The Daily Dot

Tax experts dissect Donald Trump's first tax plan

Aaron Sankin
September 10, 2015

Fifteen years before he turned his father's real estate empire and his own reality TV stardom into unexpected front-runner status atop the 2016 GOP presidential primary dog pile, Donald Trump wrote a book.

Published in 2000, as Trump was publicly flirting with a run for the presidency on the Reform Party ticket, *The America We Deserve* is an important document for those interested in the public-policy preferences of the GOP's current standard-bearer.

While the text itself is replete with disjointed, stream-of-consciousness self-aggrandizement, it proffers a litany of reform-minded solutions for public-policy problems ranging from trade (appointing himself U.S. Trade Representative to personally negotiate foreign trade deals) to terrorism (creating a national lottery to pay for a dramatic increase in the intelligence budget).

“To think that it's a good idea to confiscate trillions of dollars of the wealth of high earners is completely crackpot. For a businessman like Trump to propose it is even more crazy.”

The book's centerpiece is a bold proposal for tax reform. Of everything Trump describes therein, his plan for fundamentally shifting the American taxation system is both the most striking and the most specific.

During his current bid for the Oval Office, Trump has teased the release of a new tax plan. Even though the former *Celebrity Apprentice* host has made some comments suggesting what his tax plan would look like, the one presented in *The America We Deserve* not only serves as the best guide available for what that might look like, but it also gives an indication how Trump approaches complex problem of reforming the complicated mess that is the U.S. tax code.

The Daily Dot took Trump's 2000 tax reform package to tax policy experts across the political spectrum—from the liberal coalition Americans for Tax Fairness to the conservative Cato Institute think tank—for their analysis. Their judgment was remarkably consistent: Trump's plan was terrible.

Not only would it likely tank financial markets, slow investment in U.S. businesses to a virtual standstill, and exacerbate the gap between rich and poor, but it showed how Trump lacked a fundamental understanding of how major major federal programs, like Social Security, actually work.

While Trump insisted the plan would trigger “a 35-40 percent boost in economic activity—the greatest boom in our history,” the tax experts interviewed for this article charged that the odds of his policy doing that were basically zero.

Trump's pump and dump

Here's the gist of the plan in, more or less, Trump's own words:

I would impose a one-time 14.25 percent tax on individuals and trusts with a net worth over $10 million...That would raise $5.7 trillion in new revenue, which would we use to pay off the national debt....We would save $200 billion in interest payments, which would allow use to cut taxes on middle-class working families by $100 billion a year.
...
We could use the rest of this savings--$100 billion—to bolster the Social Security Trust Fund....First I say fix Social Security, and then shore up Medicare and Medicaid.
...
My proposal would also allow us to entirely repeal the 55 percent federal inheritance tax, which hurts farmers, small businessmen, and women most.
...
When we pay off the national debt, we would retire all government bonds. People would be able to invest in free enterprise instead of investing in government.
...
We have a tax system that punishes the middle class for wanting to join the investment class. First we pay taxes when we earn money. Then we pay again when the money is invested and we make capital gain. [Here he's arguing for the elimination of capital gains taxes.]

Trump's plan has a lot of moving parts. The most important is a one-time, 14.25-percent tax on the wealthy. It's a populist move, one the billionaire writes would personally cost him some $700 million if it were enacted.

Roberton Williams, a follow at the Tax Policy Center and former Deputy Assistant Director for Tax Analysis at the Congressional Budget Office, sees some major issues with the plan. “The amount of money it was going to take in taxes was more than twice what the federal government was collecting ... at that point, total. It's a huge tax increase,” Williams explained. “It would be focused on the very wealthiest people, people with more than $10 million of assets, and would require them liquidate some portion of those assets to pay the tax.”

Rich people don't just hold all their money in giant Scrooge McDuck-style vaults next to their mansions. Those assets are largely held as investments—stocks, bonds, futures, ownership stakes in and loans to privately held corporations. In order to pay up, the wealthiest Americans would—assuming they didn't just avoid the tax—suddenly dump nearly $6 trillion in assets out of financial markets all at once. One doesn't have to be a professional economist to have a pretty good idea what that type of *en masse* sell-off would do to markets.

Short-term pain, long-term problems

Chris Edwards, Director of Tax Policy Studies at the Cato Institute, concurred with Williams that a massive one-time tax like the one Trump advocated would likely trigger a crash in securities markets. However, his biggest criticism of the plan is in how it would affect the long-term health of the American economy.

“His argument, from an economic point of view and from a business person's point of view, doesn't hold any water.”

“To think that it's a good idea to confiscate trillions of dollars of the wealth of high earners is completely crackpot. For a businessman like Trump to propose it is even more crazy,” Edwards insisted. “He clearly doesn't realize that the issue isn't just the gross unfairness of the retroactive taxation of trillions of dollars after these folks have already earned it.”

Edwards added that Trump's tax-the-rich plan would turn the U.S. into “a banana republic where the government could steal their wealth at any time.”

“They wouldn't invest in the United States anymore,” Edwards said. “They'd obviously do everything they could to move their wealth to the Cayman Islands or Britain or to Canada.”

Trump's plan would likely constitute the largest tax increase in American history, Edwards estimated. “For Trump not to recognize that business people are forward-looking,” Edwards said, “is a classic example of how he seems to just shoot from the hip without actually trying to think things through.”

It's important to note that the budgetary environment in which Trump wrote *The America We Deserve* is very different than the one the United States inhabits today. At the tail end of the Bill Clinton administration, the federal government was taking in more money than it was spending. In the 2000 fiscal year, the federal budget surplus stretched to $86.4 billion. The tax cuts pushed by the George W. Bush administration would soon cause that surplus to evaporate. Trump, writing in 1999 or 2000, had no way of knowing that.

Pay it forward

The first thing Trump said he would do with his one-time tax hike is pay down the national debt to zero. However, running a surplus is the same thing as paying down the debt. “It's curious he would propose this giant tax hike plan to pay off the debt when, at the time, we were paying it off,” Edwards noted, using the example as a window into Trump's character. “He was so impatient that he wanted to impose this giant, experimental tax to do it even faster.”

Once Trump's tax hike paid down the debt, his plan involved having the government no longer issue debt and pay for all of its expenditures out-of-pocket. Americans for Tax Fairness Executive Director Frank Clemente charged that there's no economic logic behind the federal government ceasing to issue bonds, even if it was still running annual surpluses.

“He's a business person who borrows money all the time to make investments for crying out loud,” said Clemente, whose group leans in a decidedly progressive direction. “He, more than anybody, knows the value of borrowing money to make you more productive.”

As Clemente explained it, the current "level of interest rates and Treasury bond rates" makes it a "phenomenal" time for the U.S. government to "borrow money to make the economy more productive and create a hell of a lot more "

"The Social Security trust fund is not a big pool of savings in the bank. It's just an accounting entry."

"[Trump's] argument, from an economic point of view and from a business person's point of view, doesn't hold any water," Clemente said.

Williams added that, in addition, U.S. Treasury bonds play an extremely important role in the global economy, by letting people store money in an extremely securely; basically, it's the closet you can get to cash that still provides a return.

"The government stands behind [bonds] the same way it stands behind the dollar," Williams said, again expressing concern about how Trump's plan would roil financial markets. "You've got a very solid security that a lot of people value. If you get rid of that, what does that do?"

Social Security savior

The next step in Trump's tax plan involved using the rest of the $5.7 trillion left over after paying down the national debt to bolster the Social Security trust funds. For Edwards, putting a one-time infusion of cash into the Social Security system without fundamentally altering it shows how Trump woefully misunderstands how Social Security actually works.

"The Social Security trust fund is not a big pool of savings in the bank. It's just an accounting entry," he said, insisting the system isn't set up in a manner such that Trump's cash infusion would have any long-term effect on the health of the program. Rather than simply use the money on Social Security, Edwards says, "the government would have an extra $100 billion sitting around and would spend it on other stuff."

Aim for the middle

While the core of Trump's proposal is a tax increase on the rich, it also includes a number of tax deductions supposedly aimed at the middle class. However, two of the taxes he specifically targets for elimination—the capital gains tax and the estate tax—hardly touch the middle class at all. Instead, it would be a massive giveaway to the wealthiest Americans.

Trump's recent rhetoric on the campaign trail has made a target of the tax-avoidance strategies of top Wall Street executives. Yet, his 2000 plan to completely eliminate the capital tax, which he insists "punishes the middle class for wanting to join the investment class," would largely benefit that very same group.

Capital gains taxes are applied to income derived from investments. If someone buys a stock at $10 and then sells it at $20, they would have to pay taxes on $10 of capital gains. Currently, capital gains are taxed at a lower rate than income from a salary or hourly wage.

Congressional Budget Office data reveals that, in 2011, the top 1 percent of U.S. earners derived 36 percent of their income from capital gains. When expended to the top 10 percent of earners, that number shrinks to somewhere between 5 and 10 percent of their income. Below that, it's basically dust. Either Trump didn't actually know where the burden for capital gains taxes actually falls when he called for their wholesale elimination, or he was deliberately obfuscating.

Trump's argument in favor of repealing the estate tax, which is applied to large estates being passed down from one generation to the other, is similarly couched in populist language but actually targeted at helping the very, very rich.

Trump writes that the estate tax, “hurts farmers, small businessmen, and women most;” however, Clemente calls the assertion that the tax affects anyone other than a small handful of the world's wealthiest people is a “total canard.”

In fact, the estate tax affects an estimated 0.2 percent of American estates. In 2013, only 20 small businesses or family-owned farms owed any estate tax in 2013 due to the wealth threshold being so high. When the *New York Times* looked into the issue, it was unable to find a single case of a family farm being sold as a result of the tax's application.

That, in a nutshell, is Trump's last tax plan. It's one that tax policy experts from across the spectrum view as ill-conceived as it is uninformed.

Maybe the plan Trump will likely unveil in the coming weeks will be better. But don't bet on it.