Republican Tax Plan
Giveaways to Wall Street

Wall Street banks are already expert tax-dodgers. According to Institute on Taxation and Economic Policy data, nine of the largest and most profitable U.S. banks paid an average federal tax rate of only 18.6% between 2008 and 2015 — far less than the statutory rate of 35%. By using various loopholes, these banks avoided paying about $80 billion in taxes that could have helped pay for sorely needed public investments.

With former Goldman Sachs executives like Gary Cohn now playing key roles in drafting Republican tax plans, it's hardly surprising that banks stand to gain billions from Trump's proposal. Goldman Sachs alone avoided $5.5 billion in taxes between 2008 and 2015, and it is now well positioned to avoid vastly more.

1. Big banks would pay even lower rates

The Republican plan would slash the corporate tax rate from 35% to 20%, creating huge financial benefits for Wall Street mega-banks. Bloomberg estimates that the six largest U.S. banks (Bank of America, Citigroup, Goldman Sachs, J.P. Morgan Chase, Morgan Stanley, and Wells Fargo) would save a combined $6.4 billion annually under the Trump-GOP proposal to reduce the corporate tax rate to 20%. The Republican plan cuts corporate tax rates without making up revenue losses by closing loopholes big banks and corporations currently use to get away with paying rates much lower than the statutory rates. This will likely lead to painful cuts to public services.

2. Banks that have been stashing huge piles of profits offshore would get a huge tax cut

Financial firms have been very adept at dodging U.S. taxes by sheltering profits in nations with low or no corporate taxes. In 2016, seven of the 20 U.S. companies with the most subsidiaries registered in tax havens were Wall Street banks. Under current law, corporations can defer payment of U.S. taxes on these profits until they are repatriated. While the Republican plan lacks details on the tax breaks they plan to offer on profits currently held offshore, Trump has proposed a discounted rate of 10%. This would allow the six largest U.S. banks to dodge more than 70% of taxes owed on their current offshore profits—an estimated $25 billion. And under the GOP's proposed territorial system, U.S. corporations would no longer pay taxes on profits they book offshore in the future.

	Offshore profits in 2016 ($mill)[a]	Estimated U.S. tax bill on offshore cash under current law[a]	Tax savings if Trump's rate cut is approved[b]	Tax haven subsidiaries[a]
Bank of America	17,800	4,900	3,500	91
Citigroup	47,000	13,100	9,357	137
JPMorgan Chase	38,400	8,800	6,286	170
Goldman Sachs	31,240	6,180	4,414	905
Morgan Stanley	12,006	1,111	794	619
Wells Fargo	2,400	653	466	88
Total	148,846	34,744	24,817	2,010

Sources: a) U.S. PIRG and Institute on Taxation and Economic Policy, *Offshore Shell Games 2017*, b) ATF calculations based on a 10% repatriation rate.

3. Hedge fund owners could get as much as a two-thirds cut on their individual tax rates

Many hedge funds and other Wall Street firms organize as partnerships or other business entities that allow them to pay their business taxes at individual rates. The Trump-GOP plan has proposed taxing the income of the owners of these so-called "pass-through entities" at just 20% — far below the current top rate of 39.6%. This would be a $770 billion giveaway over 10 years, according to the Tax Policy Center, which would mostly go to Wall Street billionaires and the richest 1%.

4. Heirs to Wall Street fortunes would enjoy a massive cut in estate taxes

On top of other tax breaks for the rich, both Trump and House Republicans want to repeal the estate tax, which now functions as a brake on dynastic wealth accumulation. The families of Wall Street financiers stand to make exceptionally large gains from this cut. The 93 people on the Forbes 400 list of richest Americans who made their money through investments and finance have combined wealth of $491 billion. Eliminating the estate tax on these fortunes alone might funnel about $95 billion into the pockets of Wall Street titans' heirs, assuming a current effective estate tax rate of 19.4%.

Wall Street Banks and Financiers Must Pay Their Fair Share

After driving our economy off a cliff with their recklessness and greed, the biggest banks benefited from taxpayer-funded bailouts and returned to profitability. Wall Street profits are once again driving sky-high pay for senior executives, even as the rest of the country continues to struggle. Instead of cutting rates on corporations and the wealthy in this time of record income inequality and corporate profits, we need to comprehensively reexamine the adequacy and fairness of our current tax system. In addition, the following specific reforms would help ensure that Wall Street pays its fair share, generating an estimated more than $1 trillion in revenue over 10 years.

Close the Carried Interest Loophole: Private equity funds and hedge fund executives slash their tax bills by classifying income as capital gains rather than ordinary income. Thus, they pay only 23.8% (20% capital gains rate plus the 3.8% investment surtax under Obamacare) on much of their income, rather than the 39.6% they would normally owe. This means some of the wealthiest Americans pay a lower tax rate than millions of middle-income workers, including many teachers, firefighters, and nurses.

Wall Street Speculation Tax: Working families pay sales tax when they buy anything from a car to a pair of shoes. But when Wall Street traders buy millions of dollars in derivatives they don't pay any tax at all. A tiny fee at rates of a few pennies per $100 of trading on stocks, bonds, and derivatives would raise more than $700 billion over 10 years and discourage destabilizing short-term speculation.

Subsidized Pay for Trump Tax Architect

The lead architect of Trump's tax plan, former Goldman Sachs President Gary Cohn, received more than $72 million in fully deductible performance pay in 2016. That payout for just one man lowered Goldman Sachs's IRS bill by an estimated $25 million, according to an Institute for Policy Studies analysis. Cohn now leads Trump's National Economic Council.

End the CEO Bonus Loophole: Current law allows banks and other corporations to deduct unlimited amounts of executive compensation from their taxable income — if the pay is "performance based." This gives banks an incentive to perpetuate the reckless Wall Street bonus culture that was a key factor in the 2008 financial crisis. According to the Institute for Policy Studies, the top 20 U.S. banks paid out more than $2 billion in fully deductible performance bonuses to their top five executives between 2012 and 2015, for a taxpayer subsidy of $725 million.

Leverage Fee on Large Financial Firms: Before the financial crisis, the largest Wall Street banks borrowed excessively. When these and other "too big to fail" financial institutions could not repay their debts, taxpayers were on the hook for huge bailouts. A small tax on the riskiest big bank borrowing could raise significant funds while discouraging future bailouts.

Limit Tax Benefits for Excessive Leverage at Non-Financial Firms: Wall Street financial institutions, particularly private equity firms, also benefit from current tax rules that provide an implicit subsidy to debt-financed acquisitions. In recent years, there have been bipartisan proposals that have proposed limiting or eliminating the interest deduction. For example, the 2011 Wyden-Coats tax plan would have cut back the interest deduction sharply by basing it on the real interest rate.

Close other Wall Street Loopholes and Tax Avoidance Schemes: Other measures that would make Wall Street pay its fair share include closing the reinsurance loophole that allows hedge funds and certain insurers to transport money to untaxed foreign "reinsurance" subsidiaries, requiring private equity firms to report bogus "monitoring fees" as taxable income, and more transparency to ensure complex derivatives contracts are not used to avoid taxes.

Reform	Revenue over 10 years
Wall Street Speculation Tax	$717 Billion
Leverage Fee on Large Financial Institutions	$111 Billion
Limit Tax Benefits for Excessive Leverage at Non-Financial Firms	$100 billion
End the CEO Bonus Loophole	$50 Billion
Mark to Market for Derivatives Contracts for Tax Purposes	$21 Billion
Close Carried Interest Loophole	$19 Billion
Crack Down on Bogus Private Equity Monitoring Fees	$10 Billion
Close the Reinsurance Loophole	$8 Billion
Total	**$1 trillion+**

Sources: U.S. Treasury, Joint Committee on Taxation, and AFR estimate.

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AFR Americans for Financial Reform

TAKE ON WALL STREET

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