TAX POLICY CENTER
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THE IMPLICATIONS OF WHAT WE KNOW AND DON'T KNOW ABOUT PRESIDENT TRUMP'S TAX PLAN

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ABSTRACT

The Trump administration released an outline of their plan to revise the tax code and change tax rates on April 26, 2017. The Tax Policy Center has estimated the potential impact of the administration's proposed tax changes. TPC first analyzed the impact of the tax cut provisions, and then combined those tax cuts with potential revenue raisers. Using traditional budget scoring, TPC finds that the tax cuts outlined by the White House in April would reduce federal revenue by $7.8 trillion over the next decade. Including possible tax increases in the analysis lowers the revenue loss to $3.5 trillion. Under either case, the administration's proposed tax changes would provide the bulk of the benefits to the highest-income households. When analyzed using dynamic scoring models of both TPC and Penn-Wharton Budget Model, the 10-year revenue loss does not differ materially from conventional scoring methods, and the losses over the second ten years are larger.

This paper was updated on July 27, 2017 to incorporate the overlapping generations model estimates produced by Penn Wharton Budget Model.

On April 26, 2017, the White House released "2017 Tax Reform for Economic Growth and American Jobs," an outline of the Trump administration's plan to revise the tax code and change tax rates. Aspects of that outline are similar to points Donald Trump detailed during his presidential campaign. However, the outline left many key components of the 2017 tax plan unspecified.

To help people better understand President Trump's tax ideas, the Tax Policy Center (TPC) released a short paper on June 1, 2017, describing what was known about the Trump administration's tax plan and including preliminary suppositions about its unspecified components that were either suggested in the outline or mentioned by the 2016 Trump presidential campaign.

TPC has now developed revenue estimates and distributional analysis for two scenarios that group provisions consistent with the June 1 paper. We first analyze the effects of tax cuts proposed by the Trump administration, which were specified in the administration's outline. Next, we analyze the combined effects of the tax cuts and possible revenue raisers that were broadly described in the administration's outline or by the Trump presidential campaign. Our analysis is based on the descriptions and suppositions contained in our June 1 paper, and assumes that all provisions would be effective January 1, 2018.

We emphasize that we are not analyzing the Trump administration's tax plan: the released outline contains too many unknowns to do so. Rather, this exercise provides perspective on the revenue and distributional effects of a plan containing the tax ideas raised by the administration, as well as some of the trade-offs that the administration is grappling with while attempting to craft a fleshed-out plan.

We welcome comments and suggestions on our descriptions and analyses, and we especially welcome additional details about the plan from the Trump administration.

RESULTS AT A GLANCE

We analyzed the administration's proposals using both traditional budget scoring methods and dynamic scoring models that estimate the effects of broad economic responses to tax changes.

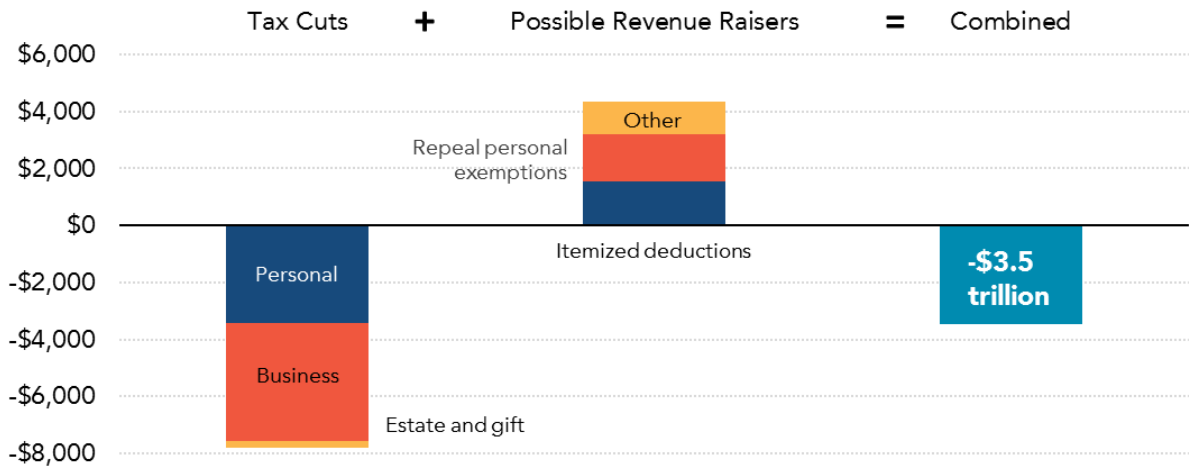
Using traditional budget scoring, our estimates indicate that the tax cuts outlined by the White House in April would reduce revenue by $7.8 trillion over the next decade and by $13.1 trillion over the following decade. Using dynamic analysis, the revenue loss could be reduced by $0.1 trillion or increased by $0.4 trillion in the first decade, leading to a revenue reduction of between $7.7 trillion and $8.2 trillion, and increased by between $0.7 trillion and $1.8 trillion in the second decade, leading to a revenue reduction of between $13.8 trillion and $14.9 trillion.

Using traditional budget scoring for the combination of proposals that includes both tax cuts and possible tax increases, the estimated revenue loss would be significantly lower, at $3.5 trillion over the first decade and $5.7 trillion over the second decade. Using dynamic analysis, the revenue loss could be reduced by $0.1 trillion or increased by $0.5 trillion in the first decade, leading to a revenue loss of between $3.4 trillion and $3.9 trillion, and increased by between $0.2 trillion and $1.3 tillion in the second decade, leading to a revenue loss of between $5.9 trillion and $7.0 trillion.

FIGURE 1

Revenue Effect of Proposals Related to the Trump Administration's 2017 Tax Plan

Billions of dollars, fiscal years 2018-2027



Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0217-1).

Even when taking the tax cuts and all possible revenue raisers together, the administration's proposed tax changes would be highly regressive, with most benefits accruing to the highest-income households. In analyzing the tax cuts scenario, we found that nearly all households would receive a tax cut; taxpayers in the top 1 percent of the income distribution would see an average increase in their after-tax income of 17.8 percent, while middle-income taxpayers would see an average increase of 3.3 percent. Including possible revenue raisers in the combined scenario, about one-fifth of households would pay higher taxes than they do under current law. In this combined scenario, taxpayers in the top 1 percent would see an average increase of nearly 11.5 percent in their after-tax income, while taxpayers in the middle would see an average increase of about 1.3 percent.

DESCRIPTION OF PROVISIONS

Tax Cuts

The administration's outline includes a list of proposals that would reduce taxes on individuals and businesses:

- Repeal the Affordable Care Act's 3.8 percent net investment income tax.
- Repeal the alternative minimum tax for individuals.
- Set individual income tax rates of 10, 25, and 35 percent. (The Trump administration's outline included these three tax rates but did not specify the income ranges to which these rates would apply. Our analysis assumes that these tax rates would apply to the income tax brackets specified by the Trump presidential campaign [table 1].)

TABLE 1

Trump Administration's Proposed Tax Schedule and Rates

Single Filers			Married Couples Filing Jointly		
Taxable Income ($)		Proposed marginal rate (%)	Taxable Income ($)		Proposed marginal rate (%)
Over	But not over		Over	But not over	
0	37,500	10	0	75,000	10
37,500	112,500	25	75,000	225,000	25
112,500	and over	35	225,000	and over	35

Notes: Income thresholds are based on brackets proposed by President Trump's 2016 campaign.

- Double the standard deduction. (Our analysis assumes that all standard deduction amounts, including the additional amounts for blind and elderly taxpayers, would be doubled.)
- Reduce the tax rate on income from pass-through businesses to 15 percent. (The administration has suggested it would limit which pass-through businesses and owners of such businesses could use the preferential rate but has offered no specifics.)
- Reduce the corporate income tax rate to 15 percent and repeal the corporate alternative minimum tax.
- Provide tax relief for taxpayers with child and dependent care expenses. (Our analysis assumes this proposal is the same as the one President Trump described in detail during the presidential campaign.)
- Adopt a territorial system of taxing foreign-source income and impose a one-time tax on unrepatriated foreign earnings. (Our analysis assumes the one-time repatriation tax would

be levied at a 10 percent rate [4 percent on noncash retained earnings] and payable over 10 years.)
- Repeal the estate tax. (Our analysis assumes the estate, gift, and generation-skipping transfer taxes would be repealed with no other changes to the taxation of inherited assets.)

Possible Revenue Raisers

The administration's outline also includes proposals to preserve some tax breaks and limit or eliminate others, but it omitted details:

- Preserve the deductions for home mortgage interest and charitable contributions. (We assume this means that all other itemized deductions, including the deductions for state and local taxes, medical and dental expenses, and investment and unreimbursed employee expenses, would be repealed.)
- Repeal "targeted tax breaks" for wealthy individuals and "special interest" tax provisions for businessess. (We assume the repealed tax breaks include the ability to treat carried interest as capital gains income, the domestic production activities deduction, tax credits for renewable-energy producers, the low-income housing tax credit, and various other industry-specific business tax credits.)

During the 2016 presidential election, the Trump campaign proposed additional tax changes—mostly provisions that would increase revenues—that were not in the April outline but that might be part of the administration's tax plan. These include proposals to:

- Repeal the head of household filing status.
- Repeal personal exemptions for both taxpayers and dependents.
- Treat distributions from "large" pass-through businesses as qualified dividends, subject to tax at the individual level when received.
- Tax estates on unrealized capital gains above a threshold ($5 million for individuals, $10 million for couples).

TABLE 2

Revenue Effects of Tax Cut and Possible Revenue Raising Provisions

Billions of dollars, fiscal years 2018–37

Provision	2018	2019	2020	2021	2022	2023	2018-27	2028-37
Tax Cuts								
Repeal net investment income tax	-4.6	-2.2	-12.2	-15.4	-16.4	-17.4	-150.6	-330.5
Repeal alternative minimum tax	-26.6	-36.7	-39.8	-42.3	-44.5	-46.5	-445.5	-721.0
Individual income tax rates of 10, 25, and 35%	-126.9	-175.3	-181.7	-189.4	-199.0	-208.8	-2,028.0	-3,288.3
Double standard deduction	-51.0	-67.8	-68.1	-69.6	-71.1	-72.8	-708.2	-962.2
Enhance tax benefits for child and dependent care expenses	-6.8	-9.4	-9.7	-10.1	-10.4	-10.7	-103.2	-146.1
Reduce rate on qualifying pass-through income to 15%[a]	-91.7	-136.1	-155.5	-177.3	-200.5	-216.1	-2,000.6	-3,742.4
Reduce corporate rate to 15% and repeal the corporate AMT	-100.4	-199.1	-235.8	-234.1	-236.9	-241.0	-2,292.1	-3,443.0
Deemed repatriation tax on accumulated foreign earnings	7.2	14.5	16.1	16.1	16.1	16.1	150.4	10.5
Repeal the estate, gift and GST taxes	0.0	-15.3	-22.8	-24.7	-25.8	-27.0	-238.9	-443.3
Subtotal	**-400.6**	**-627.4**	**-709.6**	**-746.8**	**-788.5**	**-824.4**	**-7,816.8**	**-13,066.3**
Subtotal with macroeconomic feedback								
TPC dynamic model estimates	-339.1	-572.4	-675.6	-726.5	-779.8	-822.2	-7,679.3	-13,794.1
PWBM overlapping generations model estimates	-411.7	-656.2	-732.9	-771.8	-820.8	-865.6	-8,247.5	-14,913.4
Memo: Difference due to macroeconomic feedback								
TPC dynamic model estimates	61.5	55.0	34.0	20.3	8.8	2.3	137.5	-727.8
PWBM overlapping generations model estimates	-11.1	-28.8	-23.3	-25.0	-32.3	-41.2	-430.8	-1,847.0
Possible Revenue Raisers								
Repeal itemized deductions other than charitable giving and mortgage interest	86.0	121.4	132.1	141.2	149.9	159.9	1,546.3	2,849.3
Repeal head of household filing status	13.1	17.7	18.6	19.2	20.4	21.4	208.4	336.7
Repeal personal exemptions	107.2	147.1	152.9	159.2	165.0	170.4	1,646.4	2,403.6
Tax distributions from large pass-throughs as qualified dividends	26.5	40.2	46.3	53.3	61.0	66.7	621.7	1,275.5
Repeal certain business tax expenditures	9.9	19.1	23.4	25.7	27.4	29.2	271.5	454.4
Tax capital gains at death with $5 million exemption	3.4	4.5	4.6	4.8	4.9	5.0	48.9	67.8
Subtotal	**246.1**	**350.0**	**377.9**	**403.3**	**428.6**	**452.7**	**4,343.3**	**7,387.3**
Total	**-154.6**	**-277.4**	**-331.7**	**-343.5**	**-359.9**	**-371.7**	**-3,473.5**	**-5,679.0**
Total with macroeconomic feedback								
TPC dynamic model estimates	-125.3	-251.1	-314.0	-331.3	-351.2	-365.2	-3,364.5	-5,876.0
PWBM overlapping generations model estimates	-179.2	-320.8	-369.1	-380.7	-400.3	-417.3	-3,947.3	-6,972.1
Memo: Difference due to macroeconomic feedback								
TPC dynamic model estimates	29.2	26.3	17.7	12.2	8.7	6.5	108.9	-197.0
PWBM overlapping generations model estimates	-24.6	-43.4	-37.4	-37.2	-40.5	-45.6	-473.8	-1,293.1

Sources: Urban-Brookings Tax Policy Center (TPC) Microsimulation Model (version 0217-1); TPC off-model estimates; TPC Keynesian and neoclassical macroeconomic models.
Note: AMT = alternative minimum tax; GST = generation skipping transfer.

(a) Includes the revenue effect of taxpayers re-characterizing wage income to qualify for the lower rate on pass-through income.

REVENUE EFFECTS

Under conventional scoring methods, we estimate that the tax cuts would reduce federal tax revenue by $7.8 trillion over the first decade and by $13.1 trillion over the following decade (table 2).

Our conventional revenue estimates for the possible revenue raisers are shown in the bottom panel of table 2. These provisions would raise $4.3 trillion over the first decade and $7.4 trillion over the second decade. These revenue gains would reduce the total revenue cost of the combined scenario by more than half, to an estimated $3.5 trillion over the first decade and an estimated $5.7 trillion over the second decade.

DYNAMIC ANALYSIS

TPC, in collaboration with Penn-Wharton Budget Model (PWBM), also prepared estimates of the two scenarios that account for macroeconomic feedback effects. PWBM and a blend of TPC's Keynesian and neoclassical models were used to estimate both the effects of the two scenarios on the overall economy (and therefore taxable incomes) and any resulting feedback effects on overall revenues.

The models find offsetting effects of the two scenarios on output and revenues. TPC's analysis finds that the substantial tax cuts have an immediate effect on aggregate demand that boosts economic output above baseline levels in the short run, but that effect wears off within a few years. Moreover, both analyses find that the scenarios, on average, reduce marginal tax rates on capital and labor income, thereby increasing incentives to save, invest, and work. Over time, however, those positive effects on output are offset as additional debt from the large net tax cuts acts as a drag on the economy by raising interest rates and crowding out business investment. By the end of the 10-year budget window, the models estimate that the economy would be smaller than if the tax plan had not been enacted. Consequently, the long run revenue loss as estimated through dynamic analysis is greater than was found through conventional estimates. Revenue estimates that include macroeconomic effects are also shown in table 2.

DISTRIBUTIONAL EFFECTS

We analyzed the distributional consequences of the tax cuts scenario separately from the combined scenario, to show the range of effects the plan might have. We found that the tax cuts would decrease taxes for almost all households compared with current law and that the average size of the tax cut increases with income (table 3). Nearly 40 percent of the tax cut would flow to

households in the top 1 percent of the income distribution, giving those earners an average annual tax cut of around $270,000.

TABLE 3

Distribution of Federal Tax Change From Tax Cut Provisions

By expanded cash income percentile, 2018[a]

Expanded cash income percentile[b]	Tax units with tax cut or increase				Percent change in after-tax income[c]	Share of total federal tax change (%)	Average federal tax change	Average federal tax rate[d]	
	With tax cut		With tax increase					Change (% points)	Under the proposal (%)
	Percent of tax units	Average tax cut	Percent of tax units	Average tax increase					
Lowest quintile	72.9	-180	0.1	860	0.9	0.8	-130	-0.9	3.2
Second quintile	94.4	-750	0.3	700	2.1	3.5	-700	-1.9	6.7
Middle quintile	98.9	-1,950	0.4	1,410	3.3	8.5	-1,920	-2.9	10.9
Fourth quintile	99.5	-3,970	0.5	2,550	4.1	14.7	-3,940	-3.4	13.9
Top quintile	98.3	-23,440	1.6	4,750	8.9	72.2	-22,980	-6.6	18.9
All	90.6	-4,860	0.5	3,210	6.0	100.0	-4,390	-4.8	15.0
Addendum									
80-90	99.2	-6,200	0.8	3,370	4.2	9.9	-6,120	-3.4	16.8
90-95	97.0	-9,640	3.0	2,660	4.6	7.2	-9,270	-3.6	18.4
95-99	97.6	-26,230	2.4	7,360	7.7	15.3	-25,420	-5.8	19.5
Top 1 percent	99.5	-271,340	0.5	40,540	17.8	39.8	-269,750	-12.0	20.5
Top 0.1 percent	99.8	-1,411,700	0.1	205,690	19.9	21.1	-1,408,800	-13.3	20.1

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0217-1)

Notes: Number of Alternative Minimum Tax (AMT) taxpayers (millions): Baseline: 5.2; Proposal: 0.

(a) Calendar year. Baseline is current law. Proposal includes all tax cuts evaluated on a fully-phased in basis.

(b) Percentiles include both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. 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 2017 dollars): 20% $25,000; 40% $48,600; 60% $86,100; 80% $149,400; 90% $216,800; 95% $307,900; 99% $732,800; 99.9% $3,439,900. For a description of expanded cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm

(c) 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.

(d) 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.

TABLE 4

Distribution of Federal Tax Change From Tax Cut and Possible Revenue Raising Provisions

By expanded cash income percentile, 2018[a]

Expanded cash income percentile[b]	Tax units with tax cut or increase				Percent change in after-tax income[c]	Share of total federal tax change (%)	Average federal tax change	Average federal tax rate[d]	
	With tax cut		With tax increase					Change (% points)	Under the proposal (%)
	Percent of tax units	Average tax cut	Percent of tax units	Average tax increase					
Lowest quintile	64.4	-100	6.8	380	0.3	0.5	-40	-0.3	3.8
Second quintile	70.3	-520	23.9	640	0.6	2.0	-210	-0.6	8.1
Middle quintile	75.1	-1,320	23.8	990	1.3	6.4	-760	-1.1	12.7
Fourth quintile	77.8	-2,640	22.0	2,060	1.7	11.5	-1,600	-1.4	15.9
Top quintile	73.0	-19,510	26.9	3,990	5.1	79.3	-13,160	-3.8	21.7
All	71.3	-3,650	19.1	1,630	3.1	100.0	-2,290	-2.5	17.3
Addendum									
80-90	70.9	-3,930	29.0	3,000	1.3	5.9	-1,910	-1.1	19.1
90-95	69.0	-7,130	30.9	3,930	1.8	5.5	-3,700	-1.4	20.5
95-99	79.6	-21,510	20.4	5,440	4.9	18.5	-16,010	-3.6	21.6
Top 1 percent	90.1	-196,420	9.9	24,250	11.5	49.4	-174,540	-7.8	24.8
Top 0.1 percent	97.9	-964,710	2.1	328,510	13.3	26.9	-937,700	-8.8	24.5

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0217-1)

Notes: Number of Alternative Minimum Tax (AMT) taxpayers (millions): Baseline: 5.2; Proposal: 0.

(a) Calendar year. Baseline is current law. Proposal includes all tax cuts and possible revenue raisers evaluated on a fully-phased in basis.

(b) Percentiles include both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. 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 2017 dollars): 20% $25,000; 40% $48,600; 60% $86,100; 80% $149,400; 90% $216,800; 95% $307,900; 99% $732,800; 99.9% $3,439,900. For a description of expanded cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm

(c) 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.

(d) 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.

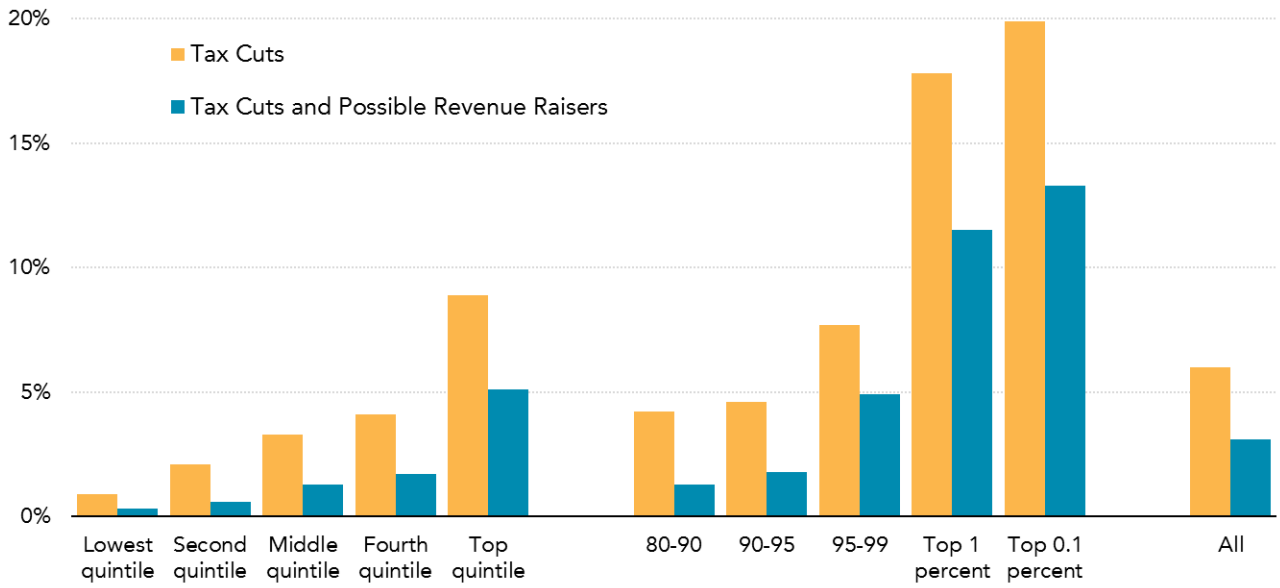
The distributional consequences change when possible revenue raisers are included in the combined scenario. About 70 percent of households would receive a net tax cut, while about 20 percent would see their taxes increase. Although that 20 percent experiencing a tax increase represents millions of households, every income category shows a net tax cut under this scenario because more households would receive tax cuts than experience tax increases. The size of the net tax cut generally would grow with income. Almost half of the aggregate net tax cut would flow to households in the top 1 percent of the income distribution, giving those households an average of almost $175,000 per household per year (figure 2). An alternative presentation of the distributional effects of the provisions is available in Appendix A.

Since the tax cut plans would produce significant deficits under either scenario, the ultimate net effect of the scenarios on most households is unclear. The full distributional effects of the tax plan can only be ascertained once all offsets are taken into account.

FIGURE 2

Percent Change in After-tax Income of Proposals Related to the Trump Administration's 2017 Tax Plan

By expanded cash income percentile, 2018



Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0217-1).

SUMMARY

The tax cuts included in the Trump adminsitration's April outline of its tax plan would provide a tax cut relative to current law for almost all households. Without revenue-raising provisions, the administration's tax plan would reduce federal revenues by about $7.8 trillion over the next decade and by about $13.1 trillion over the following decade. The benefits of this large tax cut would skew toward high-income households.

Adding various revenue-raising provisions that President Trump proposed during his campaign would decrease the overall revenue reduction to about $3.5 trillion over the first decade and $5.7 trillion over the second decade. When including those additional provisions, about one-fifth of households would experience a net tax increase. Overall, however, the combined provisions would provide a net tax cut for most households, and the benefits would tilt substantially toward households with the highest incomes. Further, although dynamic macroeconomic effects would reduce revenue losses in the first decade, large deficits would crowd out business investment and lead to even higher revenue losses in the second decade.

TABLE A1

Alternative Ways of Presenting Change in Distribution of Tax Burdens

By expanded cash income percentile, 2018[a]

Expanded cash income percentile[b]	Percent change in after-tax income[c]	Share of total federal tax change (%)	Average federal tax change[d]		Share of federal taxes	
			Dollars	Percent	Change (% points)	Under the proposal (%)
Panel A: Tax Cuts						
Lowest quintile	0.9	0.8	-130	-21.3	0.0	1.0
Second quintile	2.1	3.5	-700	-22.3	0.1	3.9
Middle quintile	3.3	8.5	-1,920	-20.8	0.4	10.3
Fourth quintile	4.1	14.7	-3,940	-19.6	1.1	19.1
Top quintile	8.9	72.2	-22,980	-25.9	-1.6	65.5
All	6.0	100.0	-4,390	-24.1	0.0	100.0
Addendum						
80-90	4.2	9.9	-6,120	-16.7	1.4	15.7
90-95	4.6	7.2	-9,270	-16.3	1.1	11.8
95-99	7.7	15.3	-25,420	-22.9	0.3	16.4
Top 1 percent	17.8	39.8	-269,750	-36.9	-4.4	21.7
Top 0.1 percent	19.9	21.1	-1,408,800	-39.8	-2.6	10.2
Panel B: Tax Cuts plus Possible Revenue Raisers						
Lowest quintile	0.3	0.5	-40	-6.4	0.1	1.0
Second quintile	0.6	2.0	-210	-6.7	0.3	4.1
Middle quintile	1.3	6.4	-760	-8.2	0.5	10.4
Fourth quintile	1.7	11.5	-1,600	-8.0	1.0	19.0
Top quintile	5.1	79.3	-13,160	-14.9	-1.7	65.4
All	3.1	100.0	-2,290	-12.6	0.0	100.0
Addendum						
80-90	1.3	5.9	-1,910	-5.2	1.2	15.5
90-95	1.8	5.5	-3,700	-6.5	0.8	11.5
95-99	4.9	18.5	-16,010	-14.4	-0.3	15.8
Top 1 percent	11.5	49.4	-174,540	-23.8	-3.4	22.7
Top 0.1 percent	13.3	26.9	-937,700	-26.5	-2.0	10.8

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0217-1)

Notes: Number of Alternative Minimum Tax (AMT) taxpayers (millions): Baseline: 5.2; Proposal: 0.

(a) Calendar year. Baseline is current law.

(b) Percentiles include both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. 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 2017 dollars): 20% $25,000; 40% $48,600; 60% $86,100; 80% $149,400; 90% $216,800; 95% $307,900; 99% $732,800; 99.9% $3,439,900.

(c) 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.

(d) 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.

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