Donald Trump's Chutzpah: His Tax Plan Doubles Down on Inequality and Gives His Own Company a Huge Tax Windfall

Robert Shapiro, March 3, 2016

Donald Trump, often a master of snide generalities, has been very precise about not only his plans for undocumented immigrants and Obamacare, but also his approach to taxes. The presumptive GOP nominee has laid out detailed proposals to cut tax rates, expand the standard deduction, and sharply shift the approach to business taxes. I've reviewed his proposals, and the conclusions are sobering. For a starter, Trump's tax cuts are so expansive, they would decimate either the federal budget or the U.S. credit rating. Moreover, the GOP "populist" channels most of the benefits from his tax cuts to the country's wealthiest individuals and businesses. So, Trump characteristically doubles down on the Democrats' central meme of income inequality, and ensures that one of the biggest winners would be the Donald himself, through a giant tax windfall for The Trump Organization, LLC and other privately-held enterprises.

Just to begin, Trump's proposals are wildly reckless as fiscal policy. According to the Tax Policy Foundation, a joint enterprise of the Brookings Institution and the Urban Institute, Trump's tax plan would gut federal revenues by $9.8 trillion over 10 years. In 2020, his plan would reduce personal income tax revenues by $695 billion or more than 36 percent, and gut corporate income tax revenues by $196 billion or 50 percent. All told, the revenue losses under Trump's plan in 2020 come to $915 billion, equal to all defense spending projected for that year ($570 billion), plus 44 percent of all Social Security retirement benefits in 2020 ($793 billion) . If Trump wants to finance his tax plans by borrowing instead of cutting spending, he should know that such a large, additional burden on credit markets would push up interest rates and slow growth, and likely trigger a U.S. debt crisis.

Turning to the details, one feature of Trump's plan that would help some middle-class Americans is his proposal to expand the standard deduction from $6,300 to $25,000 (singles) and from $12,600 to $50,000 (couples). His plan also simplifies and lowers marginal income tax rates to 10 percent, 20 percent, and 25 percent. But these changes provide nothing for the 45 percent of U.S. households with low or moderate incomes, because they are not liable today for any federal income tax.

Apart from the big standard deduction, Trump channels virtually all of his tax benefits to high income people and businesses. Trump's plan would save an average household that pays income taxes $2,732 in 2017, mainly from the expanded standard deduction. Those in the 95th to 99th percentile, however, would save $27,657 in 2017, 10 times the benefits for an average taxpayer. Further, households in the top 1 percent would save $275,257 in 2017, 100 times the benefits for the average taxpayer. And those at the very top of the income ladder, the richest one-tenth of 1 percent of households including Donald Trump, would save $1,302,887 in 2017, or 480 times the benefits for average taxpayers.

These windfall gains are driven mainly by Trump's proposals to reduce the top tax rate from 39.6 percent to 25 percent and slash taxes on businesses. So, Trump would cut the corporate income tax rate from 35 percent to 15 percent. Trump's enthusiasts will note that his business tax reforms include ending the right of U.S. multinationals to defer their U.S. tax on income earned abroad, much as President Obama has proposed. But only Trump would cut the U.S. corporate rate to 15 percent. Some 96 percent of the foreign income of U.S. companies is earned in countries that tax corporate income at rates of 15 percent or more, and those U.S. companies get U.S. tax credits for the taxes they pay abroad. So, under Trump's 15 percent corporate tax rate, 96 percent of the foreign-source income of U.S. multinationals would be free of any U.S. tax – much more than under current law.

Trump provides equally large tax windfalls for non-corporate businesses such as LLCs and partnerships, which account today for more than half of U.S. business revenues and profits. Here, Trump appears to agree with Obama and Hillary Clinton about closing down the "carried interest" loophole, which taxes most of the income earned by hedge fund and private equity fund partners at the 23.8 percent capital gains rate. But Trump's version of this reform is meaningless, because he also cuts the top tax rate for income earned in all "pass-through" entities such as hedge funds and private equity funds to 15 percent: So, they would pay even lower taxes under Trump's plan than under the current, carried interest loophole.

That's not even the worst of it: This 15 percent rate would apply not only to hedge funds and private equity funds, but to all partnerships and privately-held businesses, including the Koch Brothers' companies and The Trump Organization, LLC. Instead of paying taxes at the current 39.6 percent top personal rate, or the current 23.8 percent capital gains rate, or even the 25 percent top personal rate under Trump's plan, the Koch brothers, hedge fund partners and the Donald himself would pay 15 percent. Under Trump's plan, he and his company would pay a lower tax rate than an average American earning $47,750 today. That's chutzpah even for Donald Trump.