

GOP Leadership Tax Plan Violates Mnuchin Rule by Delivering Windfall to High-Income Households

The tax plan that the Trump Administration and congressional Republican leaders announced in September fails the tax policy standard set by Treasury Secretary Steven Mnuchin that “there will be no absolute tax cut for the upper class” and violates the President’s promise that every tax-related decision would “benefit American workers and American families.”

In an interview shortly after his nomination, Mnuchin stated:

Any reductions we have in upper-income taxes will be offset by less deductions, so there will be no absolute tax cut for the upper class. There will be a big tax cut for the middle class, but any tax cuts we have for the upper class will be offset by less deductions that pay for it.

Secretary Mnuchin has reiterated this rule in various forums since then. The “Mnuchin rule” means that tax plans should emphasize helping the middle class and that any tax cuts for high-income households must be offset by cuts in their tax benefits. President Trump has frequently echoed this standard, claiming, “The rich will not be gaining at all with this plan. . . . [They] will be pretty much where they are.”¹

The Trump and congressional Republican plan, however, clearly violates this rule, as it would direct a disproportionate share of its tax cuts to the highest-income households, while giving low- and moderate-income families at best a small tax cut, on average.²

According to Tax Policy Center estimates:

- The top 1 percent of households (those with incomes above \$912,000) would get 80 percent of the plan’s net tax cuts, or more than \$200,000 (an 8.7 percent boost in after-tax income) on average in 2027.
- The top 0.1 percent of households (those with incomes above \$5.1 million) would get 40 percent of the plan’s net tax cuts, or more than \$1 million (a 9.7 percent boost in after-tax income) on average in 2027.
- The bottom 80 percent of the population would get just 13 percent of the tax cuts and see a less than 0.5 percent increase in after-tax income on average in 2027.

High-Income Households Would Gain the Most

Like past Trump and congressional Republican tax proposals, the latest plan would provide a massive tax cut for the wealthiest (see chart). The provisions of this plan that would most benefit high-income households include:

- **Reducing the top individual income tax rate from 39.6 to 35 percent.** This cut would exclusively benefit the fewer than 1 in 100 households that currently face the top rate. By itself, the rate cut would give a \$24,000 tax cut each year to a couple with \$1 million in taxable income. Republican leaders have floated keeping the top tax rate at 39.6 percent, but a CBPP analysis found that such a plan would still be heavily tilted toward the top because of other provisions.³

GOP Tax Plan Overwhelmingly Skewed to the Top

Estimated tax cuts by expanded cash income percentile, 2027

Income group	Average change in after-tax income	Average tax cut
Lowest fifth	+0.2%	\$50
Second fifth	+0.5%	\$230
Middle fifth	+0.5%	\$420
Fourth fifth	+0.4%	\$450
Top fifth	+3.0%	\$10,610
Top 1 percent	+8.7%	\$207,060
Top 0.1 percent	+9.7%	\$1,022,120

Source: Tax Policy Center

- **Setting a special, lower top rate of 25 percent for “pass-through” income.** Currently taxed at the same rates as wages and salaries, pass-through income is income from businesses such as partnerships, S corporations, and sole proprietorships that the entities’ owners claim on their individual tax returns. People with incomes over \$1 million would receive 79 percent of this tax cut, and the 400 households with the highest incomes would receive average tax cuts of \$3.7 million.
- **Repeal the estate tax.** Only the heirs of the wealthiest 0.2 percent of estates would benefit from repeal, since the first \$5.49 million of an estate’s value (effectively \$11 million for a couple) is already exempt from the tax under current law.
- **Cutting the corporate rate from 35 to 20 percent.** Mainstream estimates conclude that the bulk of the benefit from cutting corporate tax rates goes to investors and CEOs, not workers.
- **Eliminating the Alternative Minimum Tax.** This tax is designed to ensure that higher-income people who take a large amount of deductions and other tax breaks pay a minimum level of tax.

Little Benefit for Low- and Middle-Income Families

The GOP tax plan adjusts numerous individual income tax provisions, but the end result would likely be close to a wash for many low- and middle-income families. The plan’s promoters have emphasized the increase in the standard deduction and Child Tax Credit (CTC), which would benefit these families. In many cases, however, these benefits are offset by other provisions, such as eliminating personal exemptions and increasing the bottom rate from 10 percent to 12 percent.

The plan is also missing important details, such as the income levels at which its new tax rates would apply or the amount of the increase in the maximum CTC. But the plan does indicate that any increase above the current \$1,000-per-child CTC would not be refundable, which also was the case under the House “Better Way” tax plan released last year. This means the CTC proposal in the Trump/GOP plan would exclude at least 16 million children in low-income working families.⁴ If Better Way provisions (such as a \$500 increase in the CTC) are used to fill in the current plan’s missing details, a broad swath of low- and middle-income working families likely would see little overall benefit. For example:

- A married couple with one child claiming the standard deduction would get no tax cut if they earn \$24,850 or less a year.
- A married couple with one child earning \$48,700 annually (the median income in 2015 for a working-class family of that size) and claiming the standard deduction would get a net tax cut of just \$181.
- Many filers who claim itemized deductions would lose. For example, a married couple with one child, annual income of \$60,000, and \$20,000 in claimed itemized deductions would get a net tax *increase* of \$575.

While the document describing the Trump/GOP tax plan states that “the [tax-writing] committees will work on additional measures to meaningfully reduce the tax burden on the middle-class,” this appears to be more of an afterthought than a central feature of the plan. Further, low- and middle-income households would likely *lose* substantially from the tax plan after taking into account who ends up paying for these costly tax cuts. If the cost is paid for through the types of spending cuts the President and congressional Republicans have proposed in their 2018 budgets to address *existing* deficits — before tax cuts have expanded them further — the vast majority of Americans would be net losers.⁵

Vague promises and the plan’s likely eventual harm to low- and middle-income Americans stand in contrast to the plan’s specific proposals to deliver huge windfalls for the nation’s wealthiest people. To meet the standards that Secretary Mnuchin and President Trump have laid out for American workers and families, their tax plan would need to be rewritten.

¹CNBC Transcript: Steven Mnuchin and Wilbur Ross Speak with CNBC’s ‘Squawk Box’ Today,” November 30, 2016, <http://cnb.cx/2gleH0g>; Nolan D. McCaskill, “Trump: Rich people won’t benefit ‘at all’ from tax plan,” *Politico*, September 13, 2017, <http://politi.co/2yqSA2G>.

²For more, see Chuck Marr and Chye-Ching Huang, “ACA Repeal, Trump Tax Plan, and Ryan’s ‘Better Way’ Tax Plan All Fail Mnuchin Test,” CBPP, January 18, 2017, <http://bit.ly/2woWpDr>; Chuck Marr, “Republican Leaders’ Tax Framework Provides Windfall to High-Income Households, With Working Families Largely an Afterthought,” CBPP, updated October 2, 2017, <http://bit.ly/2y1001n>; Sharon Parrott, “Commentary: Republican Tax and Budget Agenda Would Leave Most Low- and Middle-Income Children Worse Off,” CBPP, October 4, 2017, <http://bit.ly/2wzqYUc>.

³Chuck Marr, Brendan Duke, and Chye-Ching Huang, “Republican Leaders’ Tax Plan Would Deliver Large Tax Cuts to the Wealthiest Americans Even if It Doesn’t Cut the Top Rate,” CBPP, October 26, 2017, <http://bit.ly/2zay1rj>.

⁴Robert Greenstein et al., “Child Tax Credit Increases in GOP Tax Plan Exclude Millions of Children in Low-Income Working Families,” CBPP, October 25, 2017, <http://bit.ly/2zFIAio>.

⁵Chye-Ching Huang and Brendan Duke, “Vast Majority of Americans Would Likely Lose From Senate GOP’s \$1.5 Trillion in Tax Cuts, Once They’re Paid For,” CBPP, October 4, 2017, <http://bit.ly/2yWHSx0>.