President Trump’s Tax Plan
Among His Goals for the First 100 Days

By Daniel J. Pilla

The election of Donald Trump as the 45th president of the United States sent shockwaves through the political world. Clearly, Trump tapped into a vast vein of voters fed up with entrenched politicians from both the Republican and Democrat Parties. In that sense, Trump was effectively a third-party candidate – an outsider – who capitalized on the frustration felt by a great many middle-income Americans. He rallied voters who up to that point were regularly overlooked, except when it came to paying taxes. (In that regard, politicians were always quick to take their money.)

Now that he is president, Trump has proposed an aggressive First-100-Days plan that includes pushing his major tax reform proposals. I first wrote about Trump’s tax plan in October 2015. At that time, the idea that Trump would become president was far-fetched indeed, although his campaign was steadily gaining steam. As we might imagine, the details of his plan have shifted significantly between October 2015 and today. In light of the events of November 8, it’s time to revisit the Trump plan.

Personal Income Taxes

The Trump plan would collapse the seven existing personal income tax brackets into just three. That is essentially what President Ronald Reagan did with the Tax Reform Act of 1986.

While many believe the prosperity of the 1990s was the sole and exclusive handiwork of Bill Clinton, that is far from true. Reagan set the table for future prosperity by substantially reducing tax rates for all. Who knows how long that prosperity would have continued if the Reagan plan had been left alone?

Under the Trump plan, the highest tax rate would be reduced from 39.6 percent to 33 percent. For reference, the top tax bracket under Reagan’s 1986 Tax Reform Act fell from 50 percent to 28 percent and 15 tax brackets were collapsed into four.
The rates within the three brackets under Trump’s plan would look like this:

<table>
<thead>
<tr>
<th>Married Filing Jointly</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $75,000</td>
<td>12%</td>
</tr>
<tr>
<td>More than $75,000 but less than $225,000</td>
<td>25%</td>
</tr>
<tr>
<td>More than $225,000</td>
<td>33%</td>
</tr>
</tbody>
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The brackets for single filers would be one-half of these amounts.

**Standard Deductions and Dependent Exemptions**

The Trump plan would increase the standard deduction for joint filers to $30,000, from $12,600, and the standard deduction for single filers would be $15,000. The personal exemptions would be eliminated, along with the head-of-household filing status. This would give us just four filing status classifications, not five.

The adjustments in the standard deduction would substantially increase the so-called “zero bracket” amount, which is the income level at which no taxes are paid. Single persons with taxable income under $15,000 would pay no taxes, and married filing jointly couples with taxable incomes less than $30,000 would pay no taxes. Under present law, single taxpayers with taxable income between $9,275 and $37,650 pay at the rate of 10 percent. The next highest bracket under current law is 15 percent.

This would have the effect of removing even more low-income earners from the tax rolls. Trump’s people estimate that this would reduce to zero the income taxes of about 31 million households that currently pay at least some income taxes. Note, however, that these cuts have no effect on the Social Security, Medicare and Medicaid taxes paid by those same workers.

In addition, the Trump plan would cap itemized deductions at $200,000 for married filing joint taxpayers and $100,000 for single filers. So, not only would high-income taxpayers continue to pay the highest percentage of their income in taxes, they wouldn’t get the benefit of otherwise-legal deductions simply because of the level of their income.

**Business Taxes**

Trump’s plan calls for lowering the corporate tax rate from the current 35 percent rate (the highest in the developed world) to 15 percent for all businesses, large and small. This would greatly increase the incentive for businesses to hold cash to cover future expenses. At the same
time, the plan would eliminate certain business tax credits, except the Research and Development Credit.

A substantial benefit of a lower corporate tax rate is that corporate investment becomes much more attractive. Lower tax rates draw capital more readily because the lower tax rate makes it easier for initial capital to be recovered, and, in turn, for the investments to be profitable. As a result, businesses are better able to build inventories, develop new products, upgrade and modernize equipment, expand facilities, and grow their workforces. All of these things lead to substantial growth in jobs nationwide at all levels.

In addition to the lower rate, under the Trump tax plan, firms engaged in manufacturing in the United States may elect to fully deduct their capital investment costs in exchange for giving up the deductibility of corporate interest. The company would make an election to choose the capital deduction over the interest deduction. The ability to deduct capital costs in the year they are incurred is a substantial incentive for businesses to retool at every level. This, coupled with the lower overall corporate tax rate, will lead to a solid pro-growth environment.

The annual cap for the business tax credit for on-site childcare would be increased to $500,000 per year, up from $150,000. And the depreciation (re-capture) period would be reduced to five years, down from 10 years. Businesses will have substantial incentive to provide for childcare facilities in the workplace, which will lead to job and income stability for millions of working women.

Trump’s plan promises a solution to the problem of corporate inversions. An inversion is when American companies move their headquarters to another country in order to avoid the current high U.S. corporate rate: 35 percent (as stated, the highest in the developed world). With a maximum corporate rate of 15 percent, we can expect a reverse of the exodus. That is, foreign companies might well take refuge in the United States, rather than avoiding income-producing investments in this country.

Under current law, companies that earn money offshore pay the income tax rate of the country in which the money is earned. But if the company brings money back to the United States, the remaining income gets taxed again at the higher U.S. rate. Because of this double taxation, companies routinely leave profits offshore. It is estimated that about $2.7 trillion in revenue is left overseas rather than being moved to the United States. The Trump plan could very well mitigate much of that, bringing even more capital flowing directly into U.S. companies.

The plan calls for a one-time “deemed repatriation tax” of 10 percent. It would be assessed on all foreign profits currently deferred and held offshore.
Estate Taxes, the Alternative Minimum Tax, and the Investment Income “Surtax”

If passed in its present form, the Trump tax plan will do three very important things for American taxpayers: It would outright eliminate the estate and gift tax, the Alternative Minimum Tax (AMT) and the 3.8 percent surtax on net investment income. I address each of these briefly here.

The estate tax. The estate tax scheme (otherwise known as the death tax) is now, was designed and intended to be, and always has been, nothing more than outright theft using the power of government under the guise of taxation. The tax is an arbitrary tax on capital assets that applies only after a person has spent his entire life paying tax on his income. In other words, the death tax reaches the assets that a person has amassed over his lifetime after all other taxes were paid.

The estate tax serves no valid economic or fiscal purpose: Less than one-half of 1 percent of all federal revenue is raised through the estate tax. Yet the tax is responsible for destroying countless small businesses each year as families often must sell assets to pay the tax. It is a sad testimony to the greed and envy of the Left that this tax has been able to take root in our system and suck economic nutrients from American productivity for so long.

The Alternative Minimum Tax (AMT). I have written extensively about the AMT over the years. The AMT is, in my opinion, an admission that the current tax system is fundamentally flawed. It adds substantial confusion and complexity to the system because the AMT is in fact a second tax system that runs alongside our “normal” graduated income tax system.

Under the AMT, if after consideration of all the legal deductions, exemptions, and credits a person is allowed to claim under the regular system, his or her income tax is below certain levels, the AMT kicks in to arbitrarily increase his or her tax. This scheme was created in the late 1970s as a means to ensure that the wealthiest taxpayers pay their “fair share” of taxes.

For years, the National Taxpayer Advocate has pushed Congress to repeal the AMT for a number of reasons. First on the list is the fact that, as noted, the scheme adds layers of complexity to the system. Taxpayers literally have to compute their tax liability under two completely different tax systems using completely different rules – and then they have to pay the higher of the two taxes. Secondly, when the AMT was initially created, it was never indexed for inflation. As a result, as the income of American families increases (mostly due to inflation), more and more middle-income families are blindsided by the AMT, which was never intended to reach them in the first place.

The investment income surtax. One of the ways President Barack Obama was to provide “free” health care to Americans was to increase the tax on net investment income by adding a 3.8 percent surtax to all investment profits. This additional tax was buried in the Affordable Care
Act. As discussed above, high tax rates on investment income discourage investment. Trump’s plan would eliminate this tax, restoring the top marginal rate of tax on long-term capital gains and qualified dividends to 20 percent, which is where it was for about 15 years before Obama.

**Projected Tax Savings**

In addition to increasing the zero bracket ceiling, Trump intends to phase out deductions and exemptions for higher income earners at a faster rate than under current law. So, while we would see a reduction in the top rate of tax (from 39.6 percent to 33 percent), taxpayers in that bracket would have fewer deductions to offset their income. While that might be a fair trade, we don’t know the details as to what deductions he would eliminate and how. He has claimed, however, that the mortgage interest deduction and deductions for charitable contributions would remain intact for everyone.

According to an analysis of Trump’s plan by the Tax Foundation, taxpayers in all brackets would see a reduction in their federal tax burden. Said another way, everyone would have more money in their pockets. The Tax Foundation reports the following:

On a static basis, the Trump tax plan would increase the after-tax incomes of taxpayers in every income group. The bottom 80 percent of taxpayers (those in the bottom four quintiles) would see an increase in after-tax income between 0.8 percent and 1.9 percent, under both policy assumptions. Taxpayers in the top quintile would see a 4.4 percent increase in after-tax income under the higher-rate assumption, or 8.7 percent under the lower-rate assumption. Those in the top decile would see a 5.4 percent increase in after-tax income under the higher-rate assumption, or 9.3 percent under the lower-rate assumption. Finally, taxpayers in the top 1 percent would see the largest increase in after-tax income on a static basis, driven by both the lower top marginal tax rate and the lower corporate income tax. Under the higher-rate assumption this increase would be 10.2 percent, and under the lower-rate assumption this increase would be 16.0 percent. See: [http://taxfoundation.org/article/details-and-analysis-donald-trump-tax-reform-plan-september-2016](http://taxfoundation.org/article/details-and-analysis-donald-trump-tax-reform-plan-september-2016).

Before you scream “tax cuts for the rich” because the top 1 percent of income earners realize the highest percentage savings, don’t forget those are the people who pay – by far – the greatest percentage of income taxes. For example, the top 20 percent of earners pay 84-plus percent of all the income taxes paid. Those in the top 1 percent of income pay more than 55 percent of the tax. Moreover, the bottom 40 percent of income earners pay no federal income taxes now. They cannot be expected to realize a reduction in an expense they do not pay.
This is a key reason why I oppose any income tax at all. It is a key reason why a retail sales tax is a better idea. It is not good to remove more people from the tax rolls, increasing the burden on a narrower segment of the population. As more voters are removed from the tax rolls, they have less incentive to check government spending at the ballot box because they have no skin in the game. On the other hand, those forced to pay the bill have no control over the matter because they are simply outnumbered — and therefore outvoted — by those who don’t have to pay for the largess they vote to obtain for themselves.

While many features of Trump’s plan offer obvious benefits, it is simply not a good idea to keep shrinking the tax base by taking more people off the tax rolls.

**The Economic Impact of Trump’s Plan**

The Tax Foundation ran both static and dynamic analyses of Trump’s plan to project the likely effect on the economy if the plan were passed as presented, or even if enacted with less substantial cuts. It should come as no surprise that reducing corporate and business tax rates and eliminating the highly negative aspects of current law as discussed above will have a positive effect on the economy. According to the Tax Foundation’s analyses, enacting the plan would do the following:

According to the Tax Foundation’s Taxes and Growth Model, the Trump tax plan would increase the long-run size of the economy by 6.9 percent under the higher-rate assumption, or 8.2 percent under the lower-rate assumption. The larger economy would result in 5.4 percent higher wages and a 20.1 percent larger capital stock under the higher-rate assumption, or 6.3 percent higher wages and a 23.9 percent larger capital stock under the lower-rate assumption. The plan would also result in 1.8 million more full-time equivalent jobs under the higher-rate assumption, or 2.2 million more under the lower-rate assumption. *Ibid.*

**The Congressional Mix-Master**

Regardless of the fact that Trump will be president and Republicans will control both the House and the Senate, it remains to be seen exactly how all this will shake out. Trump still needs to win the support of the more left-leaning wing of the Republican Party in order to get his policies enacted. One thing is for sure: It is easy to talk about tax reform on the campaign trail but quite another thing to get your policies enacted once you’re in office. We are already seeing Trump moderate on his campaign pledge to scrap Obamacare entirely. Now he’s saying that certain elements of it may be retained. We can only imagine what will happen to his tax plan once it’s dropped into the congressional mix-master.
About Dan Pilla

For three decades, Dan Pilla has been the nation’s leader in taxpayers’ rights defense and IRS abuse prevention and cure. Regarded as one of the country’s premiere experts in IRS procedures, he has helped countless thousands of citizens solve personal and business tax problems they thought might never be solved.

Pilla is the author of Ten Principles of Federal Tax Policy, published by The Heartland Institute, as well as 14 books, dozens of research reports, and hundreds of articles. Pilla’s work is regularly featured on radio and television as well as in major newspapers, leading magazines and trade publications nation-wide. He is a frequent guest on major talk radio programs, where he is heard by millions of people each year. Pilla’s many media appearances include CNN, CBS, CNBC, Fox News, C-SPAN, the CBS Radio Network, the USA Radio Network, and many others. His books have been recommended by prominent magazines and financial publications such as The Wall Street Journal, Money, Family Circle, Investor’s Business Daily, and more.

Pilla has written or contributed to major articles for Reader’s Digest, National Review, Reason, USA Today, and others. The Associated Press once commented, “Dan Pilla probably knows more about the IRS than the commissioner.” The Wall Street Journal ranked Pilla’s book, The IRS Problem Solver, as the number one tax book in America.

Pilla was a consultant to the National Commission on Restructuring the IRS. He works with numerous public policy research institutes and presented testimony to Congress on several occasions. His testimony to the Senate Finance Committee blew the lid off IRS abuse and led to many new taxpayers’ rights and protections. He is admitted to practice before the United States Tax Court.

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