 2017). http://www.taxpolicycenter.org/taxvox/would-workers-benefit-corporate-tax-cut-not-much

[14] TPC, "Preliminary Analysis," p. 7, Table 1. See "Limit individual rate on pass-through income to 25%."

[15] TPC, "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

[16] 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

[17] *Ibid.*

[18] Letter to Donald Trump from tax attorneys Morgan, Lewis & Bockius (Mar. 7, 2016). http://assets.donaldjtrump.com/Tax_Doc.pdf

[19] *The Washington Post*, "Donald Trump's New Tax Plan Could Have a Big Winner: Donald Trump's Companies" (Aug. 10, 2016). https://www.washingtonpost.com/news/wonk/wp/2016/08/10/donald-trumps-new-tax-plan-could-have-a-big-winner-donald-trumps-companies/

[20] CNN, "Hillary Clinton Slams 'Trump Loophole'" (Aug. 11, 2016). http://money.cnn.com/2016/08/11/pf/taxes/hillary-clinton-donald-trump-loophole/

[21] TPC, "Preliminary Analysis," p. 7, Table 1. See "Expensing of equipment through 2022."

[22] TPC, "A Business Cash Flow Tax Could Reduce Investment, Contrary to What Some Economists Think" (Jan. 24, 2017). http://www.taxpolicycenter.org/taxvox/business-cash-flow-tax-could-reduce-investment-contrary-what-some-economists-think

[23] ITEP, "Fortune 500 Companies Hold a Record $2.6 Trillion Offshore" (March 2017), p. 1. http://www.itep.org/pdf/pre0327.pdf
[24] TPC, "Preliminary Analysis," p. 12 and EY, Highlights of Chairman Camp's tax reform discussion draft (Feb. 27, 2014). http://www.ey.com/gl/en/services/tax/international-tax/alert--highlights-of-chairman-camp-s-tax-reform-discussion-draft
[25] TPC, "Preliminary Analysis," p. 7, Table 1. See "One-time deemed repatriation tax at reduced rates."
[26] ITEP, "Turning Loopholes into Black Holes: Trump's Territorial Tax Proposal Would Increase Corporate Tax Avoidance" (Sept. 6, 2016). https://itep.org/turning-loopholes-into-black-holes-trumps-territorial-tax-proposal-would-increase-corporate-tax-avoidance/
[27] TPC, "Preliminary Analysis," p. 7, Table 1. See "Enact territorial tax system."
[28] *Ibid.* See "Individual income tax rates of 10, 25, and 35%."
[29] TPC, "Preliminary Analysis," p. 7, Table 1. See "Repeal individual alternative minimum tax."
[30] *The New York Times (NYT),* "Trump Wrote Off $100 Million in Losses in 2005, Leaked Form Shows" (March 14, 2017). http://nyti.ms/2pmUkEH
[31] *NYT*, "A.M.T., Which Hit Trump in 2005, Is No One's Favorite" (March 15, 2017). https://www.nytimes.com/2017/03/15/business/economy/trump-alternative-minimum-tax.html
[32] TPC, "Historical Average Federal Tax Rates for All Households." http://www.taxpolicycenter.org/statistics/historical-average-federal-tax-rates-all-households
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[35] TPC, "Briefing Book: Who pays the estate tax?" http://www.taxpolicycenter.org/briefing-book/who-pays-estate-tax
[36] *The Detroit News*, "Clinton: Trump Plan to Ax Estate Tax Saves His Family $4B" (Aug. 11, 2016). http://www.detroitnews.com/story/news/politics/2016/08/10/clinton-warren-economy/88546136/
[37] TPC, "Preliminary Analysis," p. 7, Table 1. See "Repeal state and local tax deduction."
[38] Government Finance Officers Association, "The Impact of Eliminating the State and Local Tax Deduction" (Using 2015 IRS data), p. 6. https://www.gfoa.org/sites/default/files/GFOA_SALT_09202017.pdf
[39] *Ibid.*, p. 8.
[40] TPC, "Preliminary Analysis," p. 7, Table 1. See "Increase standard deduction."
[41] TPC, "Preliminary Analysis," p. 7, Table 1. See "Repeal personal exemptions." For more on the harmful effects of a repeal of the personal exemption see Center for American Progress, "How Middle-Class and Working Families Could Lose Under the Trump Tax Plan" (June 13, 2017). https://www.americanprogress.org/issues/economy/reports/2017/06/13/434054/middle-class-working-families-lose-trump-tax-plan/ A Tax Policy Center analysis of the combined effects of repealing the standard deduction and personal exemptions found that Trump's earlier tax plan would increase taxes for about 8.7 million families—20% of households and more than half of all single-parents. That analysis assumed a much higher standard deduction than the amounts in the Trump-GOP plan, which means even more families will experience a tax increase under the Trump-GOP plan. See TPC, "Families Facing Tax Increases Under Trump's Tax Plan (Oct. 28, 2016). http://www.taxpolicycenter.org/sites/default/files/publication/135696/2000983-Families-Facing-Tax-Increases-Under-Trumps-Plan.pdf