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Millionaires Would Gain Trillions Under Trump and Cruz Tax Plans

By Isaac Shapiro

At a time of exceptionally wide levels of income inequality, the tax-cut proposals from Republican presidential candidates Donald Trump and Ted Cruz would produce extremely large and unprecedented tax-cut windfalls for people with incomes exceeding $1 million a year, almost certainly at the expense of low- and middle-income households once budget cuts to pay for the tax cuts are taken into account. Both tax plans would ultimately increase the already substantial incomes of people who make over $1 million a year by about 20 percent, with the revenues lost due to the tax cuts for millionaires exceeding $3 trillion over the coming decade.

These findings are based on an examination of the estimates that the respected Urban-Brookings Tax Policy Center (TPC) has produced of both the cost of the Trump and Cruz tax plans and how those plans would affect households at different income levels. ("Millionaires," as used here, refers to households with annual incomes over $1 million, rather than to the amount of assets that households may hold.) This analysis is a companion piece to an earlier CBPP analysis on the effects these tax-cut plans would have on the nation's revenue base; the earlier analysis found that both the Trump and Cruz plans would effectively shrink government revenues (as a share of GDP) to their levels back in the Truman era.[1] Like that analysis, this one does not examine John Kasich's tax proposal because TPC has not assessed it, and doesn't assess the proposals of Democratic candidates Hillary Clinton and Bernie Sanders, as their proposals would increase taxes on millionaires, not reduce them.

Both the Trump and Cruz plans would cost about $9 trillion over the next decade, according to TPC. This analysis estimates, based on the TPC data, that the tax cuts going to millionaires would result in a revenue loss over the coming decade of approximately $3.2 trillion under the Trump plan and $3.5 trillion under the Cruz plan.

- TPC estimates that millionaires would receive tax cuts averaging about $380,000 (Trump) or $460,000 (Cruz) in 2025, the last year for which TPC has estimated the distribution of the tax cuts. (All average tax-cut figures in this report are adjusted for inflation and expressed in 2016

[1] Isaac Shapiro, "Trump and Cruz Tax-Cut Plans Would Shrink Government to Truman-Era Levels," Center on Budget and Policy Priorities," March 29, 2016, http://www.cbpp.org/research/federal-tax/trump-and-cruz-tax-cut-plans-would-shrink-government-to-truman-era-levels.

dollars.) The after-tax incomes of millionaires would increase by 17.9 percent under Trump and 21.6 percent under Cruz.

- The tax cuts for the rest of the population would be far smaller. The middle fifth of households would receive tax cuts in 2025 that average $2,900 under Trump and $1,400 under Cruz, raising these households' after-tax incomes by 4.9 percent and 2.4 percent, respectively.
- Although millionaires represent less than 1 percent of the population, in 2025 they would receive 38 percent of the Trump tax cuts and nearly half — 47 percent — of the Cruz tax cuts. In contrast, the bottom 80 percent of the population would receive just 32 percent of the Trump cuts and 19 percent of Cruz's. Thus, in aggregate, millionaires would gain more than the bottom 80 percent of households combined under Trump's plan and more than twice as much as the bottom 80 percent of households combined under Senator Cruz's plan.
- Multi-millionaires would fare best of all. The TPC data indicate that in 2025, the richest 0.1 percent of the population — those with incomes of more than $5.2 million — would receive a larger share of the tax cuts than more than 60 percent of the U.S. population under Trump and more than 80 percent of the population under Cruz.

Moreover, these figures understate the disparate effects of the proposed tax cuts on Americans at different income levels, because the true distributional effect of the tax cuts cannot be assessed without also considering how their costs would be offset. The nation's long-term deficit problem dictates that the tax cuts be paid for sooner or later, and both candidates have said they would do so, although they have provided few specifics.

Assuming these offsets would occur through reduced government spending rather than tax increases, low- and middle-income households would lose significantly more from the offsets than they would gain from the tax cuts themselves. Only a tiny fraction of spending cuts could possibly come from cutting program spending benefiting millionaires, given how few millionaire households there are and because federal program spending is dispersed fairly evenly across the population.

Indeed, the only way to offset the tax cuts so they do *not* result in income being transferred from the rest of the population to millionaires would be to enact offsetting tax increases that reduced the incomes of millionaires by about $3 trillion over the coming decade. The reason for this is simple: offsets both large enough to offset the costs of the Trump and Cruz tax cuts *and* progressive enough to avert an income transfer *up* the income scale simply can't be accomplished just or primarily by reducing government spending; offsets of this nature can be secured only if much or all of the tax cuts going to millionaires are effectively cancelled out.

Thus, it's all but certain that once their costs were offset, the Trump and Cruz plans would necessitate the transfer of trillions of dollars over the next decade from low- and middle-income households to people at the top of the income scale.

The price tag of the tax cuts to millionaires under these plans — more than 1.5 percent of gross domestic product (GDP) in 2025 — can also be compared to the cost of other potential policy initiatives (whose costs would also have to be offset). Under both the Trump and Cruz plans, the annual cost of the tax cuts just for millionaires would be:

- Greater than the cost of ensuring the solvency of both the Social Security and Medicare trust funds for the next 75 years;
- Larger than the entire "poverty gap," which is the total amount of income needed to raise every individual now living in poverty up to the official poverty line;
- Seven times the total resources that the federal government devotes to medical research; and
- Significantly larger than the amount needed to return the nation's crumbling infrastructure to a state of good repair.

The Distribution of the Tax Cuts

The Tax Policy Center has analyzed the distribution of the Trump and Cruz tax cuts in calendar years 2017 and 2025. The latter year's distribution better exemplifies the tax cuts' permanent effects as the plans would be fully implemented by then; thus this analysis places greater emphasis on those figures. As Appendix Tables 1 and 2 show, the TPC data for 2025 indicate:

- The bottom fifth of the population lives in households (technically "tax units") that would receive average tax cuts of $169 under Trump and $44 under Cruz,[2] increasing their after-tax incomes by 1.1 percent and 0.3 percent, respectively, before considering the effects of offsetting policies to pay for the tax cuts.
- The middle fifth of households[3] would receive tax cuts averaging about $2,900 under Trump and about $1,400 under Cruz. Their after-tax incomes would increase by 4.9 percent and 2.4 percent, respectively, from the tax cuts, before considering how the cuts would be financed.[4]
- Under Trump, the average tax cuts for millionaires would equal about $380,000 — approximately 130 times the average tax cut for the middle fifth. Millionaires' after-tax incomes would rise by an estimated 17.9 percent, or 3.6 times the percentage gain for the middle fifth.
- Under Cruz, millionaire households would receive tax cuts averaging about $460,000 — more than 300 times the size of the average tax cut to the middle fifth of households. Millionaires' after-tax income would rise by 21.6 percent, or nine times the comparable increase for the middle fifth of households.[5]

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[2] As noted, all average tax cut figures in this analysis are expressed in 2016 dollars.

[3] The TPC's methodology establishes income percentile classes based on the number of people rather than the number of "tax filing units" or households. That is, each quintile class in the TPC data includes one-fifth of the U.S. population, not one-fifth of households.

[4] In 2025, the average after-tax gain for all households would be an estimated $5,300 under Trump, a 6.9 percent gain, and $5,200 under Cruz, a 6.8 percent gain.

[5] Under both plans, the after-tax income gains to millionaires would be several times greater than the gains for millionaires under the tax cuts that were enacted in 2001, 2002, and 2003 under the Bush Administration, which increased the after-tax incomes of millionaires by 7.1 percent. See Isaac Shapiro and Joel Friedman, "Tax Returns: A Comprehensive Assessment of the Bush Administration Tax Cuts, April 2004, p. 20, http://www.cbpp.org/sites/default/files/atoms/files/4-23-04tax.pdf.

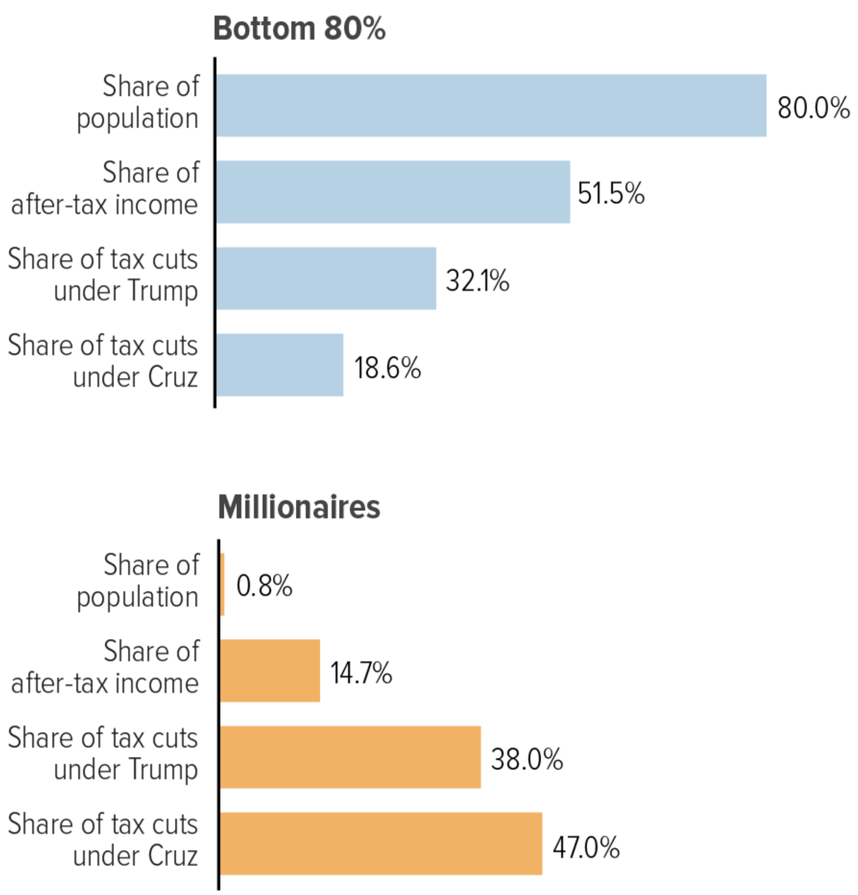
Calculating the share of the tax cuts that various income groups would receive similarly shows the sharply disproportionate nature of the tax cuts. (See Figure 1.) In 2025:

- Just 0.8 percent of the population would live in households with incomes exceeding $1 million, but such households would receive 38 percent of the Trump tax cuts. This would be greater than the share of the tax cuts (32 percent) that the bottom 80 percent of the population would receive.
- Millionaires would receive 47 percent of the Cruz tax cuts, or more than double the share of the tax cuts (19 percent) the bottom 80 percent of the population would receive. In fact, under the Cruz plan, millionaires would receive a larger share of the tax cuts than the *bottom 95 percent* of the population.

FIGURE 1

Tax Cuts Under Trump and Cruz Would Disproportionately Benefit Millionaires

All figures for 2025



Source: Tax Policy Center T15-0235, T15-0236, T16-0035, and T16-0036

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Multi-Millionaires Would be the Biggest Winners

TPC also examined the tax cuts that would be given to the richest 0.1 percent of the population, those with annual incomes exceeding $5.2 million (in today's dollars). The data show that in 2025:

- These households would receive tax cuts averaging $1.4 million under Trump and $1.8 million under Cruz. Under both plans, this segment of the population would receive significantly larger percentage increases in after-tax income (18 percent and 23 percent, respectively) than any other group.
- The nation's richest 0.1 percent of people would receive 18 percent of the tax cuts under the Trump plan — more than the plan's combined tax cuts for the bottom 60 percent of the population. Under the Cruz plan, these multi-millionaires would receive 23 percent of the tax cuts, a larger share of the tax cuts than the bottom 80 percent of the population would receive.

Offsets Could Effectively Transfer Trillions From Low- and Middle-Income People to Millionaires

By combining TPC's estimates of the share of tax cuts going to various income groups with its estimates of the revenues lost due to the tax cuts,[6] this analysis estimates that the tax cuts to millionaires alone will produce a revenue loss of $3.2 trillion over the next decade under the Trump plan, and $3.5 trillion over the next decade under the Cruz plan. The tax cuts to the top 1 percent, which includes but is not limited to millionaires, would cost $3.4 trillion and $3.8 trillion for the Trump and Cruz plans, respectively, over the next decade. (Due to data limitations, these calculations represent reasonable approximations, not precise figures.[7])

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[6] As discussed in detail in the previous companion analysis, the TPC revenue loss estimate for the Trump plan is lower than the other two available estimates of the plan's cost (one by Citizens for Tax Justice and the other by the Tax Foundation) and is in the middle of the estimates for the Cruz plan. The Appendix in the previous analysis also discusses why it is highly implausible to assume that the tax cuts would largely or completely "pay for themselves" by generating dramatic increases in economic growth.

[7] To calculate the revenue loss attributable to millionaires, this analysis first adjusts the total revenue loss estimates made by TPC slightly downwards. As noted in the previous companion analysis, TPC's estimates of the ten-year revenue loss associated with each plan were based on economic projections made in 2015. We adjust those figures to take into account the most recent economic data. As a result, we estimate a ten-year revenue loss of $9.2 trillion for the Trump plan and $8.5 trillion for the Cruz plan (compared to TPC estimates of $9.5 trillion and $8.7 trillion, respectively).

Second, TPC only estimates the distribution of the tax cuts for two years, 2017 and 2025. To estimate the distribution of revenue loss over the ten-year period, this analysis averages the share of the tax cuts received by millionaires in those two years and multiplies the result by the ten-year revenue loss that TPC has estimated. So, for example, TPC found that under the Trump plan, millionaires would receive 31.4 percent of the total tax cuts in 2017 and 38.0 percent in 2025, yielding an average of 34.7 percent. We use the same approach for the Cruz calculation.

Finally, the size of the tax cut going to millionaires is likely to differ slightly from what applying the average shares would indicate because of the effects of capital gains tax cuts. Both plans propose lower rates for capital gains, which are likely to induce taxpayers to sell more appreciated assets than they would have under current law. The increase in revenue from the sale of these assets offsets some of the revenue loss from the lower rates. Since millionaires receive a significant majority of all capital gains, this offsetting effect disproportionately reduces the revenue loss attributable to the tax cuts for millionaires. This effect is not fully captured in an average-share calculation. Based on TPC data as well as CBO projections of capital gains taxes under current law, we estimate that the revenue loss for millionaires would be

Mr. Trump and Senator Cruz have provided little information on how they would offset the cost of the tax cuts, which the earlier companion analysis found would shrink revenues as a share of the economy to the lowest level since 1950 under the Trump tax plan, and their third-lowest level since 1950 under the Cruz plan.[8] If the tax cuts are not offset, the annual budget deficit would increase sharply, to about 10 percent of GDP under both plans, and the national debt would jump as well. The candidates have promised to offset the cost of the tax cuts.

The companion analysis examined the question of offsets by assessing which programs might be cut under various hypothetical scenarios. It found that to pay for the tax cuts and to meet other Trump and Cruz campaign promises — most notably to balance the budget — government programs outside of Social Security, Medicare, and defense would have to virtually disappear.

Another way to illustrate the tax cuts' net effect is to consider the amount of dollars involved. Quite simply, absent a reversal of the tax cuts themselves,[9] the more than $3 trillion in revenue lost due to the tax cuts for millionaires could not come close to being offset by reductions to spending programs for millionaires. Spending programs are much more evenly distributed across the population than the Trump and Cruz tax cuts would be, and millionaires constitute less than 1 percent of the nation's population. Only a tiny fraction of the tax cuts could be offset through spending reductions focused on this group.[10]

Thus, the lion's share of the spending reductions necessary to pay for the tax cuts would need to come from programs benefiting low- and middle-income households, costing those households far more than the tax cuts would help them.[11] This makes it all but certain that once offset, the Trump

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roughly 1 percent lower under the Trump proposal and roughly 3 percent lower under the Cruz plan than the average-share estimates alone indicate.

Taken together, these steps result in the following calculations of revenue loss: $9.2 trillion*.347*.99 = $3.2 trillion for Trump, and $8.5 trillion*.429*.97 = $3.5 trillion for Cruz.

[8] Shapiro, 2016.

[9] Note that the TPC estimates of the effects of the tax cuts also consider any additional revenues gained from Trump or Cruz proposals to eliminate tax loopholes or otherwise increase certain taxes.

[10] Even if all direct program transfers to millionaires were eliminated immediately, a rough CBPP estimate suggests this would offset less than 5 percent of the cost of the tax cuts to millionaires over the next decade. While transfer programs make up a significant majority of federal spending, millionaires, like other households, also benefit from other programs — such as spending on defense, infrastructure, and the environment. In contrast to the tax cuts proposed by Trump and Cruz, however, the benefits from these other programs are largely public goods and are broadly shared.

[11] Citizens for Tax Justice (CTJ) examined the net dollar effect of the Trump and Cruz tax-cut proposals once offsets are considered. CTJ assumed half of the offsets would come in the form of spending reductions and half in the form of tax increases (thus effectively reversing at least some of the tax cuts). CTJ assumed the spending cuts would reduce each person's income by the same dollar amount and that the tax increases would come in the form of an across-the-board increase in income taxes that would reduce each household's income by the same percentage. It found that all income groups except for the top 5 percent under Trump and the top 20 percent under Cruz would be net losers under the tax plans once such offsets are assumed. So even under the relatively progressive offset assumptions CTJ used (which include tax increases), low- and middle-income households would lose more from the offsetting measures than they would gain from the tax cuts themselves. Citizens for Tax Justice, "The Net Effect: Paying for GOP Tax Plans Would Wipe Out Income Gains for Most Americans," March 9, 2016, http://ctj.org/ctjreports/2016/03/the_net_effect_paying_for_gop_tax_plans_would_wipe_out_income_gains_for_most_americans.php#.VuBUWNDYHOA.

and Cruz plans would effectively necessitate the transfer of trillions of dollars over the next decade from low- and middle-income households to millionaires.[12]

An examination of the spending cuts in the budget that the Republican majority on the House Budget Committee approved in March supports this conclusion. That plan calls for $6 trillion in program cuts over the next decade, which is only two-thirds of the cuts that would be needed just to offset the costs of the Trump and Cruz plans, *without* reducing the deficit. Our analysis shows that the House Republican budget plan would secure a vastly disproportionate 62 percent of its budget cuts from programs for low- and moderate-income people, cutting such programs by $3.7 trillion over the next decade.[13] These cuts are more than twice the size of the Trump or Cruz tax cuts to the bottom three-fifths of households and at least seven times the size of the tax cuts to the bottom two-fifths of the population.

Such households would likely fare still worse under the Trump and Cruz plans, which would require an additional $3.2 trillion or $2.5 trillion in program cuts, respectively — over and above the $6 trillion in cuts in the House Budget Committee plan — just to offset the costs of their tax cuts (and without balancing the budget, as Trump and Cruz have said they would also do).

How Else Could $3 Trillion Be Used?

One can compare the magnitude of the Trump and Cruz tax cuts to millionaires — each costing the government more than $3 trillion over a decade and producing a revenue loss of more than 1.5 percent of GDP in 2026 — to alternative policies that would provide significant benefit to the broad population. This is not to suggest there is an extra $3 trillion in the government's coffers that is waiting to be spent; it is to suggest that if policymakers wanted to devote this level of resources (which ultimately would need to be offset) to a new policy initiative, there are more beneficial alternatives that would warrant consideration.

As Figure 2 shows, the annual revenue loss from the tax cuts for millionaires under the Trump and Cruz plan would:

- Exceed the cost (about 1.3 percent of GDP) of ensuring Social Security and Medicare's solvency over the next 75 years;
- Be significantly larger than the entire "poverty gap," which is the total amount of income needed to raise every individual living in poverty to the poverty line. In 2014, the latest year for which this information is available, the official poverty gap equaled 1.1 percent of GDP. (This should not suggest that poverty could be entirely eliminated with additional annual expenditures of 1.1 percent of GDP; efforts to close the poverty gap necessarily entail

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[12] Assuming the offsets come in the form of spending reductions, households with annual incomes of less than $1 million but still in the top fifth of the income spectrum are, on balance, likely to gain significantly as well, though not nearly to the disproportionate degree as millionaires.

[13] Richard Kogan and Isaac Shapiro, "House GOP Budget Gets 62 Percent of Budget Cuts From Low- and Moderate-Income Programs," March 28, 2016, http://www.cbpp.org/research/federal-budget/house-gop-budget-gets-62-percent-of-budget-cuts-from-low-and-moderate-income. The House Republican budget also contains $2.3 trillion in other program cuts that would affect the broad population.

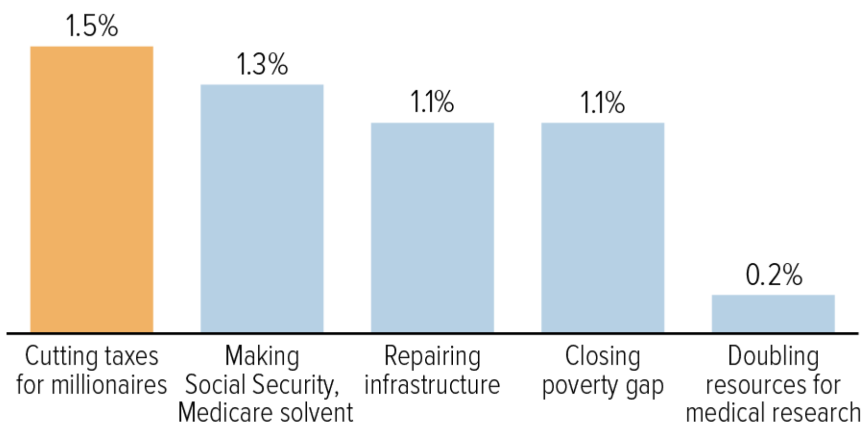
increasing assistance to those just above the poverty line as well. But this suggests that an anti-poverty effort costing 1.6 percent of GDP would dramatically reduce poverty.[14])

- Be more than seven times the total resources the federal government devotes to medical research (now 0.2 percent of GDP). The large majority of such research occurs through the National Institutes for Health, and doubling the amount of resources for medical research could advance the nation's capacity to respond to such ailments as heart disease, cancer, and Alzheimer's disease and might improve health and extend lives for millions of people; or
- Be larger than the amount of funding needed to repair the nation's crumbling infrastructure. There is broad consensus that the nation's roads, bridges, water systems, and other infrastructure require substantial repair and modernization. Such steps would make the nation healthier and safer, and would boost long-term economic growth. The American Society of Civil Engineers' latest assessment of the nation's infrastructure found that to raise its quality from a "D+" to a "B" would cost another $200 billion a year — or an additional 1.1 percent of GDP per year — between 2013 and 2020 above what is spent now.[15]

FIGURE 2

Costs of Tax Cuts for Millionaires Under Trump and Cruz Plans vs. Other Policy Alternatives

Annual cost as a percentage of gross domestic product



Note: Cost of ensuring solvency of the Social Security and Medicare trust funds reflects the amount needed for the next 75 years. Cost of repairing infrastructure is based on the estimate of unmet infrastructure needs from the 2013 American Society of Civil Engineers report. The option to close the poverty gap reflects the cost of raising all 47 million poor Americans to the official poverty line.

Source: CBPP calculations based on Tax Policy Center, Office of Management and Budget, Census, and American Society of Civil Engineers data.

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[14] For example, the Urban Institute estimated that a policy package that would reduce the number of children in poverty by 60 percent would cost about 0.5 percent of GDP, or one-third of the resources devoted to the tax cuts for millionaires under the Trump and Cruz plans. Children's Defense Fund, *Ending Child Poverty Now*, 2015.

[15] Emily Feenstra, "Our Nation's Neglected Infrastructure," *Contingencies*, September/October 2015, http://www.contingenciesonline.com/contingenciesonline/september_october_2015?pg=26#pg26.

In sum, the Trump and Cruz tax-cut proposals would almost certainly shift an extremely large amount of income to the very top of the income spectrum and away from the rest of the population, exacerbating income inequality. These proposals imply that greatly increasing the after-tax incomes of the wealthiest Americans is a higher priority for the nation than measures that would benefit Americans more broadly — such as repairing the country's infrastructure, boosting medical research, shrinking poverty, or restoring long-term Social Security and Medicare solvency.

APPENDIX TABLE 1

Distribution of Federal Tax Change Under Trump Tax Plan, 2025

Expanded cash income* percentile	Percent change in after-tax income	Share of total federal tax change	Average federal tax change (in 2016$)**
Lowest quintile	1.1%	0.8%	-$169
Second quintile	3.1	4.5	-1,069
Middle quintile	4.9	11.1	-2,925
Fourth quintile	5.2	15.7	-5,017
Top quintile	9.5	67.3	-26,075
All	6.9	100.0	-5,327
Addendum			
80-90	4.6	9.0	-6,779
90-95	4.8	6.2	-9,515
95-99	7.8	12.3	-25,514
Top 1 percent	17.6	39.8	-329,103
Top 0.8% (millionaires)	17.9	38.0	-382,291
Top 0.1 percent	18.3	18.0	-1,438,664

*"Expanded Cash Income" is a broad measure of pre-tax income used by TPC that includes, for instance, fringe benefits and cash and near-cash transfers.

**CBPP adjusted these figures for inflation based on CBO inflation projections.

Source: Urban-Brookings Tax Policy Center, Tables T15-0235 and T15-0236

APPENDIX TABLE 2

Distribution of Federal Tax Change Under Cruz Tax Plan, 2025

Expanded Cash Income* Percentile	Percent Change in After-Tax Income	Share of Total Federal Tax Change	Average Federal Tax Change (in 2016$)**
Lowest Quintile	0.3%	0.2%	-$44
Second Quintile	1.2	1.8	-418
Middle Quintile	2.4	5.5	-1,427
Fourth Quintile	3.6	11.1	-3,445
Top Quintile	11.3	81.4	-30,832
All	6.8	100.0	-5,201
Addendum			
80-90	4.8	9.5	-6,971
90-95	6.0	7.8	-11,743
95-99	9.4	15.1	-30,557
Top 1 Percent	21.2	49.1	-396,499
Top 0.8% (millionaires)	21.6	47.0	-460,943
Top 0.1 Percent	23.0	23.1	-1,806,267

*"Expanded Cash Income" is a broad measure of pre-tax income used by TPC that includes, for instance, fringe benefits and cash and near cash-transfers.

**CBPP adjusted these figures for inflation based on CBO inflation projections.

Source: Urban-Brookings Tax Policy Center, Tables T16-0035 and T16-0036