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# The 2016 Election and Prospects for Tax Reform

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# AN ANALYSIS OF DONALD TRUMP'S REVISED TAX PLAN

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ABSTRACT

This paper analyzes presidential candidate Donald Trump's revised tax proposal, which would significantly reduce marginal tax rates, increase standard deduction amounts, repeal personal exemptions, cap itemized deductions, and allow businesses to elect to expense new investment and not deduct interest expense. 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. Federal revenues would fall by $6.2 trillion over the first decade before accounting for added interest costs and macroeconomic effects. Including those factors, the federal debt would rise by at least $7.0 trillion over the first decade and by at least $20.7 trillion by 2036.

An earlier version of this publication was released on October 11, 2016. This revised version includes macroeconomic estimates of Donald Trump's revised tax plan, modeled in partnership with the Penn Wharton Budget Model. We provide dynamic scoring estimates of Trump's tax proposals using two new models: TPC's short-term Keynesian Model and the Penn Wharton Budget Model's Overlapping Generations Model.

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In speeches on August 8, September 13, and September 15, 2016, Republican presidential candidate Donald Trump described his new framework for a revised tax plan. The proposal would reduce tax rates, simplify many provisions, and reform business taxation.[1] The revised framework, as set out in those speeches and campaign publications and statements, leaves many important details unspecified. We needed to make many assumptions about these unspecified details to analyze the plan (appendix A).

The Urban-Brookings Tax Policy Center (TPC) estimates that a plan consistent with the revised Trump tax plan would reduce federal revenue by $6.2 trillion over the first decade of implementation and by an additional $8.9 trillion in the second decade.[2] Three-fourths of the revenue loss would come from reductions in business taxes. These revenue estimates do not consider interest costs or macroeconomic feedback effects.

TPC, in collaboration with the Penn Wharton Budget Model (PWBM), also prepared two sets of estimates of the revised Trump plan that take into account macroeconomic feedback effects.[3] Both sets of estimates indicate that the plan would boost gross domestic product (GDP) in the short run, reducing the revenue cost of the plan. However, including interest costs, the federal debt would increase by at least $7.0 trillion over ten years, even with these positive macroeconomic feedback effects on revenues. By 2024, the PWBM indicates that GDP would be smaller than it would be otherwise because growing budget deficits would push up interest rates and crowd out investment, and the federal debt would increase by $22.1 trillion by 2036. These estimates are sensitive to assumptions about how savings, investment, and labor supply would respond to policy changes such as the Trump plan, so the effects on GDP could be larger or smaller in both the short- and the long-run. Trump, however, promises unspecified spending cuts and also argues that other elements of his economic plan would boost tax revenues, which could negate some or all of the negative effects of rising deficits.

The plan 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 the average tax bill in 2017 by $2,940, increasing after-tax income by 4.1 percent. However, the highest-income taxpayers (0.1 percent of the population, or those with incomes over $3.7 million in 2016 dollars) would experience an average tax cut of nearly $1.1 million, over 14 percent of after-tax income. Households in the middle fifth of the income distribution would receive an average tax cut of $1,010, or 1.8 percent of after-tax income, while the poorest fifth of households would see their taxes go down an average of $110, or 0.8 percent of their after-tax income.