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Commentary: Trump's Tax Statements Don't Match His Plan

By Isaac Shapiro, Chuck Marr, and Chye-Ching Huang

"I'm so much more into the middle class who have just been absolutely forgotten in our country," Donald Trump said in a CNBC interview in response to a question about his proposed tax cuts, adding that recent economic trends have favored the very wealthy and not the middle class.¹

His comments, however, contradict our findings,² based on Tax Policy Center (TPC) analysis and data, that households with annual incomes of over \$1 million would gain several trillion dollars from his tax cuts over the coming decade, and that the disproportionate benefit they would receive would exacerbate income inequality. Moreover, once the spending cuts that would be needed to finance his tax cuts are taken into account, most low- and middle-income people would almost surely end up losing significantly from the plan.

That's not the only place in his May 5 interview on CNBC where Mr. Trump's statements about his tax plan or about U.S. taxes in general are inaccurate. Despite what he said, taxes in the United States are much lower than in virtually all other major industrialized nations, and the tax burden on middle-class households has fallen considerably over time.

The Trump Tax Plan and the Middle Class

Responding to a question about the distribution of his proposed tax cuts, Mr. Trump suggested that it's the middle class — not the wealthy — he's concerned about. Under his tax plan, however:

- People with annual incomes over \$1 million would receive tax cuts averaging about \$380,000 in 2025, the last year for which TPC estimated the distribution of the tax cuts. (These average

¹ See "Donald Trump: Middle class 'absolutely forgotten,'" May 5, 2016, CNBC, <http://video.cnbcm.com/gallery/?video=3000515308&play=1>. For Trump's plan, see <https://www.donaldjtrump.com/positions/tax-reform>.

² Isaac Shapiro, "Millionaires Would Gain Trillions Under Trump and Cruz Tax Plans," Center on Budget and Policy Priorities, April 28, 2016, <http://www.cbpp.org/research/federal-tax/millionaires-would-gain-trillions-under-trump-and-cruz-tax-plans>.

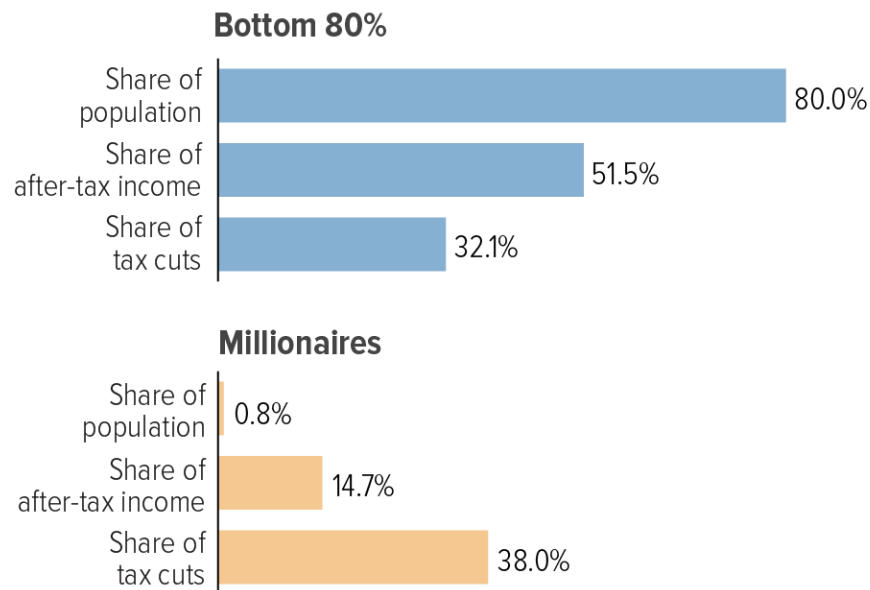
tax-cut figures are adjusted for inflation and expressed in 2016 dollars.) After-tax incomes of millionaires would rise by 17.9 percent.³

- Tax cuts for the middle class would be far smaller. The middle fifth of households would receive tax cuts in 2025 that average \$2,900, raising these households' after-tax incomes (before considering the effects of offsetting program cuts) by 4.9 percent, less than a third of the percentage gain for millionaires.
- Although millionaires represent less than 1 percent of the population, in 2025 they would receive 38 percent of the Trump tax cuts. In comparison, the bottom 80 percent of the population would receive 32 percent of the Trump cuts. In other words, those with incomes over \$1 million would receive more from the Trump plan than the bottom four-fifths of the population combined. (See Figure 1.)

FIGURE 1

Tax Cuts Under Trump 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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³ The size of the tax cuts for millionaires contrasts with Mr. Trump's assertions that his plan would raise taxes on the wealthy. For example, in a town hall broadcast on Fox News April 3, 2016, Mr. Trump responded to a question about his tax cuts by saying, in part, "the very rich are going to end up probably paying more." See "Trump Sets 'Record' Straight at Town Hall, But Not Counting on Rival Support If He's the Nominee: 'Endorsements Don't Matter...I'm a Realist,'" April 3, 2016, FoxNews.com, <http://nation.foxnews.com/2016/04/03/trump-sets-record-straight-town-hall-not-counting-rival-support-if-hes-nominee>.

We can only see the tax cuts' true distributional effect, however, once we consider how their costs would be offset. The Trump tax cuts would cost more than \$9 trillion over the next decade, according to TPC, and we estimate that more than \$3 trillion of those cuts would go to millionaires. The tax cuts need to be offset sooner or later because otherwise, the government's annual deficit would exceed 10 percent of the economy (or gross domestic product) in 2026. Further, Mr. Trump has said he will balance the budget in the relatively near future, essentially committing himself to offsetting the cost of his tax plan (before going further to find additional budget savings).

If these offsets came through spending cuts (rather than through tax increases that at least partly rolled back the tax cuts, themselves), low- and middle-income households would lose significantly more from the offsets than they would gain from the tax cuts. That's because only a tiny fraction of spending cuts could possibly come from cutting program spending that benefits millionaires, given how few millionaire households there are and since federal program spending is dispersed fairly evenly across the population.

Thus, once their costs were offset, the Trump plan almost certainly would effectively transfer trillions of dollars over the next decade from low- and middle-income households to people at the top.

Taxes in the United States Compared to Taxes in Other Countries

In the CNBC interview, Mr. Trump also said that “we’re the highest-taxed nation in the world.” He has made this claim repeatedly. As we explained in March, taxes in the United States are lower — not higher — than in virtually all comparable countries.⁴

Figure 2 below depicts overall tax receipts as a share of the economy in 31 Organisation for Economic Co-operation and Development countries. Only Korea collects less in taxes by this measure, with the United States' revenue level well below that in the typical advanced country.

Middle Class Tax Trends

Mr. Trump also told CNBC that the middle class is “being taxed at a much higher rate” than in the past. The most current time series on this issue runs through 2014 and finds that for a family of four with median income, the average tax rate from federal income and payroll taxes combined is significantly below its level in any year from 1973 through 2002, and is similar to its level from 2003 through 2007.⁵

⁴ Chuck Marr, “Trump’s Tax Misstatement,” Center on Budget and Policy Priorities, March 4, 2016, <http://www.cbpp.org/blog/trumps-tax-misstatement>.

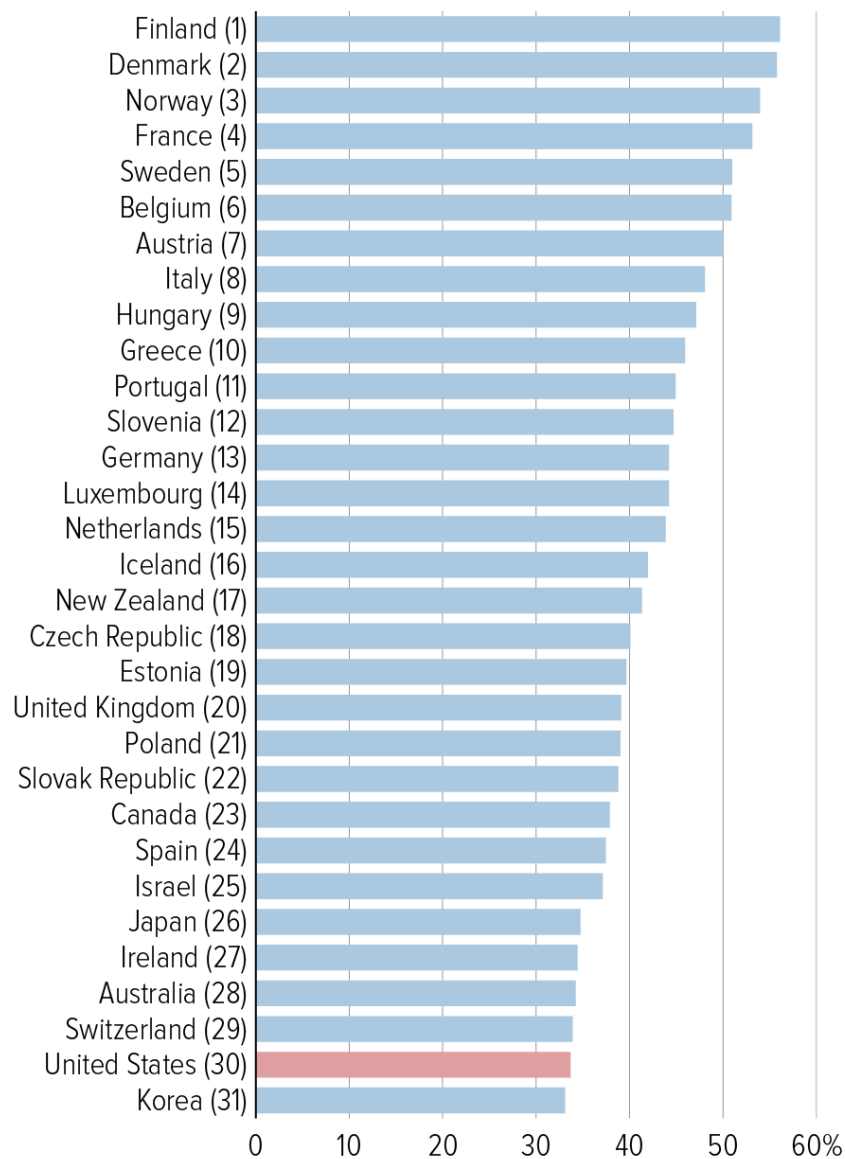
⁵ The current rate is above that from 2008-2012 when temporary tax cuts enacted as part of the Recovery Act lowered tax rates. These data are from the Tax Policy Center; see <http://www.taxpolicycenter.org/statistics/historical-combined-income-and-employee-tax-rates-family-four>. We examined a slightly earlier version of these data in Chuck Marr and Nathaniel Frentz, “Federal Income Taxes on Middle-Income Families Remain Near Historic Lows,” Center on Budget and Policy Priorities, revised April 15, 2014, <http://www.cbpp.org/research/federal-income-taxes-on-middle-income-families-remain-near-historic-lows>.

The *average* tax rate faced by the middle fifth of households is also much lower than it was in the 1980s and the 1990s.⁶

FIGURE 2

The United States Is a Low-Tax Country

Total government receipts as percent of gross domestic product, 2015



Source: Organisation for Economic Co-operation and Development 2015 Economic Outlook, annex table 26

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⁶ These data only go through 2011, and start in 1979. Congressional Budget Office, *The Distribution of Household Income and Federal Taxes*, 2011, <https://www.cbo.gov/publication/49440>, see supplemental data, Table 13.