Donald Trump's 'largest tax cut in the history of our country' will largely benefit the wealthy

September 25, 2017 – *Financial Post / Bloomberg News*

President Donald Trump and Republican leaders plan to release a tax framework this week that would dramatically cut taxes for corporations and the wealthy, provide a measure of middle-class tax relief and punish some households in Democratic-leaning states like New York and New Jersey.

Trump is promising "the largest tax cut in the history of our country."

That summary, based on a list of details that's circulating among Washington lobbyists, breaks from the president's recent rhetoric against tax cuts for the rich. It sets the stage for a battle with Democrats and faces a litany of obstacles, including intra-party disputes about whether to pay for the tax breaks upfront or increase the deficit.

The emerging framework includes a proposal to cut the corporate tax rate to 20 per cent from 35 per cent — a costly move in revenue terms that Trump and Republicans say is necessary to create job growth. But its provisions for individual taxes may hit closer to home for many Americans.

Three tax lobbyists familiar with those changes said they include cutting the top individual tax rate to 35 per cent and creating a 25 per cent rate for certain "pass-through" business owners — both down from the current top rate of 39.6 per cent. Such changes would cut taxes substantially for the top 1 per cent of earners, said Kyle Pomerleau, an expert with the Tax Foundation, a right-leaning Washington policy group.

An analysis by Washington's Tax Policy Center last year found that half of the business income earned by all pass-through businesses, such as partnerships and limited liability companies, goes to those making $693,000 or more annually — placing them well within the top 1 per cent of taxpayers by income.

"I don't have a good way to thread the needle between the president's promises and where they are," said Republican economist Doug Holtz-Eakin. There's a reason why individual income-tax cuts would tend to favor higher earners, he said: "The income tax is not a broad-based revenue-raiser anymore, it's a surtax on high income people."

Lowest Bracket

Trump, who's planning to travel to Indiana to discuss the tax measures in a speech Wednesday, emphasized the benefits for lower earners Sunday. Asked to confirm that the top individual rate will be 35 per cent, the president sidestepped the question and focused on the bottom rate — which affects the lowest earners.

"We think we're going to bring the individual rate to 10 per cent or 12 per cent, much lower than it is now," he told reporters. "This is a plan for the middle class and for companies so they can bring back jobs." Actually, the lowest income-tax bracket in 2017 applies a 10 per cent rate to taxable income of $9,325 or less. After that, a 15 per cent rate applies to income up to $37,950.

Trump's plan would double the standard deduction that benefits many middle-class Americans, making it the centerpiece of the tax relief Trump has promised them. It would also seek to pay for some of the tax cuts by ending the state and local tax deduction, which is used mostly by middle-to-high earners in high-tax states like California, New York and New Jersey. The tax break, which is worth more than $1 trillion over 10 years, is favored by representatives of influential industries, like real estate.

Attempts to end it may run into Republican opposition too.

Starting Point

“You have some members from higher-tax states who are concerned about the deductibility of state and local taxes,” said Representative David Schweikert of Arizona, a member of the tax-writing Ways and Means Committee and the conservative Freedom Caucus. “You have others who want to really aggressively lower rates.”

The framework that Trump and congressional Republicans plan to release Wednesday would form the starting point for the tax debate in the coming months, which comes as the administration seeks a legislative victory in 2017 after failing to repeal Obamacare or win full funding to build a wall on the southern border.

“We’re excited,” House Ways and Means Committee Chairman Kevin Brady said Sunday night, after Republicans on his panel left a meeting to discuss their plans. He said the White House would determine the timetable for releasing more information, “but definitely this week.”

“I think this is going to move a lot faster than people think,” said Representative Vern Buchanan, a Florida Republican.

Standard Deduction

GOP officials argue the tax overhaul is crucial for boosting economic growth, while Democrats are gearing up to paint it as a giveaway to the wealthy.

“Democrats have strongly and firmly stood for the position that not one penny of tax cuts should go to the top 1 per cent,” Senate Minority Leader Chuck Schumer said in a statement Sunday.

A White House official said that increasing the standard deduction would expand the number of Americans who don’t pay any net income taxes, and argued a low individual rate would encourage Americans at the bottom of the economic ladder to climb up.

The framework is also expected to eliminate the estate tax, three people familiar with the discussions said. That tax applies to estates worth at least $5.49 million per tax filer. Many Republicans want to end it.

One immediate purpose of the framework is to secure House GOP approval for a budget resolution to unlock the Senate’s procedure for passing a tax bill without Democratic support. Leaders of the conservative House Freedom Caucus have declined to support a budget before members see details of a tax plan; GOP leaders are hoping they’ll be satisfied.

Time is short, and many details have yet to be resolved. Republicans still haven’t decided how much a tax bill can add to the deficit, a decision they must make before beginning to advance a bill. They have also yet to come to agreement on what tax deductions and carve-outs to limit in order to simplify the code, raise revenues and — as Trump has said he wants to do — reduce the tax cut for the wealthiest Americans.

“I think the wealthy will be pretty much where they are” in terms of tax liabilities, Trump told reporters on Sept. 13.

“The whole objective here is to get the growth rate up to 3 per cent-plus,” conservative economist Stephen Moore, who advised Trump’s presidential campaign on tax policy last year, told reporters on Friday. “Not because we want more money in the hands of millionaires.”