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AN ANALYSIS OF DONALD TRUMP'S TAX PLAN

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December 22, 2015

ABSTRACT

This paper analyzes presidential candidate Donald Trump's tax proposal. His plan would significantly reduce marginal tax rates on individuals and businesses, increase standard deduction amounts to nearly four times current levels, and curtail many tax expenditures. His proposal would cut taxes at all income levels, although the largest benefits, in dollar and percentage terms, would go to the highest-income households. The plan would reduce federal revenues by \$9.5 trillion over its first decade before accounting for added interest costs or considering macroeconomic feedback effects. The plan would improve incentives to work, save, and invest. However, unless it is accompanied by very large spending cuts, it could increase the national debt by nearly 80 percent of gross domestic product by 2036, offsetting some or all of the incentive effects of the tax cuts.

We are grateful to Lily Batchelder, Howard Gleckman, Robert Greenstein, N. Gregory Mankiw, Eric Toder, and Roberton Williams for helpful comments on earlier drafts. Lydia Austin and Blake Greene prepared the draft for publication and Kathy Kelly edited it. The authors are solely responsible for any errors. The views expressed do not reflect the views of the Trump campaign or those who kindly reviewed drafts. The Tax Policy Center is nonpartisan. Nothing in this report should be construed as an endorsement of or opposition to any campaign or candidate. For information about the Tax Policy Center's approach to analyzing candidates' tax plans, please see <http://election2016.taxpolicycenter.org/engagement-policy/>.

The findings and conclusions contained within are those of the authors and do not necessarily reflect positions or policies of the Tax Policy Center or its funders.

SUMMARY AND INTRODUCTION

Presidential candidate Donald Trump has proposed tax reforms that would significantly reduce marginal tax rates for both individuals and businesses, increase standard deduction amounts to nearly four times current levels, limit or repeal some tax expenditures, repeal the individual and corporate alternative minimum taxes and the estate and gift taxes, and tax the profits of foreign subsidiaries of US companies in the year they are earned. The Tax Policy Center estimates the proposal would reduce federal revenue by \$9.5 trillion over its first decade and an additional \$15.0 trillion over the subsequent 10 years, before accounting for added interest costs or considering macroeconomic feedback effects.¹ Most of the revenue loss would come from individual income tax cuts, but about a third would be from the reduction in the corporate income tax rate and the introduction of special rates on pass-through businesses.

The proposal would cut taxes at every income level, but high-income taxpayers would receive the biggest cuts, both in dollar terms and as a percentage of income. Overall, the plan would cut taxes by an average of about \$5,100, or about 7 percent of after-tax income. However, the highest-income 0.1 percent of taxpayers (those with incomes over \$3.7 million in 2015 dollars) would experience an average tax cut of more than \$1.3 million in 2017, nearly 19 percent of after-tax income. Middle-income households would receive an average tax cut of \$2,700, or 4.9 percent of after-tax income.

The significant marginal tax rate cuts would boost incentives to work, save, and invest if interest rates do not change. The plan would also reduce some tax distortions in the allocation of capital. However, increased government borrowing would push up interest rates and crowd out private investment, offsetting some or all of the plan's positive incentive effects. Offsetting a deficit this large would require unprecedented cuts in federal spending.

The main elements of the Trump proposal, as we modeled them, are listed below. Appendix A discusses instances in which campaign documents and the candidates' statements were unclear and presents the assumptions that we made in our modeling. Note that all of our estimates reflect the effects of the Protecting Americans from Tax Hikes Act of 2015 and the tax provisions in the Consolidated Appropriations Act of 2016 on current law baseline revenues as well as on the Trump plan.

Individual Income Tax

- Collapse the current seven tax brackets, which range from 10 to 39.6 percent, into three brackets of 10, 20, and 25 percent.
- Increase the standard deduction to \$25,000 for single filers and \$50,000 for joint filers in 2015, indexed for inflation thereafter.
- Leave personal exemptions unchanged at \$4,000 per person in 2015, indexed.

- Tax dividends and capital gains at a maximum rate of 20 percent.
- Limit the tax value of itemized deductions (other than charitable contributions and mortgage interest) and exclusions for employer-provided health insurance and tax-exempt interest.
- Increase the phaseout rates for the personal exemption phaseout and the limit on itemized deductions.
- Repeal the alternative minimum tax.
- Tax carried interest as ordinary business income.
- Repeal the exclusion for investment income on life insurance contracts entered into after 2016.

Estate and Gift Taxes

- Repeal federal estate and gift taxes.

Business Taxes

- Reduce the corporate tax rate to 15 percent.
- Limit the top individual income tax rate on pass-through businesses such as partnerships to no more than 15 percent.
- Repeal most tax breaks for businesses.
- Repeal the corporate alternative minimum tax.
- Impose up to a 10 percent deemed repatriation tax on the accumulated profits of foreign subsidiaries of US companies on the effective date of the proposal, payable over 10 years.
- Tax future profits of foreign subsidiaries of US companies each year as the profits are earned.

Affordable Care Act Taxes

- Repeal the 3.8 percent net investment income tax on high-income taxpayers (single filers with income over \$200,000 and couples with income over \$250,000, unindexed).

MAJOR ELEMENTS OF THE PROPOSAL

Mr. Trump's stated goals are to provide tax relief for the middle class, simplify the tax code, and grow the American economy, without adding to the debt or deficit (Trump Campaign 2015).

Individual Income Tax

The plan would reduce the number of individual income tax brackets from the current seven brackets to three, with rates of 10, 20, and 25 percent (table 1). It would cut the top 39.6 percent rate by 14.6 percentage points, or more than one-third. The plan would retain current preferential tax rates of 0, 15, and 20 percent on long-term capital gains and qualified dividends.

The top effective tax rate on capital gains and qualified dividends would fall, however, because the plan would repeal the 3.8 percent surtax on investment income of high-income taxpayers that was enacted as part of the Affordable Care Act.

The plan would increase the standard deduction in 2015 from \$6,300 to \$25,000 for single filers and from \$12,600 to \$50,000 for married couples filing jointly, while maintaining existing personal and dependent exemptions (\$4,000 per person in 2015). For nonitemizers, the Trump plan would reduce taxes throughout the income distribution. The higher standard deduction would increase the amount of income exempt from tax by \$18,700 for single filers and by \$37,400 for joint filers. This income would otherwise be taxed at the taxpayer’s highest marginal rate.

The number of tax filers who itemize their deductions would decline sharply because of the higher standard deduction and the limits on itemized deductions, as described below. We estimate that 39 million (86 percent) of the 45 million filers who would otherwise itemize in 2017 would opt for the standard deduction.

TABLE 1

Tax Rates Under Current Law and Under Trump Tax Plan

Among tax filers claiming the standard deduction, 2015^a



Single Filers				Childless Married Couples Filing Jointly			
Adjusted gross income (\$)		Current marginal rate (%)	Trump plan marginal rate (%)	Adjusted gross income (\$)		Current marginal rate (%)	Trump plan marginal rate (%)
Over	But not over			Over	But not over		
0	10,300 ^b	0	0	0	20,600 ^b	0	0
10,300	19,525	10	0	20,600	39,050	10	0
19,525	29,000	15	0	39,050	58,000	15	0
29,000	47,750	15	10	58,000	95,500	15	10
47,750	54,000	25	10	95,500	108,000	25	10
54,000	101,050	25	20	108,000	171,800	25	20
101,050	154,000	28	20	171,800	251,050	28	20
154,000	199,600	28	25	251,050	308,000	33	20
199,600	421,800	33	25	308,000	432,100	33	25
421,800	423,500	35	25	432,100	485,450	35	25
423,500	and over	39.6	25	485,450	and over	39.6	25

Source: Urban-Brookings Tax Policy Center based on the Trump tax plan and IRS tax brackets.

(a) Tax filers who itemize deductions would not benefit from the Trump tax plan’s increase in the standard deduction and would thus face tax brackets different from those shown in this table.

(b) The lowest tax bracket covers the standard deduction plus personal exemptions: \$6,300 + \$4,000 for single filers and \$12,600 + \$8,000 for childless married couples filing jointly. It does not include the additional standard deduction for elderly or blind people.

The Trump campaign has not specified how it would limit itemized deductions, but we have assumed the limitations would take the following form, consistent with the general discussion of the issue in Trump Campaign 2015: First, the tax value of itemized deductions (other than charitable contributions and mortgage interest) plus the exclusions for employer-provided health insurance and tax-exempt interest would be subject to a new limitation of 10 percent. Thus, for example, a household in the 20 percent bracket would lose half the value of its affected itemized deductions and exclusions (table 2). Second, the phaseout rate would double to 6 percent the current-law limit on itemized deductions (often called the Pease limitation on itemized deductions, after the Ohio representative who helped devise it). Pease currently reduces itemized deductions (and thereby increases taxable income) by 3 percent of adjusted gross income (AGI) in excess of \$258,250 for single filers and \$309,900 for joint filers in 2015.² We also assume that the plan would double the phaseout rate from 2 percent to 4 percent for the personal exemption phaseout (PEP), which starts at the same income levels as the limitation on itemized deductions.³

TABLE 2

Effect of Limiting the Tax Benefit of Certain Itemized Deductions and Exclusions to 10 Percent



	Tax Bracket		
	10 percent	20 percent	25 percent
Tax rate (%)	10	20	25
Maximum tax benefit of deduction or exclusion (%)	10	10	10
Percentage reduction in tax benefit (%)	0	50	60

Source: Urban-Brookings Tax Policy Center calculations.

The Trump plan would reduce the tax incentive to donate to charity. The charitable deduction under current law reduces the price of giving for itemizers, who can reduce their taxable income by one dollar for each dollar of giving. For taxpayers in the 39.6 percent bracket, the after-tax cost of giving a dollar is only 60.4 cents because they save 39.6 cents in taxes for each dollar given. Although charitable deductions would be exempt from the deduction limit, the dramatic drop in the number of itemizers would eliminate the tax incentive for charitable giving for nearly all taxpayers. Most very high-income taxpayers, who account for the bulk of the dollar value of charitable donations, would continue to itemize and thus still benefit from the deduction. However, their subsidy would be much lower than today because of the significant reduction in their tax rates; for taxpayers whose marginal rate is cut to 25 percent, the price of giving a dollar would rise to 75 cents.

The proposal would also tax carried interest as ordinary business income (but see below for a discussion of the overall effects of the proposal on carried interest) and repeal the exclusion for investment income on life insurance contracts purchased after 2016.

Business Taxes

The plan would reduce the corporate income tax rate from 35 percent to 15 percent and repeal the corporate alternative minimum tax (AMT). The top rate on pass-through businesses such as partnerships would also be 15 percent. The plan would eliminate most business tax subsidies. It would also impose a one-time transition tax of up to 10 percent on existing unrepatriated foreign income of US companies, payable over 10 years.⁴ The future profits of foreign subsidiaries of US companies would be taxed each year as the profits were earned, ending the current law's deferral of tax on these profits until they are repatriated.

Establishing a top rate on pass-through business income that is 10 percentage points below the top rate on wages would create a very strong incentive for wage earners to become independent contractors, who would be taxed at the preferential pass-through business rates. Congress could impose strict rules in an attempt to limit such changes in worker status, but the boundary is quite difficult to enforce under current law and would be even harder to police if the Trump proposal were enacted. Nevertheless, for purposes of our analysis we have assumed that such rules would be put in place and be effective. Without such rules, the plan would lose substantially more revenue than we estimate in this analysis.

Another consequence of the lower top rate on pass-through income is that carried interest would be taxed at a much lower rate than under current law, notwithstanding its reclassification as ordinary income (rather than capital gains), because the entities that earn carried interest income are organized as partnerships. Under current law, such income is taxed as capital gains, generally at a rate of up to 23.8 percent, including the Affordable Care Act surtax on investment income. Under the Trump plan, that income would be taxed at a top rate of 15 percent, a reduction of more than one-third.

Large reductions in the corporate rate and the repeal of deferral would reduce the incentive for firms to recharacterize their domestic income as foreign-source to avoid US tax. The lower corporate tax rate would also decrease the incentive for a US corporation to move its tax residence overseas (a so-called corporate inversion). However, ending deferral would increase the incentive for corporate inversions, offsetting some of the effects of the rate cut.

Estate and Gift Taxes

The plan would repeal federal estate, gift, and generation-skipping taxes. We assume that the cost basis of inherited assets would continue to be "stepped up" to their value at the time of death, which would be a more generous provision than the one temporarily enacted when the

estate and gift tax was temporarily repealed in 2010. Subject to neither estate tax nor capital gains tax, appreciated property could escape individual level taxation entirely if held until death, providing an even stronger incentive to hold than under current law.

Revenue Effects

We estimate that the Trump plan would reduce federal receipts by \$9.5 trillion between 2016 and 2026 (table 3).⁵ This decade is the 10-year budget window plus 2016 (in which revenues would fall slightly because taxpayers would hold off realizing capital gains in expectation of a rate cut in 2017).⁶

Three-fourths of the revenue loss would come from individual income tax provisions, especially the cut in individual income tax rates and the increase in the standard deduction. Limiting the value of itemized deductions and eliminating certain other preferences would raise individual income taxes but would offset less than a sixth of the revenue loss from the lower rates and higher standard deduction.

The business income tax cuts, such as the lowering of corporate and pass-through business rates and repealing of the corporate AMT, would reduce revenues by about \$3.5 trillion over the decade. Repealing business tax expenditures would recoup about one-quarter of that loss. Repealing the estate and gift taxes would reduce revenues by an additional \$224 billion over the period.

The revenue loss during the second decade (2027–36) would be more than half again the first decade’s loss (in nominal terms)—a projected \$15.0 trillion. This revenue loss would also represent a larger share of cumulative GDP—4.2 versus 4.0 percent in 2017–26.

TABLE 3

Estimated Effect of Trump Tax Plan on Tax Receipts

\$ billions, FY 2016–36



Provision	Fiscal Year							2016–26	2027–36
	2016	2017	2018	2019	2020	2021			
Individual income tax									
Repeal the individual AMT	0.0	-22.7	-31.7	-33.7	-35.1	-36.6	-366.1	-588.3	
Repeal the 3.8 percent net investment surtax	-6.7	-0.3	-5.0	-16.1	-19.9	-21.0	-191.8	-355.3	
Impose individual income tax rates of 10, 20, and 25 percent	0.0	-231.9	-322.2	-343.1	-365.6	-387.3	-3,946.2	-6,818.9	
Impose standard deduction of \$25,000/\$50,000	0.0	-216.9	-294.1	-302.6	-314.1	-326.6	-3,289.7	-4,805.8	
Tax business income at preferential rates	0.0	-59.8	-82.7	-87.6	-92.7	-97.9	-996.9	-1,567.8	
Double phaseout rates for Pease and PEP	0.0	8.4	11.8	12.7	13.7	14.5	146.9	263.9	
Limit value of certain tax expenditures to 10 percent	0.0	54.7	72.6	77.5	83.0	88.7	909.3	1,652.9	
Repeal various business tax expenditures	0.0	14.6	27.8	29.3	30.4	31.6	309.3	449.3	
Tax carried interests as ordinary business income	0.0	0.0	-0.1	-0.1	-0.1	-0.1	-0.5	-0.1	
Repeal exclusion of investment income on life insurance contracts issued after Dec. 31, 2016	0.0	0.7	2.0	3.5	4.9	6.5	74.5	235.9	
Total for individual income tax revenues	-6.7	-453.2	-621.5	-660.1	-695.4	-728.3	-7,351.2	-11,534.2	
Corporate income tax									
Repeal the corporate AMT	0.0	-6.6	-13.0	-12.1	-9.9	-8.3	-90.9	-109.9	
Reduce corporate rate to flat 15 percent starting in 2017	0.0	-107.8	-215.0	-237.1	-241.6	-249.9	-2,422.3	-3,676.7	
End deferral for income of CFCs earned after Dec. 31, 2016	0.0	7.6	15.3	17.1	17.1	17.1	159.6	171.0	
Require deemed repatriation over 10 years of accumulated pre-2017 earnings of CFCs, with reduced rates	0.0	7.1	14.2	15.8	15.8	15.8	147.8	10.3	
Repeal various corporate tax expenditures	0.0	7.9	17.4	21.0	22.9	25.3	263.8	490.6	
Total for corporate income tax revenues	0.0	-91.8	-181.2	-195.3	-195.7	-200.0	-1,942.0	-3,114.7	
Estate and gift taxes									
Repeal the estate, gift, and GST taxes for deaths and gifts made on or after Jan. 1, 2017	0.0	0.0	-14.8	-22.1	-24.1	-24.9	-223.8	-352.5	
Total for estate and gift tax revenues	0.0	0.0	-14.8	-22.1	-24.1	-24.9	-223.8	-352.5	
Total revenue effect of all proposals									
Total revenue change	-6.7	-544.9	-817.4	-877.6	-915.2	-953.3	-9,517.0	-15,001.4	
As a percentage of GDP	0.0	-2.8	-4.0	-4.1	-4.1	-4.1	-4.0	-4.2	

Sources: Urban-Brookings Tax Policy Center Microsimulation Model (version 0515-3A); TPC estimates.

Note: AMT = alternative minimum tax; CFC = controlled foreign corporation; GDP = gross domestic product; GST = generation skipping tax; Pease = limitation on itemized deductions; PEP = personal exemption phaseout.

The revenue losses understate the total effect on the national debt because they do not include the additional interest that would accrue as a result. Including interest costs, the proposal would add \$11.2 trillion to the national debt by 2026 and \$34.1 trillion by 2036 (table 4 and figure 1). Assuming the tax cuts are not offset by spending cuts, the national debt would rise by an estimated 39 percent of GDP in 2026 and by nearly 80 percent of GDP by 2036.

TABLE 4

Effect of Trump Tax Proposal on Federal Revenues, Deficits, and the Debt
FY 2016–36



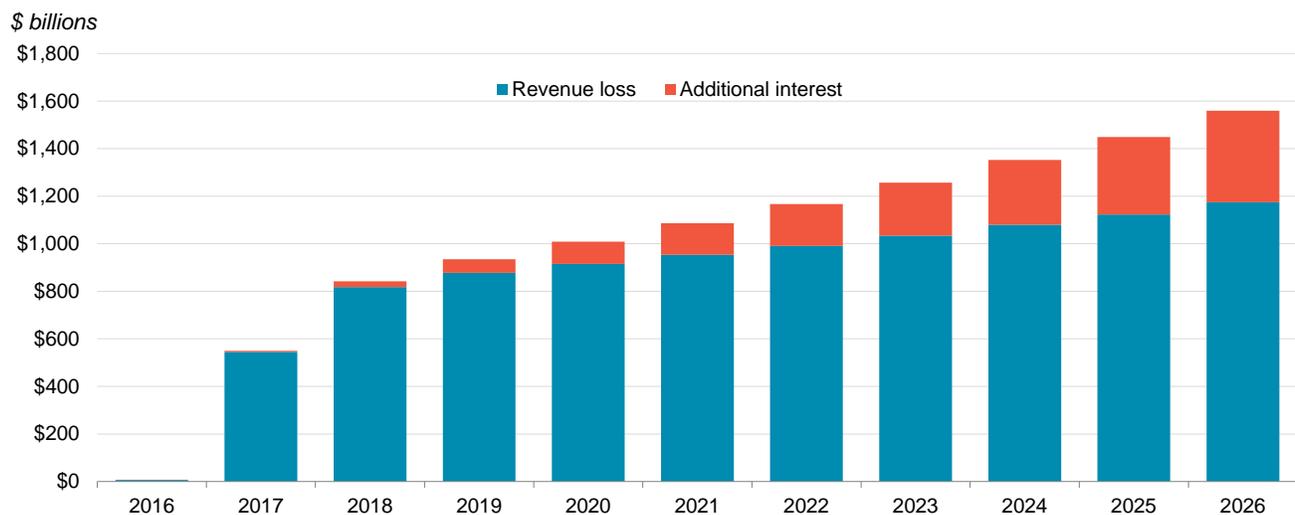
	Fiscal Year												2016–26	2027–36
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026			
Revenue loss (\$ billions)	6.7	544.9	817.4	877.6	915.2	953.3	990.7	1,033.7	1,080.0	1,123.1	1,174.3	9,517.0	15,001.4	
Additional interest (\$ billions)	0.1	5.1	24.6	56.7	93.2	133.0	176.1	222.9	272.1	325.9	384.9	1,694.5	7,924.7	
Increase in deficit (\$ billions)	6.8	550.0	842.0	934.3	1,008.4	1,086.3	1,166.7	1,256.6	1,352.2	1,449.0	1,559.2	11,211.5	22,926.1	
Increase in debt ^a (\$ billions)	6.8	556.8	1,398.8	2,333.1	3,341.5	4,427.8	5,594.6	6,851.2	8,203.3	9,652.3	11,211.5	11,211.5	34,137.6	
Increase in debt relative to GDP (%)	0.0	2.8	6.8	10.9	15.0	19.0	23.1	27.1	31.1	35.2	39.2	39.2	79.8	
Addendum: GDP (end of period; \$ billions)	18,831.9	19,701.4	20,558.3	21,403.7	22,314.7	23,271.0	24,261.5	25,287.4	26,352.1	27,455.5	28,600.0	28,600.0	42,800.0	

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0515-3A); Congressional Budget Office (2015a, 2015b).

(a) Increase in debt equals the cumulative increase in deficit plus additional interest on the debt.

FIGURE 1

Effects on the Debt
FY 2016–26



Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0515-3A); Congressional Budget Office (2015a, 2015b).

Notes: Increase in debt from 2016 to 2026 is \$11,587.1 billion (\$9,833.3 billion in revenue loss and \$1,753.8 billion in additional interest). Increase in debt from 2017 to 2036 is \$23,720.3 billion (\$15,528.2 billion in revenue loss and \$8,192.2 billion in additional interest).

Distributional Effects⁷

The proposal would reduce taxes throughout the income distribution.⁸ It would cut taxes by an average of about \$5,100, or about 7 percent of after-tax income (table 5). On average, households at all income levels would receive tax cuts, but the highest-income households would receive the largest cuts, both in dollars and as a percentage of income. The highest-income 1.0 percent would get an average tax cut of over \$275,000 (17.5 percent of after-tax income), and the top 0.1 percent would get an average tax cut worth over \$1.3 million, nearly 19 percent of after-tax income. By contrast, the lowest-income households would receive an average tax cut of \$128, or 1 percent of after-tax income. Middle-income households would receive an average tax cut of about \$2,700, or about 5 percent of after-tax income.

TABLE 5

Distribution of Federal Tax Change By expanded cash income percentile, 2017^a



Expanded cash income percentile ^{b,c}	Percent change in after-tax income (%) ^d	Share of total federal tax change (%)	Average federal tax change (\$)	Average Federal Tax Rate ^e	
				Change (% points)	Under the proposal (%)
Lowest quintile	1.0	0.7	-128	-0.9	3.2
Second quintile	3.1	4.1	-969	-2.8	5.3
Middle quintile	4.9	10.5	-2,732	-4.3	9.2
Fourth quintile	5.8	17.1	-5,369	-4.8	12.1
Top quintile	9.7	67.0	-25,180	-7.2	18.3
All	7.1	100.0	-5,144	-5.7	14.1
Addendum					
80–90	5.4	10.6	-7,731	-4.3	15.4
90–95	5.7	7.6	-11,476	-4.5	17.2
95–99	8.5	13.8	-27,657	-6.4	18.7
Top 1 percent	17.5	35.0	-275,257	-11.8	21.1
Top 0.1 percent	18.9	17.0	-1,302,887	-12.5	21.8

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0515-3A).

Notes: Number of Alternative Minimum Tax (AMT) taxpayers (millions). Baseline: 4.5; Proposal: 0.

(a) Projections are for calendar year 2017; baseline is current law (including provisions in the Protecting Americans from Tax Hikes Act of 2015 and the Consolidated Appropriations Act of 2016). The proposal includes all individual, corporate, and estate tax provisions. <http://www.taxpolicycenter.org/taxtopics/Baseline-Definitions.cfm>.

(b) The percentile includes both filing and non-filing units but excludes units that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class, but they are included in the totals. For a description of expanded cash income, see <http://www.taxpolicycenter.org/TaxModel/income.cfm>.

(c) The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2015 dollars) 20% \$23,099; 40% \$45,153; 60% \$80,760; 80% \$142,601; 90% \$209,113; 95% \$295,756; 99% \$732,323; 99.9% \$3,769,396.

(d) After-tax income is expanded cash income less individual income tax net of refundable credits, corporate income tax, payroll taxes (Social Security and Medicare), estate tax, and excise taxes.

(e) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

The proposal would provide even larger nominal tax cuts in 2025—averaging nearly \$6,600. However, those tax cuts would represent a slightly smaller share (6.9 percent) of after-tax income (table 6 and figure 2). The highest-income households (0.1 percent) would receive an average tax cut of nearly \$1.8 million, over 18 percent of after-tax income. Lower-income households would receive modest tax cuts relative to current law.

On balance, the plan would significantly increase the number of households that would pay no income tax (or would receive an income tax refund). In 2017, an estimated 110 million households would pay no income tax under the plan, compared with 77 million under current law. That would boost the percentage of households paying no income tax from 44 percent to 63 percent.

TABLE 6

Distribution of Federal Tax Change
By expanded cash income percentile, 2025^a



Expanded cash income percentile ^{b,c}	Percent change in after-tax income (%) ^d	Share of total federal tax change (%)	Average federal tax change (\$)	Average Federal Tax Rate ^e	
				Change (% points)	Under the proposal (%)
Lowest quintile	1.1	0.8	-209	-1.1	3.4
Second quintile	3.1	4.5	-1,323	-2.8	5.9
Middle quintile	4.9	11.1	-3,621	-4.2	10.0
Fourth quintile	5.2	15.7	-6,210	-4.3	12.9
Top quintile	9.5	67.3	-32,276	-7.0	19.2
All	6.9	100.0	-6,594	-5.5	14.8
Addendum					
80–90	4.6	9.0	-8,391	-3.7	16.4
90–95	4.8	6.2	-11,778	-3.8	17.9
95–99	7.8	12.3	-31,582	-5.9	19.2
Top 1 percent	17.6	39.8	-407,375	-11.7	21.8
Top 0.1 percent	18.3	18.0	-1,780,826	-12.0	22.3

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0515-3A).

Notes: Number of Alternative Minimum Tax (AMT) taxpayers (millions). Baseline: 5; Proposal: 0.

(a) Projections are for calendar year 2025; baseline is current law (including provisions in the Protecting Americans from Tax Hikes Act of 2015 and the Consolidated Appropriations Act of 2016). The proposal includes all individual, corporate, and estate tax provisions. <http://www.taxpolicycenter.org/taxtopics/Baseline-Definitions.cfm>.

(b) The percentile includes both filing and non-filing units but excludes units that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class, but they are included in the totals. For a description of expanded cash income, see <http://www.taxpolicycenter.org/TaxModel/income.cfm>.

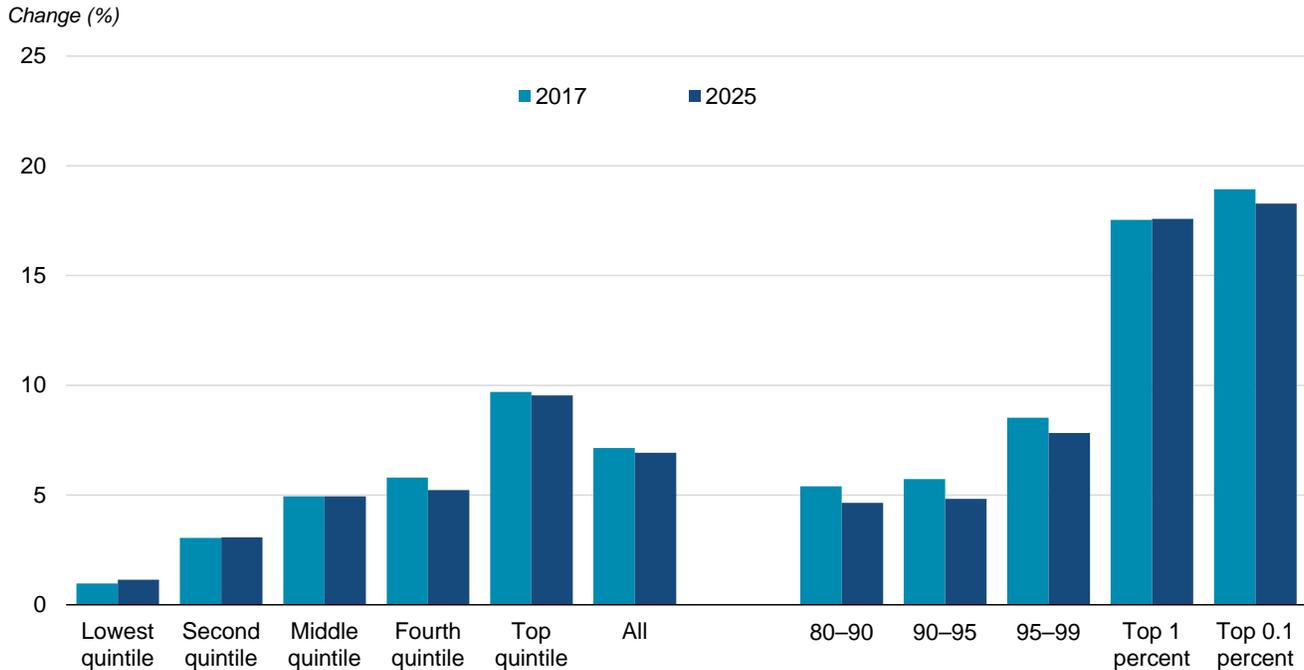
(c) The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2015 dollars) 20% \$26,101; 40% \$51,178; 60% \$87,777; 80% \$148,458; 90% \$217,212; 95% \$289,677; 99% \$846,843; 99.9% \$5,205,348.

(d) After-tax income is expanded cash income less individual income tax net of refundable credits, corporate income tax payroll taxes (Social Security and Medicare), estate tax, and excise taxes.

(e) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

FIGURE 2

Percent Change in After-Tax Income Under Trump Proposal By expanded cash income percentile, 2017 and 2025



Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0515-3A).

The financing of the tax cuts would ultimately affect the distribution of winners and losers in ways that are hard to predict. Although a portion of the revenue loss might be offset by higher tax revenues resulting from increased economic growth, the remainder of the financing would have to come from some combination of spending cuts and tax increases. If the tax cuts are financed by broad spending cuts, the net effects of the plan are likely to be regressive, since the benefits of government spending tend to be distributed progressively (Elmendorff et al. 2008). If the resulting deficits ultimately are paid for by restoring higher taxes, and the tax increases are concentrated at the top of income distribution, the long-run effect could be more progressive (although this would entail economic costs, as discussed below).

COMPLEXITY

Mr. Trump's plan would simplify the tax code in several ways, but it would also create some new complexities. By significantly increasing the standard deduction and limiting or eliminating many tax expenditures, the plan would reduce record-keeping and reporting requirements and reduce the number of itemizers by 39 million (an 86 percent reduction) in 2017. Overall, the share of filers who itemize in 2017 would fall from 31 percent under current law to 4 percent, although that number would creep upward over time as incomes rise (as would also happen under current law). Eliminating the complex AMT and the Affordable Care Act surcharge on net investment

income would also simplify tax preparation. For businesses, the proposal would eliminate special tax provisions that complicate record keeping and tax preparation.

Some elements of the plan could add complexity, however. For example, it would require new rules to prevent wage earners from switching to independent contractor status to benefit from the more favorable rates on business income. The limitation on the value of certain itemized deductions and exclusions would require many taxpayers to perform two sets of calculations to decide whether to itemize. Software could simplify these calculations, but this new limitation would make it harder for taxpayers to understand exactly how the tax system affects them. Ending deferral could introduce new complexities for companies with foreign subsidiaries.

ECONOMIC EFFECTS

Impact on Saving and Investment

The Trump plan would alter incentives to save and invest in the United States. Large reductions in the tax rate on corporate and pass-through business profits, lower effective marginal tax rates on long-term capital gains and qualified dividends for most taxpayers with such income, and much lower rates on interest income throughout the income distribution would all increase the after-tax return to savers (table 7). Assuming that interest rates do not change (see discussion below) and the tax cuts are not eventually financed in ways that reduce incentives to save and invest, these effects would tend to increase the amount of saving and investment in the US economy.

TABLE 7

Effective Marginal Individual Income Tax Rates on Capital Income

In percent, 2017^a



Expanded cash income percentile ^{b,c}	Tax units (thousands)	Long-Term Capital Gains			Qualified Dividends			Interest Income		
		Current law	Trump proposal	Change (percentage points)	Current law	Trump proposal	Change (percentage points)	Current law	Trump proposal	Change (percentage points)
Lowest quintile	47,878	0.8	0.4	-0.3	0.3	0.2	-0.1	2.8	1.1	-1.7
Second quintile	37,992	1.3	0.6	-0.7	0.9	0.4	-0.5	6.1	1.0	-5.2
Middle quintile	34,342	6.3	5.0	-1.3	7.5	5.3	-2.2	18.3	8.1	-10.2
Fourth quintile	28,545	9.8	9.0	-0.8	11.0	10.6	-0.4	21.9	15.1	-6.9
Top quintile	23,785	22.6	19.0	-3.6	22.0	18.8	-3.2	34.7	23.0	-11.7
All	173,829	20.7	17.5	-3.2	18.8	16.2	-2.6	27.4	17.9	-9.5
Addendum										
80–90	12,240	12.2	13.0	0.8	14.1	15.1	1.1	25.1	19.5	-5.6
90–95	5,942	14.2	13.3	-0.9	16.4	15.6	-0.8	28.1	20.3	-7.8
95–99	4,468	19.6	15.6	-4.0	22.6	17.7	-4.9	35.5	22.1	-13.4
Top 1 percent	1,135	23.9	20.0	-3.9	24.0	20.1	-3.9	37.5	24.4	-13.1
Top 0.1 percent	116	24.1	20.2	-3.9	24.0	20.3	-3.7	36.8	24.6	-12.1

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0515-3A).

(a) Projections are for calendar year 2017. Effective marginal tax rates are weighted by the appropriate income source.

(b) Includes both filing and non-filing units but excludes units that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class, but they are included in the totals. For a description of expanded cash income, see <http://www.taxpolicycenter.org/TaxModel/income.cfm>.

(c) The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2015 dollars) 20% \$23,099; 40% \$45,153; 60% \$80,760; 80% \$142,601; 90% \$209,113; 95% \$295,756; 99% \$732,323; 99.9% \$3,769,396.

The overall effect of taxes on incentives to save and invest can be summarized in the marginal effective tax rate (METR). METR is a forward-looking measure of the impact of the tax system on the rate of return of a hypothetical marginal (i.e., just break-even) investment project.⁹ We compare the METR on different investments under the Trump proposal with the METR under current law, including the provisions of the Protecting Americans from Tax Hikes Act of 2015 and the tax provisions in the Consolidated Appropriations Act of 2016. The Trump proposal would generally impose much lower METRs than current law (table 8).

TABLE 8

Marginal Effective Tax Rates on New Investment

In percent, 2017



Category	Current law	Trump proposal	Change (percentage points)
Business investment	23.2	13.8	-9.4
Corporate	25.7	15.5	-10.2
Equipment	21.6	13.4	-8.2
Structures	29.5	17.2	-12.3
Intellectual property products	1.3	4.2	2.9
Inventories	39.8	22.2	-17.6
Pass-through	19.1	10.9	-8.2
Equipment	15.8	8.8	-7.0
Structures	22.4	12.9	-9.5
Intellectual property products	-3.3	-2.7	0.6
Inventories	31.9	18.8	-13.1
Addendum			
Corporate (equity financed)	32.5	18.9	-13.6
Corporate (debt financed)	-6.2	4.8	11.0
Variation (s.d.) across assets	12.8	6.8	
Variation (s.d.) across industries	6.4	3.4	

Source: Urban-Brookings Tax Policy Center calculations. See Rosenberg and Marron (2015) for discussion.

Notes: s.d. = standard deviation. Estimates for are calendar year 2017; the baseline is current law and includes the effect of provisions passed as part of the Protecting Americans from Tax Hikes Act of 2015 and the Consolidated Appropriations Act of 2016.

The Trump proposal would lower the overall METR on nonresidential business investment by 9.4 percentage points, from 23.2 to 13.8 percent, a reduction of 41 percent. As under the current tax system, pass-through businesses would face a lower METR (10.9 percent) than would traditional C corporations (15.5 percent) owing to the lack of a second layer of tax on equity at the individual level.

The proposal would also make business taxation more uniform in several dimensions. METRs for equity-financed corporate investments would decline from 32.5 to 18.9 percent, while the METR on debt-financed corporate investment would rise from -6.2 to 4.8 percent (mainly owing to the reduced value of interest deductibility with a lower corporate tax rate). The proposal would also significantly reduce the variation in METRs across assets and industries. Research and development (R&D) would continue to receive preferential treatment because

such spending is generally expensed and often eligible for the research and experimentation credit, but METRs on R&D would be slightly higher than under current law (due to the higher rate on debt financed investments). More equal tax treatment across assets and financing arrangements should reduce the role of taxation in investment decisions, allowing investment to flow to projects with a higher social return rather than those with the most favorable tax status.

Our estimates of effects on investment incentives assume the Trump plan would not affect the overall level of interest rates and would not eventually be paid for by spending cuts or tax increases that reduce investment incentives. However, large reductions in federal revenues that are not offset by some combination of spending cuts or increased revenues from higher economic activity are likely to drive up interest rates. Higher interest rates and/or future spending cuts or tax increases could negate some or all of the reduction in the cost of capital arising from the tax changes (Gale and Orszag 2005).

Impact on Labor Supply

The proposal would also cut effective tax rates on labor income (i.e., wages and salaries for employees and self-employment income for others). EMTRs on labor income would be reduced by an average of 7.6 percentage points and by over 14 percentage points for the top 0.1 percent (table 9). Research suggests that taxes play a small or negligible role on labor supply decisions for most workers. When tax rates fall, some workers choose to work more because the reward for working rises, but some choose to work less because it is easier to meet consumption goals with higher take-home pay.

Second earners—lower-earning spouses—are sensitive to taxes, however. A person married to a high earner might face a very high marginal tax rate on the first dollar of earnings, which, when combined with the costs of working (e.g., paying for child care), can make working seem especially unappealing. By reducing marginal tax rates, the proposal would reduce the disincentive for entering the workforce for potential second earners.

Macroeconomic Effects

Gale and Samwick (2014) discuss the impact of an income tax cut on the long-term growth rate of the economy. They suggest that the potential effects of a change in the individual income tax can be broken into four parts. The first effect—known as the substitution effect—is that lower tax rates increase incentives to work, save, and invest.

A second effect—the income effect—tends to offset the first, however. Tax cuts raise the after-tax return to labor, saving, and investment, which makes it easier to reach consumption targets, such as paying for college or retirement. Because taxpayers feel richer, some decide to work, save, or invest less.

TABLE 9

Effective Marginal Individual Income Tax Rates on Wages, Salaries, and Self-Employment Income

In percent, 2017^a



Expanded cash income percentile ^{b,c}	Tax units (thousands)	Individual Income Tax			Individual Income Tax and Payroll Taxes		
		Current law	Trump proposal	Change (percentage points)	Current law	Trump proposal	Change (percentage points)
Lowest quintile	47,878	1.7	-2.9	-4.7	15.6	10.9	-4.7
Second quintile	37,992	15.7	7.0	-8.6	29.5	20.8	-8.6
Middle quintile	34,342	19.0	11.2	-7.8	32.6	24.7	-7.8
Fourth quintile	28,545	19.9	14.5	-5.4	33.4	28.0	-5.4
Top quintile	23,785	31.0	22.4	-8.6	38.1	29.5	-8.6
All	173,829	24.6	16.9	-7.6	34.8	27.1	-7.6
Addendum							
80–90	12,240	25.3	20.6	-4.7	35.9	31.2	-4.7
90–95	5,942	27.6	20.7	-6.9	35.4	28.5	-6.9
95–99	4,468	33.2	23.6	-9.5	38.6	29.0	-9.5
Top 1 percent	1,135	39.0	24.7	-14.3	42.9	28.7	-14.3
Top 0.1 percent	116	39.3	24.8	-14.5	43.1	28.6	-14.5

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0515-3A).

(a) Projections are for calendar year 2017. Effective marginal tax rates are weighted by the wages and salaries.

(b) Includes both filing and nonfiling units but excludes units that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class, but they are included in the totals. For a description of expanded cash income, see <http://www.taxpolicycenter.org/TaxModel/income.cfm>.

(c) The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2015 dollars) 20% \$23,099; 40% \$45,153; 60% \$80,760; 80% \$142,601; 90% \$209,113; 95% \$295,756; 99% \$732,323; 99.9% \$3,769,396.

The third effect of tax reform stems from whether financing mechanisms are primarily spending cuts or increased federal borrowing. If the immediate revenue loss from a tax cut is not offset with spending reductions, the higher federal deficits reduce net national saving. Increased federal borrowing crowds out private investment, raising interest rates and the cost of capital and depressing economic growth. As noted earlier, the deficits arising from this plan are so large that offsetting spending cuts may be politically infeasible.¹⁰

The fourth effect stems from base broadening. Broadening the base by reining in distortionary tax expenditures reduces the role of taxation in determining the allocation of resources across the economy, which in turn can increase economic output. However, Gravelle and Marples (2015) point out that some tax expenditures tend to increase with income, meaning

that base broadening can increase effective marginal tax rates on an additional dollar of earnings by raising the cost of some goods and services purchased with the earnings. For example, state income taxes tend to increase with income. Thus, the deductibility of state taxes reduces the marginal effective income tax rate. Limiting the deduction, as the Trump proposal would do, would therefore tend to increase effective marginal rates.

The actual effect of tax cuts is an empirical question, and researchers have applied many methods to estimate the impact.¹¹ Examination of particular historical examples of tax reform—including shifts between the pre- and post-World War II periods, and the tax changes that occurred in 1981, 1986, 2001, and 2003—suggest little impact of taxes on growth. Simulation models imply that deficit-financed tax cuts are less effective at promoting growth than tax cuts financed by cutting unproductive government spending (Auerbach and Slemrod 1997; Dennis et al. 2004; Desai and Goolsbee 2004; Gale and Potter 2002). Cross-country comparisons of changes in output and changes in top marginal tax rates suggest little or no impact of taxes on growth (Piketty, Saez, and Stantcheva 2014).

One challenge in estimating the effect of taxes on the economy is that tax changes are endogenous: for example, policymakers may choose to enact tax cuts when the economy is weak, which would lead to large apparent growth responses, or they might cut taxes when the economy is strong and revenues are surging, which would produce the opposite response. Romer and Romer (2010) identified plausibly exogenous US tax reforms in time-series data and measured a positive effect of net tax cuts on economic activity. Although Romer and Romer could not distinguish short-term demand-side responses from more permanent supply-side responses, some recent research (Barro and Redlick 2011; Mertens 2015) finds evidence that it is a supply-side effect.¹²

The Trump plan would require unprecedented spending cuts to avoid adding to the federal debt. We estimate that the plan would reduce revenues by \$1.1 trillion in 2025 (before considering macroeconomic effects).

The Congressional Budget Office (2015a) projects total noninterest outlays in 2025 of about \$5.3 trillion. As a result, Congress would need to cut projected program spending by 21 percent to prevent the plan from adding to the deficit in 2025. If Congress eliminated all defense spending (about \$0.7 billion), it could not meet this goal. It would need to cut discretionary spending by 82 percent or Medicare and Social Security spending by 41 percent to offset the direct revenue loss.

As in the distributional analysis discussed above, financing of the tax cuts can have important effects on the long-run macroeconomic results. If spending were cut enough to offset most of the revenue losses, the economy would grow. A 2006 US Treasury study concluded that financing the permanent extension of the 2001 and 2003 tax cuts by cutting spending would raise GNP by 0.1 to 1.2 percent, depending on how responsive labor supply and saving are to tax

rates (US Treasury 2006). However, if spending were not cut and the growing deficits ultimately led to tax rate increases, the same study found that GNP would fall by 0.9 percent in the long run. The experience of the past three decades suggests that large tax cuts that widen the deficit are not necessarily followed by spending cuts, but instead may ultimately require future tax increases.¹³ If that pattern were repeated after enacting the Trump tax cuts, total economic output could ultimately be smaller than if the tax cuts had not been enacted in the first place.

Barring politically difficult spending cuts or tax increases, the Trump tax cuts would produce deficits of as much as \$11.2 trillion over the next decade, which could swamp any salutary effects arising from lowering marginal effective tax rates on work, saving, and investment. We estimate that by 2036, with no change in spending or interest rates, the proposal would raise the national debt by nearly 80 percent of GDP. If interest rates rise in response to the burgeoning public debt, the increase in the debt could be much larger.

CONCLUSIONS

Mr. Trump's tax reform plan would boost incentives to work, save, and invest, and has the potential to simplify the tax code. By lowering marginal tax rates and further limiting or repealing many tax expenditures, it would reduce the incentives and opportunities to engage in some forms of wasteful tax avoidance. However, the plan could increase incentives for workers to characterize themselves as independent contractors, to take advantage of the lower tax rate on business income, unless new rules were introduced to prevent this. The proposal would cut taxes on households at every income level, but much more as a share of income at the top. The fundamental concern the plan poses is that, barring extraordinarily large cuts in government spending or future tax increases, it would yield persistently large, and likely unsustainable, budget deficits.

Because candidates' proposals rarely include all the details needed to model them accurately, we ask their staffs to clarify provisions or further specify details. Unfortunately, we did not receive any response to our attempts to contact the Trump campaign, so we were unable to obtain clarifications of provisions that are unclear or not fully specified in the Trump tax plan.

In the absence of such clarifications, we based our assumptions on Mr. Trump's statements, documents released by the campaign ([see Trump Campaign 2015](#)), and the Tax Foundation's September 29 analysis ([Cole 2015](#)). We note that Mr. Trump has taken issue with the Tax Foundation's analysis, but it is unclear what specifically the campaign disagrees with (other than the conclusions).

What follow are the issues (I) we identified in the available materials that we believed required clarification or further specification. We follow each issue with the assumptions (A) we made in our modeling of the Trump plan in the absence of guidance from the campaign.

1. Individual Income Tax

I1. The documentation shows a zero percent tax rate for single filers on income up to \$25,000 (married couples up to \$50,000 and heads of household up to \$37,500). It is unclear whether this provision is intended to reinstate a zero bracket amount, with those specific values, similar to the zero bracket that existed prior to the 1986 tax reform, or is simply intended to represent increased standard deduction amounts.

A1. We assume standard deduction amounts are increased to those values.

I2. It is unclear whether the values in the documentation's tax table are expressed in 2015 dollars or in the dollars of some other year.

A2. We assume the values in the tax table are expressed in 2015 dollars and are indexed for inflation going forward as in current law.

I3. It is unclear precisely how the proposal would tax the income from sole proprietorships and pass-through entities such as partnerships and S-corporations at the individual level.

A3. We assume that income from sole proprietorships and pass-through entities would be taxed using a preferential rate schedule in a manner similar to the way in which current law applies preferential rates to long-term capital gains and qualified dividends. Business income otherwise taxed at 10 percent would continue to be taxed at 10 percent, but business income

otherwise taxed at 20 percent or 25 percent would be taxed at 15 percent. We assume that business losses would only reduce tax at these same rates.

I4. The proposal does not mention any legislation or regulations to prevent taxpayers from recharacterizing wage and salary or other income as income eligible for the preferential individual income tax rates on business income.

A4. We assume that some effective rules would be adopted to prevent such shifting between ordinary income and business income.

I5. The documentation states that the maximum tax rate on long-term capital gains and qualified dividends is 20 percent. This appears to mean that the proposal repeals the 3.8 percent net investment income tax originally enacted by the Affordable Care Act.

A5. We assume the proposal repeals the 3.8 percent net investment income tax.

I6. The documentation states that charitable and mortgage interest deductions will remain unchanged for all taxpayers, but also states that with lower rates most exemptions and deductions would become redundant. Those within the 10 percent bracket would keep most of their deductions, those within the 20 percent bracket would keep more than half their deductions, and those within the 25 percent bracket would keep fewer deductions. No specific mechanisms for achieving these results are specified.

A6. We assume that the tax benefits of itemized deductions (other than charitable and mortgage interest), and the exemptions for employer-provided health benefits and tax-exempt interest, would be limited to 10 percent of the deduction or exemption.

I7. The documentation states that the proposal would keep the charitable and mortgage interest deductions unchanged for all taxpayers, but it would “steepen the curve” of the Pease limitation on itemized deductions. Under current law, both the charitable and mortgage interest deductions are subject to the Pease limitation, so it is unclear how the limitation would be altered.

A7. We assume that the proposal simply doubles the Pease phaseout rate from 3 percent to 6 percent.

I8. The documentation states that the proposal would steepen the curve of the personal exemption phaseout (PEP). How this would be accomplished is not specified.

A8. We assume that the proposal simply doubles the PEP phaseout rate from 2 percent to 4 percent.

I9. The documentation states that the proposal would phase out the tax exemption on life insurance interest for high-income earners. How the phaseout would work is not specified.

A9. We assume that the exclusion is eliminated prospectively on all new life insurance contracts.

I10. The documentation states that the proposal would reduce or eliminate “other loopholes for the very rich and special interests” but does not specify which loopholes or how they would be reduced or eliminated.

A10. In the absence of specific guidance, we were unable to model the reduction or repeal of any other loopholes.

I11. It is unclear whether the proposal would retain the permanent extensions made in the Protecting Americans from Tax Hikes Act of 2015 to provisions of the earned income tax credit (EITC) and the child tax credit (CTC), and retention of the American Opportunity Tax Credit (AOTC) to the HOPE credit.

A11. We assume that the proposal retains these permanent extensions.

I12. It is unclear whether the proposal allows other would retain other extensions made in the Protecting Americans from Tax Hikes Act of 2015 and the tax provisions in the Consolidated Appropriations Act of 2016.

A12. We assume that the proposal retains these other extensions, except as noted in A20 below, but that none of the temporary extensions would be further extended.

I13. It is unclear whether the plan includes any other changes to exclusions, above-the-line deductions, or credits that are not specified in the plan description.

A13. We assume that the plan proposes no other changes to exclusions, above-the-line deductions, or credits.

2. Estate and Gift Taxes

I14. The documentation states that the proposal would repeal the “death tax.” It is unclear whether this specifically means that the proposal would repeal the federal estate, gift, and generation-skipping transfer (GST) taxes, whether these taxes would be replaced with any form of tax on inherited wealth, or whether the step-up in basis would be replaced with any form of carryover-basis regime on inherited assets.

A14. We assume the proposal repeals the federal estate, gift, and GST taxes and does not institute any other form of tax on inherited wealth. We also assume the proposal would retain unlimited step-up in basis for inherited assets.

3. Affordable Care Act Provisions

I15. It is unclear whether the proposal repeals any of the tax provisions enacted by the Affordable Care Act other than the 3.8 percent net investment income tax, such as the 0.9 percent surcharge on earnings or the excise tax on high-cost health plans (the “Cadillac Tax”).

A15. We assume the Trump tax proposal does not repeal any of the other tax provisions enacted by the Affordable Care Act. (If Mr. Trump subsequently releases a detailed health care proposal in which those provisions are explicitly repealed, we will update our analysis accordingly.)

4. Business Provisions

I16. The proposal states that it would “phase in a reasonable cap on the deductibility of business interest expenses,” but it does not specify how the cap would work.

A16. Absent further detail, we were unable to model the cap on interest deductibility.

I17. It is unclear whether the plan would make any changes to the foreign tax credit rules associated with ending deferral of tax on foreign-earned corporate income.

A17. We assume that the rules under the current law continue to apply.

I18. It is unclear whether the one-time repatriation tax is similar to the Camp proposal, so the 10 percent rate applies only to accumulated untaxed CFC earnings held in cash and a lower rate to the remainder, or whether the one-time tax is payable immediately or over some number of years.

A18. We assume that the one-time repatriation tax is structured in the same manner as the Camp proposal, with the 10 percent rate applying to accumulated cash earnings and a lower 4 percent rate applying to noncash earnings (resulting in the same proportional difference between the 8.75 and 3.5 percent rates in the Camp plan), and the payments would be made over 10 years (rather than 8).

I19. It is unclear whether the 15 percent rate is a flat tax rate on all corporate income, or whether some form of graduated rate schedule is maintained.

A19. We assume the corporate rate is a flat 15 percent.

I20. It is unclear which specific business tax preferences would be eliminated.

A20. We assume that the plan repeals the following provisions:

- a. Inventory property sales source exemption

- b. Tax credits for alternative energy production and investment, energy conservation, and investments in energy-efficient property
- c. Percentage depletion
- d. Exclusion of interest on private-purpose tax-exempt bonds
- e. Tax incentives for preservation of historic structures
- f. Exemption of credit union income
- g. Exclusion of interest on life insurance savings
- h. Tax exemption of insurance companies owned by tax-exempt organizations
- i. Small life insurance company deduction
- j. Credit for low-income housing investments
- k. Deduction for US production activities
- l. Other targeted incentives for community and regional development
- m. Tax credit for orphan drug research
- n. Special Blue Cross Blue Shield deduction
- o. Tax benefits for employee stock ownership plans (ESOPs)
- p. Employer wage credit for activated military reservists
- q. Minimum LIHTC rate for non-Federally subsidized new buildings
- r. 15-year straight-line cost recovery for qualified leasehold improvements
- s. Exception under subpart F for active financing income
- t. Look-through treatment of payments between related CFCs
- u. Independent refiner exclusion of 75% of oil transportation costs for Section 199 deduction

Note: Items p through u were included in the Protecting Americans from Tax Hikes Act of 2015 or the Consolidated Appropriations Act of 2016.

5. Effective Date

I21. It is unclear whether all provisions are intended to go into effect in 2017 or at some earlier (or later) date, or whether some provisions are phased in over time.

A21. We assume the provisions would be effective for the 2017 tax year, after the presidential election, and that no provisions would be phased in gradually over time.

APPENDIX B. COMPARISON OF TPC REVENUE ESTIMATES WITH OTHER PUBLISHED ESTIMATES

Our revenue estimates differ from other published estimates of the revenue cost of Donald Trump’s tax proposal (table B1). TPC’s 10-year revenue cost (\$9.5 trillion) is smaller than the estimates released by Citizens for Tax Justice (CTJ 2015) and by the Tax Foundation (Cole 2015), which both estimate the revenue cost as \$12.0 trillion.

TABLE B1

Tax Policy Center Revenue Estimates for the Trump Proposal Compared with Other Public Estimates \$ billions



	Citizens for Tax Justice 2016-2025	Tax Foundation 2015–24	Tax Policy Center 2016–26
Individual	N/A	-10,201	-7,351
Corporate	N/A	-1,541	-1,942
Estate	N/A	-238	-224
Total	-12,000	-11,980	-9,517

Sources: Citizens for Tax Justice (2015); Cole (2015); and Urban-Brookings Tax Policy Center calculations.

Note: N/A = not available.

These differences cannot be fully reconciled based on the level of detail published. One difference is the assumed starting date of the Trump proposal: the Tax Foundation uses 2015, CTJ uses 2016, and TPC uses 2017. The later TPC starting date, in itself, should make the TPC estimate larger than the others. TPC’s estimates reflect the effects of the Protecting Americans from Tax Hikes Act of 2015 and the tax provisions in the Consolidated Appropriations Act of 2016 on baseline revenues under current law as well as on the provisions in the Trump plan, which somewhat reduces the cost of the plan, whereas the analyses by the CTJ and the Tax Foundation were made prior to enactment of these Acts.

The TPC estimates are also smaller in part because the other analyses do not estimate some of the revenue-raising provisions that TPC estimated. For example, the Tax Foundation did not estimate the revenue effect of ending deferral (which TPC estimates would raise \$160 billion through 2026), and CTJ appears not to have estimated the revenue effect of repealing any business tax preferences (which TPC estimates would raise \$573 billion through 2026). We may also have made different assumptions about how cutbacks to individual tax preferences would

work, which affects how much money they would raise. (These provisions of the proposal are not well specified, so each group had to make specific assumptions to estimate the effect of these provisions.) No detail on the revenue gains from these provisions is available from either CTJ or the Tax Foundation; TPC's estimates include a revenue gain of nearly \$1.1 trillion through 2026 from the doubling of the Pease and PEP phaseout rates and a new limitation on the tax benefit of certain itemized deductions and exclusions.

A further difference could result from how the \$25,000 allowance for single filers and \$50,000 for joint filers was modeled. TPC treated these as new standard deduction amounts, which has the effect of substantially reducing the number of itemizers and itemized deductions. The Tax Foundation apparently treated these as "zero bracket amounts" (that embed the current standard deduction amounts), which would not directly reduce itemization or itemized deductions and therefore have a much larger revenue cost. CTJ refers to these amounts as standard deductions, but it may have modeled them in a manner similar to the Tax Foundation's. We estimate that over 10 years the Tax Foundation's approach to this provision would cost \$1.7 trillion more than our approach.

Differences could also arise from different baselines or modeling differences, such as alternative assumptions about how responsive taxpayers are to changes in tax rates. Our baseline is calibrated to match the Congressional Budget Office (2015a, 2015b) projections, and our estimates of the responsiveness of taxpayers to changes in tax rates are designed to match as closely as possible official congressional estimates produced by the Joint Committee on Taxation.

APPENDIX C. MEASURING DISTRIBUTIONAL EFFECTS OF TAX CHANGES

Analysts use a variety of measures to assess the distributional effects of tax changes. There is no perfect measure—often a combination of measures is more informative than any single measure.

The Tax Policy Center generally focuses on the percentage change in after-tax income because it measures the gain or loss of income available to households to buy goods and services, relative to the amount available before the tax change. A tax change that raises or lowers after-tax income by the same percentage for all households leaves the progressivity of the tax unchanged.

Other measures used to assess a tax change's effects include shares of the tax cut going to different parts of the income distribution, the size of each group's cut measured in dollars, and the percentage change in tax liability. The first two measures poorly indicate the effects of a tax change because they ignore the initial distribution of taxes and thus do not assess changes in a tax's progressivity. The percentage change in tax liability can be particularly misleading because it relies too much on the initial distribution of taxes. Cutting the tax on a person making \$1,000 from \$50 to \$10 is an 80 percent cut, while reducing taxes on a person making \$1 million from \$250,000 to \$150,000 is just a 40 percent cut. But the tax savings boosts after-tax income by only about 4 percent for the poorer person, compared with a more than 13 percent increase for the higher-income person.

Table C1 shows several different measures of the effects of the Trump tax proposal on households at different income levels in 2017. The tax cut is most significant as a share of after-tax income (column 1) for those with high incomes, as discussed above. It's also true that for this plan, high-income people get the bulk of the tax cuts (column 2), that the average tax change is highest at high income levels (column 3), and that the tax cut is a larger share of tax liability for high-income households (column 4). Finally, the share of federal tax burdens falls for moderate-income households and rises for those with lower and higher incomes, although the share falls significantly for the top 1 percent (column 5).

TABLE C1

Alternative Ways of Presenting Change in Distribution of Tax Burdens Under the Trump Tax Plan
 By expanded cash income percentile, 2017^a



Expanded cash income percentile ^{b,c}	Percent change in after-tax income (%) ^d	Share of total federal tax change (%)	Average Federal Tax Change ^e		Share of Federal Taxes	
			Dollars	Percent	Change (% points)	Under the proposal (%)
Lowest quintile	1.0	0.7	-128	-22.6	0.1	1.0
Second quintile	3.1	4.1	-969	-34.8	-0.3	3.1
Middle quintile	4.9	10.5	-2,732	-31.8	-0.4	9.2
Fourth quintile	5.8	17.1	-5,369	-28.4	0.1	17.6
Top quintile	9.7	67.0	-25,180	-28.3	0.6	69.1
All	7.1	100.0	-5,144	-28.9	0.0	100.0
Addendum						
80–90	5.4	10.6	-7,731	-21.9	1.4	15.4
90–95	5.7	7.6	-11,476	-20.7	1.2	11.9
95–99	8.5	13.8	-27,657	-25.5	0.8	16.4
Top 1 percent	17.5	35.0	-275,257	-35.8	-2.7	25.5
Top 0.1 percent	18.9	17.0	-1,302,887	-36.4	-1.4	12.1

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0515-3A).

Notes: Number of Alternative Minimum Tax (AMT) taxpayers (millions). Baseline: 4.5; Proposal: 0.

(a) Projections are for calendar year 2017; baseline is current law (including provisions in the Protecting Americans from Tax Hikes Act of 2015 and the Consolidated Appropriations Act of 2016). The proposal includes all individual, corporate, and estate tax provisions. <http://www.taxpolicycenter.org/taxtopics/Baseline-Definitions.cfm>.

(b) The percentile includes both filing and nonfiling units but excludes units that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class, but they are included in the totals. For a description of expanded cash income, see <http://www.taxpolicycenter.org/TaxModel/income.cfm>.

(c) The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2015 dollars) 20% \$23,099; 40% \$45,153; 60% \$80,760; 80% \$142,601; 90% \$209,113; 95% \$295,756; 99% \$732,323; 99.9% \$3,769,396.

(d) After-tax income is expanded cash income less individual income tax net of refundable credits, corporate income tax, payroll taxes (Social Security and Medicare), estate tax, and excise taxes.

(e) Average federal tax includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes.

For further discussion, see “Measuring the Distribution of Tax Changes” at <http://taxpolicycenter.org/taxtopics/How-to-Interpret-Distribution-Tables-2013.cfm>.

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¹ Our estimates account for microeconomic behavioral responses, such as reduced use of tax preferences and increased capital gains realizations when marginal tax rates on income and capital gains decline. Our estimating methodology generally follows the conventional approach used by the Joint Committee on Taxation and the US Treasury to estimate revenue effects before considering the macroeconomic effects.

² For more information see <http://www.taxpolicycenter.org/press/press-resources-phaseouts.cfm> and <https://www.irs.gov/uac/Newsroom/In-2015,-Various-Tax-Benefits-Increase-Due-to-Inflation-Adjustments>.

³ The personal exemption phaseout (PEP) reduces all of a taxpayer's personal and dependent exemptions by 2 percent for each \$2,500 (or part thereof) above the relevant threshold. This analysis assumes that the Trump plan would double the phaseout rate to 4 percent.

⁴ A similar provision was included in former Ways and Means Committee Chairman Dave Camp's tax reform plan. For more information on the Camp plan, see the TPC summary page, "Tax Topics—Camp Reform Tax Plan," at http://www.taxpolicycenter.org/taxtopics/Camp_Tax_Reform_Plan.cfm.

⁵ Appendix B compares our revenue estimates with other published estimates.

⁶ Repeal of the Affordable Care Act surtax on net investment income would cut effective capital gains tax rates by 3.8 percent for high-income taxpayers, and repeal of the AMT (and the phaseout of the AMT exemption) would also eliminate some implicit taxes on capital gains. However, doubling the rates for the phaseouts of personal exemptions and itemized deductions (Pease) would increase the implicit tax rate on gains.

⁷ This distributional analysis (as well as most of the revenue analysis) is based on the Urban-Brookings Tax Policy Center Microsimulation Model, a brief description of which is available at <http://www.taxpolicycenter.org/taxtopics/Brief-Description-of-the-Model-2015.cfm>.

⁸ Appendix C discusses alternative distribution measures and illustrates several alternatives for the Trump tax proposal.

⁹ See Rosenberg and Marron (2015) for derivation and discussion of METRs.

¹⁰ Spending cuts may also have an effect on economic growth. Well-targeted spending on education and infrastructure, for example, may boost growth. Other spending may distort resource allocation in much the same way that poorly designed tax expenditures do.

¹¹ See Gale and Samwick (2014) for a recent review of the literature.

¹² If the economy is operating below capacity, deficit-financed tax cuts can boost the economy in the short run by increasing aggregate demand if individuals decide to spend their tax cuts (rather than saving them or paying down debt) or if temporary investment tax cuts encourage companies to boost purchases of machines and equipment. However, deficit-financed tax cuts can overheat an economy that is at full employment, which can lead to inflation and, ultimately, a recession if the Federal Reserve responds to the inflationary pressures by raising interest rates. There is also a growing consensus that for most economic downturns (2008 being a notable exception), monetary policy is a preferable instrument for stabilization policy.

¹³ Ronald Reagan raised taxes in 1982 and 1984. George H. W. Bush raised them in 1990. Bill Clinton raised them in 1993. Barack Obama raised taxes in 2012. With the exception of Reagan's tax increases, all of these tax changes included significant increases in top marginal tax rates.



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