Commentary: New Trump Tax Plan Has Specific Costly Tax Cuts at the Top, Fuzzy Promises for Everyone Else

By Chuck Marr

President Trump’s tax plan announced yesterday is light on details. But what details there are make clear the President’s top priority: costly tax cuts for the wealthy and corporations. For working families, the plan is mostly fuzzy promises.

The plan specifies proposals that would lose over $5 trillion in revenues over the next decade and deliver tax cuts worth hundreds of thousands of dollars annually to the top 1 percent of households, on average. But while National Economic Council (NEC) Director Gary Cohn said yesterday that the President is focused on “helping the low- and middle-income families who have been left behind by this economy,” the details on how the new tax plan would accomplish this are fuzzy or non-existent.

Indeed, when asked directly yesterday how a typical middle-income family would benefit under the plan, Cohn had no answer. And the main middle-income tax cut the plan does specify — doubling the standard deduction — leaves out at least 17 million working families and individuals, many of whom are among those most “left behind” by recent economic trends.

Specific Commitments for High-Income People and Corporations

Major components of the plan that the Administration specified yesterday include:

- **Cutting the top corporate rate from 35 to 15 percent**, which would cost more than $2 trillion over ten years. More than half of the benefits would flow to the top 1 percent of households — and that’s after taking into account generous assumptions that some of the benefits would “trickle down” to workers through increased investments that eventually boost wages.

- **Cutting the rate on “pass-through” business income to 15 percent**, which is income from businesses such as partnerships, S corporations, and sole proprietorships claimed on individual tax returns and taxed at the rates that apply to wages and salaries. These businesses already have the advantage of being exempt from the corporate tax on profits and taxes on dividends.

This proposal would mainly benefit the top 1 percent, as they receive about half of all pass-through income and would receive the biggest rate cuts. More than two-thirds of pass-
through business owners would receive nothing because they’re already in the 15 percent marginal tax bracket or below.\(^5\)

- **Eliminating the estate tax**, which would provide a windfall to only the heirs of the wealthiest 0.2 percent of estates, who would receive tax-free inheritances. They alone would benefit, since they’re the only ones who owe estate taxes.\(^6\)

- **Eliminating the Affordable Care Act’s (ACA) 3.8 percent Medicare tax on unearned income**, which only affects individuals with incomes above $200,000 and couples with incomes above $250,000.\(^7\) When combined with the elimination of the other ACA taxes (as the ACA repeal bill the President continues to push for would do), this would provide tax cuts averaging more than $45,000 to the top 1 percent in 2025.\(^8\)

- **Cutting the top individual tax rate from 39.6 to 35 percent**, the benefits of which would flow almost entirely to the top 1 percent of households.\(^9\)

- **Shifting to a “territorial” corporate tax system**, which would exempt from U.S. taxes the profits that U.S.-based multinational corporations earn in other countries. This proposal, which wasn’t in the Trump campaign tax plan, would increase incentives for companies to shift profits and investment overseas.

- **Eliminating the Alternative Minimum Tax**, which is designed to prevent high-income households from exploiting loopholes, exclusions, and deductions in order to owe little or no federal income tax.

**Vague Promises on Offsetting the Cost and Preventing Abuse**

While the plan gives details on where it would benefit corporations and wealthy individuals, it’s much less clear about where — or whether — they’d have to give up anything to help pay for these massive tax cuts:

- **Offsets.** The Administration has only specified one policy that would raise significant revenue to offset the dramatic revenue losses from the plan’s specified provisions: eliminating most itemized deductions, including the state and local income tax deduction. Other than that, the plan simply alludes to “eliminat[ing] tax breaks for special interests.” As a result, the plan as outlined yesterday would likely cost more than $5 trillion over ten years.

  Treasury Secretary Steven Mnuchin said yesterday that the plan’s impact on the deficit isn’t a concern because it will “pay for itself with growth.”\(^10\) But economic evidence is clear that tax cuts don’t pay for themselves, and that tax cuts that primarily benefit high-income people and permanently increase deficits — like the Trump plan — can actually hurt growth over time.\(^11\)

- **Anti-abuse provisions.** Several of the proposals would encourage high-income people and corporations to shift income into areas where it’s taxed at lower rates in order to reduce their tax bills. But the plan was fuzzy on how it would prevent those inevitable abuse attempts.

  For example, the Tax Policy Center estimates that two-fifths of the pass-through provision’s $1.5 trillion revenue loss over the first decade would be due to tax avoidance by high-income professionals, who’d have a major incentive to reclassify their earnings as business income to take advantage of the lower rate. Tax experts are highly skeptical that effective rules can be crafted and enforced to prevent this.\(^12\) Yet when questioned yesterday, Secretary Mnuchin
simply said, “what this is not going to be is a loophole for rich people” and “we will make sure that there are rules in place,” while providing no hint of what those rules would be.

Similarly, the Administration gave no details on how it would prevent multinational corporations from aggressively shifting profits outside the country, which they’d have a major incentive to do under the proposed territorial tax system that exempts foreign profits from U.S. tax.

**Few Specifics on Help for Working Families**

When it comes to the proposals for working families, the plan includes some nods but little detail. It calls for cutting marginal income tax rates but doesn’t give the income levels at which the new brackets would begin and end. It calls for doubling the standard deduction but doesn’t say whether it would make other changes to personal exemptions or the head-of-household filing status, which interact with the standard deduction. And it calls for “tax relief for families with child and dependent care expenses” but doesn’t explain how it would do so.

These details matter. They can make the difference between average families getting a tax cut and a tax increase. Specifics like these are why the Trump campaign tax plan would have raised taxes on millions of working single parents, and why its child care proposal would have primarily benefited upper-middle-income households while doing very little for those at the bottom. The new plan has no details on whether or how those flaws had been fixed.

Regardless of how the details are worked out, it’s clear that the plan would exclude a large swath of Americans from any tax cut, including working-class people who are struggling in low-wage jobs and trying to do right by their families. The plan’s specified middle-income tax cut leaves out at least 17 million working families and individuals because they don’t make enough to pay federal income taxes, including more than 12 million working-class families and individuals (working-age households in which no member has a college degree).

As a result, millions of the very people NEC Director Cohn refers to as “left behind” wouldn’t benefit from a higher standard deduction, lower tax rate, or any of the President’s other proposals. In fact, they’d very likely be worse off under the plan because policymakers eventually would likely pay for the large tax cuts for the wealthy, at least in part, by cutting programs on which they and millions of other low- and middle-income families rely.

Thus, despite the lack of detail, we know that the new Trump tax plan would lose trillions of dollars in revenues and that any tax cuts for working families would be dwarfed by the massive tax cuts for those at the top.

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8 Tax Policy Center table T16-0310.

9 Tax Policy Center table T14-0110.

10 Office of the Press Secretary.


12 Marr et al.

13 Office of the Press Secretary.


17 This analysis only includes workers with earnings whose incomes fall in the “zero” tax bracket — that is, they don’t have incomes high enough to owe any federal income taxes before factoring in tax credits. CBPP estimate based on 2016 Current Population Survey data.