Trump Claims to Exempt 75 Million Households With Tax Plan

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Billionaire real estate developer and GOP presidential candidate Donald Trump unveiled a tax plan September 28 that he says would exempt more than 50 percent of households from the income tax and provide a boon to corporations that have been storing cash overseas.

"It will grow our economy at a level it hasn't seen for decades," Trump said in announcing the plan at a press conference in New York.

But its claim to revenue neutrality was immediately called into question. And some observers said his tax ideas were not radically different from some of his competitors for the GOP nomination.

Trump said his package calls for reducing the seven individual tax brackets to four -- set at 0, 10, 20, and 25 percent. He called them the lowest rates since before World War II. Currently, the top marginal rate is 39.6 percent.

Individuals making less than $25,000 a year and couples making less than $50,000 would be exempt from federal income taxes. According to a fact sheet explaining the plan, that would remove nearly 75 million households, or 50 percent, from the tax rolls.

"This eliminates strongly and clearly the marriage penalty," said Trump, still considered the front-runner for the GOP nomination despite his lead in the polls slipping since the September 16 Republican debate. (Prior coverage.)

No business of any size would pay more than a 15 percent rate. Trump said the lower corporate rate -- down from the current 35 percent -- would also make corporate inversions unnecessary. The plan offers a one-time repatriation rate of 10 percent on the more than $2.1 trillion U.S. firms hold overseas. The plan would end deferral on overseas earnings while retaining foreign tax credits. He also calls for a "reasonable cap" on the deductibility of business interest expenses.

Other highlights include:

- elimination of the estate tax and alternative minimum tax;
- ending the carried interest preference used by hedge fund managers and others involved in "speculative partnerships";
- reducing or eliminating most "corporate loopholes that cater to special interests";
- preservation of the mortgage interest and charitable giving deductions;
- steepening the curve of the personal exemption phaseout and the Pease limitation on itemized deductions; and
- phasing out the exemption on life insurance interest for high-income taxpayers.

By eliminating many deductions and other preferences available to the rich, ending many corporate deductions, ending the deferral on corporate income earned abroad, and encouraging the repatriation of corporate profits, Trump said the plan would be revenue neutral and not increase the national debt or deficits.

That last assertion, however, came in for immediate scrutiny.

Revenue Neutrality Questioned

While some details are still not known, overall Trump is calling for "an enormous tax cut, benefiting mostly high-income households," analyst Howard Gleckman of the Urban-Brookings Tax Policy Center told Tax Analysts. "While the end of carried interest and the exemption for life insurance might raise taxes a bit on some high-income people, those modest tax hikes would be swamped by the rate cuts."

As for the corporate part, Gleckman noted the 15 percent rate -- including on passthroughs -- "would be a huge tax cut for business owners." Trump said it would apply to everyone from freelancers and mom-and-pop operations to *Fortune* 500 firms.

As for low-income filers, Gleckman said getting a 0 percent rate may not be all that good a deal if Trump is eliminating the earned income tax credit and refundable child credits. Trump didn't make that clear, he said.

In general, Gleckman said, "This seems to be a standard GOP cut-the-rates, close-the-loopholes tax reform, but much bigger than, say [former Florida Gov. Jeb] Bush's." (Prior coverage , , , .)

As for revenue neutrality, the Urban-Brookings analyst said, "It is completely implausible."

Similarly, Kyle E. Pomerleau, economist at the Tax Foundation, commented, "On its face, the plan looks similar to Governor Jeb Bush's plan, but will be a much larger tax cut."

The Tax Foundation estimated the revenue loss from Bush's plan at $3.6 trillion over 10 years and $1.6 trillion under dynamic scoring. And Pomerleau said, "There are reasons to think Trump's cut will be much larger." For starters, Pomerleau pointed to the top marginal rate being lower than under Bush's plan -- 25 percent instead of the latter's 28 percent. He also said, "Trump makes up some revenue with a reduction in itemized deductions, but so does Bush. It is highly unlikely that it will be revenue neutral on a static or dynamic basis."

Jay Soled, professor of tax law and accounting in the Rutgers University Business School, similarly doubted the revenue neutrality of the plan and said Trump would likely have to make adjustments. "What I think that Trump will learn is that 'closing all the loopholes' will not pay for all the tax rate cuts he proposes," Soled told Tax Analysts. "That being the case, I suspect that he would have to resort to making the capital gains and ordinary income tax rates the same and, at the same time, enormously simplify the code."

Soled also said, "There is little difference between what Trump is proposing (as an opening salvo) and Reagan's opening salvo in 1986. The rest is history." Soled referred to the development of the Tax Reform Act of 1986.

Chris Edwards, fiscal analyst at the libertarian Cato Institute, called the plan "a mix of conservative and populist measures" and not "as radical as he had indicated."

What's most concerning to Edwards is that more than 40 percent of households -- according to the Tax Policy Center -- already pay no federal income tax and Trump would easily make that well more than 50 percent exempt. "I think that's bad for a democracy," he said. "I think everyone should have some skin in the game." Otherwise, Edwards said, they are more likely to press for more benefits and bigger government.

Vox.com, a news analysis website, said Trump offered up an "orthodox supply-side conservative tax plan in a middle-class tax cut's clothing."

Comments From Groups

In a statement, Maya MacGuineas, head of the Campaign to Fix the Debt, said the group was glad to see Trump's emphasis on offsets and controlling the debt, but expressed doubts about his ability to offset his proposed tax cuts, given the details provided in the proposal. "Sadly, we may have to add this to a growing list of tax plans that ignore the need to reduce our record-high debt. Tax reform can be great for growth, but not if it's paid for with more borrowing and thus larger taxes on the next generation."

In a release, the Alliance for Charitable Reform praised Trump for preserving the charitable deduction but said it feared a "big clawback" due to his desire to steepen the Pease limitation on itemized deductions, trimming charitable deductions for upper-income taxpayers. "We remain concerned that the Pease limitation amounts to a backdoor tax on giving which, we believe, leads to less giving," said Sandra Swirski, executive director of the group.

The Club for Growth has been in a spat with Trump, running negative ads against him in Iowa that accuse him of supporting liberal policies on taxes and a range of other issues. Trump responded last week with a "cease and desist" threat from his attorney. Upon seeing the conservative nature of Trump's tax plan on September 28, David McIntosh, president of the group, said, "His tax plan begs the question: Does this mean you were completely wrong about all your liberal policies on taxes, trade, healthcare, bailouts, and eminent domain?"

Patriotic Millionaires noted in a release that now Bush and Trump among Republicans and Hillary Clinton and Vermont Sen. Bernie Sanders among Democratic candidates have all called for ending the carried interest preference. Erica Payne, executive director, said it is time for Congress to vote on ending it. She added: "We don't need to wait for a presidential election to decide this simple issue. If Mr. Trump and other presidential candidates are serious about this specific proposal, they should call for a vote now. Closing the loophole today will make America $1.8 billion richer by next year."