Center for American Progress

How Middle-Class and Working Families Could Lose Under the Trump Tax Plan

By Seth Hanlon June 13, 2017

The one-page tax plan that the Trump administration released on April 26 left many unanswered questions. Foremost among them: How would the plan affect middle-class and working families?

When asked this question repeatedly in media interviews, administration officials had no answer. On April 27, for example, George Stephanopoulos of ABC News asked Secretary of the Treasury Steven Mnuchin if he could guarantee that middle-class families would not face a tax increase under President Donald Trump's tax plan. Mnuchin responded, "That's our objective, absolutely … I can't make any guarantees until this is done and on the president's desk."[1]

What the one-page plan does make clear, however, is that the nation's wealthiest taxpayers stand to receive an enormous tax windfall. Despite its sparseness, the White House tax plan is perfectly clear in a number of areas, including proposing to reduce the corporate tax rate, creating a massive new loophole predominantly benefiting wealthy owners of pass-through business entities, and eliminating the estate tax, among other regressive proposals.[2] Tax cuts for corporations and wealthy individuals constitute the vast majority of the plan's astounding $3 trillion to $7 trillion cost, as estimated preliminarily by the Committee for a Responsible Federal Budget.[3]

President Trump's budget, released on May 23, reiterates the administration's previous proposals to cut taxes dramatically for wealthy individuals and corporations—albeit while failing to account for their cost—but provides no further information about how middle-class and working taxpayers would fare under the tax plan.[4]

This issue brief attempts to answer the question the Trump team has avoided using the information the administration has made available from both the one-page plan and statements from administration officials. It finds that middle-class and working families stand to lose dearly under the Trump tax plan in numerous ways:

- Many middle-class and working families would see tax hikes under the parameters the administration has laid out, even as the plan drastically reduces revenue.

- Many more families could lose under hidden parts of the plan, which the administration has yet to make public.

- The Trump tax plan's massive tax cuts for the rich would threaten investments and programs that serve middle-class and working families, including Medicare, Medicaid, and Social Security.

Summary of the Trump tax plan

Table 1 summarizes the specified proposals in the Trump tax plan and their estimated revenue cost.

TABLE 1

Summary of Trump's tax plan

Specified elements of President Trump's tax plan from April 26, 2017, with estimated fiscal costs over 10 years

Corporate and business tax proposals	Reduce corporate income tax rate from 35 percent to 15 percent.	$2.2 trillion
	Reduce top rate on income from pass-through businesses—such as S corporations, partnerships, and LLCs—to 15 percent.	$1.5 trillion
	Move to a territorial tax system in which U.S. multinationals pay no tax on foreign earnings. Tax the existing stock of overseas earnings at a special low rate (not specified).	No estimated cost*
Individual tax proposals	Repeal most deductions except those for mortgage interest, charitable giving, and retirement savings.	Raises $2 trillion
	Collapse current rate structure with brackets ranging from 10 percent to 39.6 percent into three brackets of 10 percent, 25 percent, and 35 percent. The plan does not specify what levels of income the new rates would apply to.	$1.5 trillion
	Raise the standard deduction to $12,000 for singles and $24,000 for couples.**	$1.5 trillion
	Repeal the individual alternative minimum tax (AMT), which ensures that upper-income individuals pay at least a minimum level of tax.	$0.4 trillion
	Repeal the Net Investment Income Tax, a 3.8 percent surcharge on investment income of high-income individuals enacted in the Affordable Care Act.	$0.2 trillion

continues

Other	Repeal the estate tax, which is currently paid by estates larger than $5.5 million ($11 million for couples).	$0.2 trillion
Total cost of Trump's tax plan over 10 years		**$5.5 trillion**
Total cost with personal exemptions eliminated		**$3.5 trillion**

* Author's note: The Committee for a Responsible Federal Budget cautions that the estimate would differ based on details. It assumed here that the one-time tax would largely offset the cost of adopting a territorial tax system—one in which U.S. multinationals are not taxed on future overseas earnings—within the 10-year budget window. Such a policy would cost revenue beyond the budget window.

** Author's note: The White House has said that the standard deduction under its plan is $24,000 for couples, which is slightly less than double the current standard deduction of $12,700. See the White House, "Briefing by Secretary of the Treasury Steven Mnuchin and Director of the National Economic Council Gary Cohn," Press release, April 26, 2017, available at https://www.whitehouse.gov/the-press-office/2017/04/26/briefing-secretary-treasury-steven-mnuchin-and-director-national.

Methodology note: $5.5 trillion is CRFB's base-case estimate, which does not include the repeal of personal exemptions. CRFB emphasizes that its estimate is very rough given the plan's lack of detail, and that the cost of the plan could range from $3 trillion to $7 trillion.

Sources: Committee for a Responsible Federal Budget, "How Much Will Trump's Tax Plan Cost?", April 26, 2017, available at http://www.crfb.org/blogs/how-much-will-trumps-tax-plan-cost; CNBC, "Read the White House memo on President Trump's proposed tax plan," April 26, 2017, available at http://www.cnbc.com/2017/04/26/heres-the-white-house-memo-on-president-trumps-proposed-tax-plan.html; James R. Nunns and others, "An Analysis of Donald Trump's Revised Tax Plan" (Washington: Tax Policy Center, 2016), available at http://www.taxpolicycenter.org/publications/analysis-donald-trumps-revised-tax-plan.

The one-page plan did not specifically address a significant part of Trump's campaign platform: repealing personal exemptions. However, in subsequent interviews about the president's plan, White House officials have made it sufficiently clear that Trump is still proposing to eliminate personal exemptions.[5] Under current law, taxpayers can claim personal exemptions of $4,050 each for themselves, their spouse, and any dependents—including children—and deduct the total amount in calculating taxable income.[6] Eliminating personal exemptions would reduce the overall cost of the Trump plan by roughly $2 trillion over 10 years. [7] However, these savings would significantly reduce the tax savings for middle-class and working families; in fact, many could see a net tax increase as a result.

Another important tax provision left unaddressed in the one-page plan is "head of household" filing status, which is particularly important for single parents. Head of household status lets single individuals with dependents claim a larger standard deduction and use more favorable tax brackets than if they were not supporting dependents. During the presidential campaign, Trump proposed to eliminate head of household status. That was a major reason why his campaign plan would have raised taxes on 8.7 million families, including more than half of single parents—despite reducing revenue by a jaw-dropping $6 trillion over 10 years, according to the Tax Policy Center.[8] Repealing head of household status was estimated to increase revenue by $131 billion over 10 years.

The one-page tax plan and budget also pledge to "provid[e] tax relief for families with child and dependent care expenses."[9] However, neither document includes any details. Therefore, families have no way to gauge whether they would receive a meaningful benefit compared with the child and dependent care tax benefits available under current law.

The child care tax proposal Trump put forward during the campaign was highly skewed toward higher-income households, providing a paltry benefit to many middle-class and low-income families.[10] It was estimated to cost $115 billion over 10 years.[11]

Many middle-class and working families would see tax increases under the parameters the Trump administration has laid out

The most obvious way that the Trump tax plan hurts middle-class and working families is that many would actually face a tax increase under the parameters the administration has laid out. This is remarkable, given that the plan reduces revenue by trillions of dollars overall. One of the major reasons is the apparent elimination of personal exemptions, which, for many families, will cost them more than they benefit from Trump's other proposals, including the new rates and the larger standard deduction.

Consider, for example, a family of four earning $50,000. Under current law, the family's taxable income is, at most, $21,100. That's because the family can subtract both a couple's standard deduction of $12,700 and personal exemptions of $4,050 for each family member—totaling $16,200—from its income. The family would pay 10 percent on its first $18,650 of income and 15 percent on the remaining $2,350 of its income, for a total tax liability of $2,233 before credits.

The Trump proposal increases the couple's standard deduction to $24,000, but at the same time, it eliminates personal exemptions. As a result, the family only deducts $24,000 from its total income of $50,000 to arrive at $26,000 in taxable income. Under the Trump plan, the family would assumedly pay a 10 percent rate on all $26,000 for a total tax liability before credits of $2,600—an increase of $368.[12] The White House plan does not specify any changes to tax credits. The Trump plan has reduced this family's marginal tax rate—the rate it pays on the last dollar it earns—but the family ends up being taxed on more of its income because the loss of personal exemptions more than offsets the larger standard deduction. The bottom line for this family is a tax increase of $368 under the Trump tax plan. (see Table 2)

Tables 2 and 3 present other examples of families whose taxes would increase under the Trump plan. In general, the more children a family has, the more likely it is that their taxes will go up under the Trump plan. That is because the standard deduction—enlarged under Trump's plan—does not depend on how many children a family has, while a personal exemption can be claimed for each dependent.

TABLE 2

Middle-class families who lose under Trump's tax plan

Tax calculations of hypothetical families under current law and President Trump's plan

	Family 1		Family 2		Family 3	
	Single parent with two children, adjusted gross income of $35,000, does not itemize		Married couple with two children, adjusted gross income of $50,000, does not itemize		Married couple with three children, adjusted gross income of $50,000, does not itemize	
	Current law	Trump's plan	Current law	Trump's plan	Current law	Trump's plan
Standard deduction	$9,350	$18,000*	$12,700	$24,000	$12,700	$24,000
Personal exemptions	$12,150	$0	$16,200	$0	$20,250	$0
Taxable Income	$13,500	$17,000	$21,100	$26,000	$17,050	$26,000
Tax liability before credits	$1,358	$1,700	$2,233	$2,600	$1,705	$2,600
Tax increase under Trump's plan	**$343**		**$368**		**$895**	

* Author's note: This figure assumes the elimination of personal exemptions, based on statements from White House officials. It does not reflect the elimination of head of household status, as proposed in President Trump's campaign plan; rather, it assumes that the standard deduction for heads of household will be the average of that for singles and couples.

Methodology note: This table assumes the elimination of personal exemptions, based on statements from White House officials. It does not reflect the elimination of head of household status or the child care proposals from President Trump's campaign plan; rather, it assumes that the standard deduction for heads of household will be the average of that for singles and couples.

Sources: Committee for a Responsible Federal Budget, "How Much Will Trump's Tax Plan Cost?", April 26, 2017, available at http://www.crfb.org/blogs/how-much-will-trumps-tax-plan-cost; CNBC, "Read the White House memo on President Trump's proposed tax plan," April 26, 2017, available at http://www.cnbc.com/2017/04/26/heres-the-white-house-memo-on-president-trumps-proposed-tax-plan.html.

Note that middle-class families that currently claim the home mortgage interest deduction or charitable deduction can lose under Trump's plan even though it keeps those deductions in place. Consider a family with $70,000 in income and $20,000 in itemized deductions—for example, $14,000 in mortgage interest, $5,000 in state and local taxes, and $1,000 in charitable gifts. (see Family 4 in Table 3) That family benefits from Trump's larger standard deduction and will now choose to claim it instead of itemizing, but it is still not enough to compensate for the loss of personal exemptions, resulting in a tax increase of $463.

Another reason that many middle-class families would see their taxes go up under the Trump plan as it currently exists is that the plan eliminates all itemized deductions, except those for mortgage interest and charitable giving. The largest itemized deductions eliminated under the Trump plan are those for state and local taxes paid, unreimbursed business expenses of employees, and large medical expenses. In 2014, 44 million households deducted state and local taxes; 14.5 million deducted employee business expenses; and 8.6 million deducted large medical expenses. Trump's proposal to eliminate these deductions is a notable shift from his stance during the campaign. He previously proposed to limit itemized deductions to $100,000—a policy that would have only affected high-income taxpayers. While itemized deductions in general tend to disproportionately benefit high-income taxpayers, middle-class families may be more likely to face net tax increases resulting from Trump's plan to eliminate them, since they would see relatively little benefit from the other parts of Trump's plan.

TABLE 3

More families who lose under Trump's tax plan

	Family 4		Family 5	
	Married couple with two children, adjusted gross income of $70,000, with itemized deductions		Married couple with two children, adjusted gross income of $70,000, with large medical expenses	
	Current law	Trump's plan	Current law	Trump's plan
Standard deduction	Does not claim	$24,000	Does not claim	$24,000
Itemized deductions	$20,000*	Does not claim	$33,000**	Does not claim
Personal exemptions	$16,200	$0	$16,200	$0
Taxable income	$33,800	$46,000	$20,800	$46,000
Tax liability before credits	$4,138	$4,600	$2,188	$4,600
Tax increase under Trump's plan	**$463**		**$2,413**	

* Author's note: Assumes $14,000 in mortgage interest, $5,000 in state and local taxes, and $1,000 in charitable gifts.

** Assumes $25,000 in medical expenses, $5,000 in state and local taxes, and $8,000 in mortgage interest, and $2,000 in charitable gifts.

Methodology note: This table assumes the elimination of personal exemptions, based on statements from White House officials. It does not reflect the elimination of head of household status or the child care proposals from President Trump's campaign plan; rather, it assumes that the standard deduction for heads of household will be the average of that for singles and couples.

Sources: Committee for a Responsible Federal Budget, "How Much Will Trump's Tax Plan Cost?", April 26, 2017, available at http://www.crfb.org/blogs/how-much-will-trumps-tax-plan-cost; CNBC, "Read the White House memo on President Trump's proposed tax plan," April 26, 2017, available at http://www.cnbc.com/2017/04/26/heres-the-white-house-memo-on-president-trumps-proposed-tax-plan.html.

Consider another middle-class family of four. (see Family 5 in Table 3) The family makes $70,000, but it suffers a major illness or injury and incurs $25,000 in medical expenses not covered by insurance. The current tax code helps cushion this loss by allowing the family to claim an itemized deduction for medical expenses to the extent they exceed 10 percent of the family's income ($7,000)—in this case, $18,000. The family can choose to claim this deduction and any other itemized deduction it qualifies for instead of the standard deduction of $12,700. Let's assume that the family owes $5,000 in state and local taxes, $8,000 in mortgage interest, and $2,000 in charitable gifts—which would not be unusual for a family at this income level—for total itemized deductions of $33,000. Under current law, the family claims these $33,000 of itemized deductions on top of $16,200 in personal exemptions, reducing its taxable income from $70,000 to $20,800. At current rates, the family would owe $2,188 before credits.

Under the Trump plan, however, the family loses its itemized deductions for medical expenses and state and local taxes—and the larger standard deduction is not enough to compensate. The family also loses personal exemptions. The family is now taxed on much more of its income: $46,000 under the Trump plan, compared with $20,800 under current law. At a 10 percent rate, the family owes $4,600 in tax before credits—a tax hike of $2,413.

Eliminating the itemized deduction for medical expenses would compound the damage caused by the American Health Care Act (AHCA), the Republican bill to repeal the Affordable Care Act (ACA), which is now pending in the Senate. An estimated 23 million Americans would lose health insurance coverage under the AHCA, and many more would lose protections against potentially catastrophic medical expenses—even those who have insurance through an employer.[13] Those who lose protections could face catastrophic out-of-pocket costs, well in excess of 10 percent of their income. Trump's tax plan may raise their taxes as well.

Of course, it is quite possible that at some point, the Trump administration will change its tax plan to be more favorable for more middle-class and lower-income families—for example, by providing details on the plan's vague pledge to "provid[e] tax relief for families with child and dependent care expenses."[14] The problem is that finding the headroom for such tax relief won't be easy in a plan that already commits to give $3 trillion to $7 trillion in tax cuts predominantly to wealthy individuals and corporations. In fact, as discussed next, the unknown parameters of the Trump tax plan could make matters even worse for middle-class and working families.

Many more families could lose under hidden parts of the plan

The Trump one-pager was silent on a wide array of tax provisions that benefit middle-class and working families. But many of these provisions could be on the chopping block in tax reform. In fact, the White House has said that "Any other deduction a person or business takes today is subject to potential elimination."[15] And given that the specified tax cuts in Trump's plan dig at least a $3 trillion hole, Trump and Congress would have to eliminate many tax benefits for the middle class to make the plan come anywhere near adding up. During several months, Trump officials made the ludicrous claim that their tax cuts will pay for themselves through stronger economic growth.[16] But no serious economist believes that, and the Trump administration has been widely criticized not only for relying on highly dubious economic forecasts in its budget, but for double counting the resulting revenue.[17] Administration officials are now saying that they will partly or fully offset the cost of the proposed tax cuts by broadening the tax base—that is, by eliminating deductions, exclusions, and credits.

The key question, then, is which tax breaks will be eliminated. Trump has suggested that he will target deductions for high-income taxpayers. He and Treasury Secretary Mnuchin have asserted that the tax plan will eliminate so many tax breaks for the wealthy that they end up paying higher taxes on net.[18] The problem is, however, that his plan promises to protect or enlarge the biggest tax breaks claimed by high-income individuals—even as it leaves many of the major tax breaks for the middle class on the table. The largest tax break for the wealthy—the preferential rate on capital gains—is made even bigger under the Trump plan.[19] The substantial tax deductions for charitable giving and retirement savings, which provide disproportionately large tax savings for high-income families, are explicitly retained. One of the more notorious tax breaks for the 1 percent—the carried interest loophole—is effectively made even more lucrative under the Trump plan.[20] The Trump administration has also taken several of the potential corporate and business revenue-raisers off the table.[21] Eliminating the few remaining major tax breaks benefiting the wealthy—including the deduction for state and local taxes paid, already accounted for in revenue estimates of Trump's plan—will not be nearly enough to make up for the tax cuts Trump has promised for the rich, including the lower top rate, the elimination of the alternative minimum tax, the ACA taxes, and the estate tax—not to mention the corporate and business tax cuts. (See Appendix)

That means that tax provisions that benefit middle-class and working families could be in the gunsights. At right is a larger, but still incomplete, list of individual tax provisions and the estimated number of taxpayers that claim them. The fate of these tax provisions is left entirely unclear in the White House's outline. Middle-class and lower-income families that claim these exclusions, deductions, and credits could easily face a tax hike under the Trump plan when it is fully fleshed out, even if their taxes go down under the proposals Trump has specified.

For example, look at how Family 1—the family with two children headed by a single parent—would fare under Trump's plan if head of household status is eliminated. Family 1 received a tax increase of $343 under the parameters of Trump's plan that the administration has specified. But if head of household status is eliminated, that family's tax hike would increase to $943.[22] Again, the elimination of head of household status was a major reason why Trump's campaign plan would have raised taxes on more than half of all single parents, despite its $6 trillion overall cost.

Again, it is also possible that Trump could amend his tax plan to make it more generous for middle-class and working families. But until the Trump administration fills in the missing details, those families will have little idea how it will affect them personally—but plenty of reason to be wary.

Partial list of tax provisions affecting middle-class and working families left unaddressed in Trump tax outline

- Tax exclusion for employer-sponsored health insurance and deduction for self-employed health insurance premiums: 79 million
- Head of household status: 22.1 million
- American Opportunity Tax Credit (college tuition credit): 10.2 million
- Student loan interest deduction: 12.1 million
- Tuition and fees deduction: 1.7 million
- Above-the-line deduction for teachers' out-of-pocket expenses: 3.8 million
- Tax credit for adoption: 74,000
- Tax exclusion for most Social Security benefits: 29 million
- Additional standard deduction for the blind and elderly: 14.8 million
- Above-the-line deduction for certain business expenses, including travel expenses for armed forces reservists: 152,000

Note: Number of tax filing units claiming each provision from the IRS' Statistics of Income for the 2014 tax year. The totals do not add because many families may claim multiple tax benefits. Figure for the health insurance exclusion and deduction is an estimate of the number of tax units benefiting from those provisions from the Tax Policy Center. Roughly 160 million Americans are covered by employer plans.[23]

Trump's massive tax cuts for the rich would increase inequality and threaten programs that are vital for working families, including Medicare, Medicaid, and Social Security

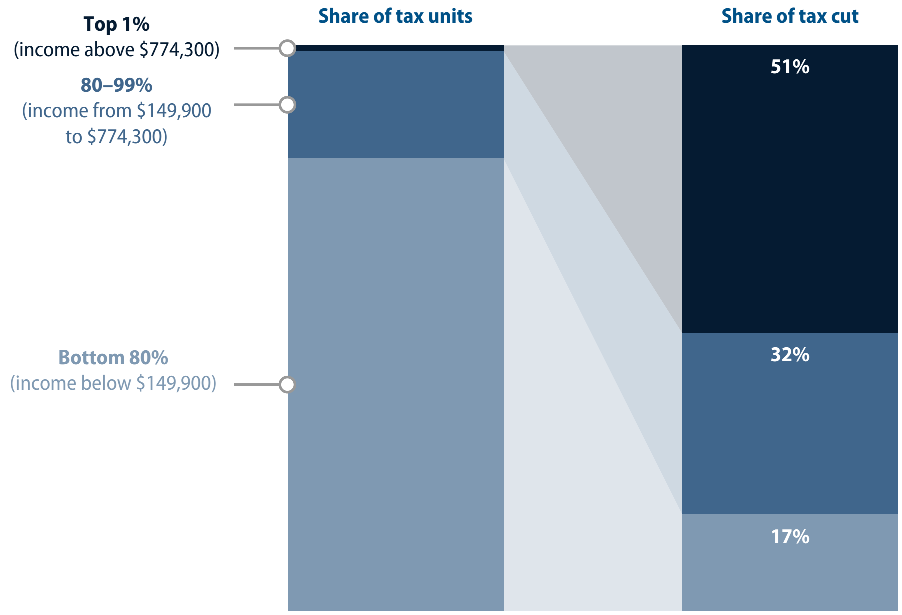
Middle-class and working families would ultimately be hurt by the Trump tax plan whether or not it raises their taxes directly. With its enormous tax cuts for the rich, the Trump plan would increase inequality; starve the government of revenue needed for investments; and threaten the bedrock of the middle class, including Medicare, Medicaid, and Social Security.

Under the broadly similar Trump campaign plan, more than half of the tax cuts benefited the top 1 percent. The bottom 80 percent of Americans—those with incomes under $150,000—received only about one-sixth of the total tax cuts.

FIGURE 1

Trump's campaign tax plan was skewed toward the top

The top 1 percent got half the tax cut



Source: Tax Policy Center, "T16-0214 - Donald Trump's Revised Tax Plan, Distribution of Federal Tax Change by Expanded Cash Income Percentile, 2025" (2016), available at http://www.taxpolicycenter.org/model-estimates/donald-trumps-revised-tax-plan-oct-2016/t16-0214-donald-trumps-revised-tax-plan.

The result is a tax system that is much less fair for middle-class and working families and even greater after-tax income inequality.

The middle class would also stand to lose dearly if Congress gives away trillions in tax cuts tilted toward the top because the loss of revenue would inevitably increase pressure to cut critical programs including Medicare, Medicaid, and Social Security. The fact is that, with an aging population, more revenue is needed to maintain the promises the country has made to workers—including the promise of basic retirement and health security that Medicare, Medicaid, and Social Security help fulfill.

The Trump administration has already used the specter of future deficits to justify the cuts it proposed in its budget to Medicaid; Social Security Disability Insurance (SSDI) and other disability programs; medical and scientific research; children's health; education; worker training and safety; environmental protection; nutrition; and many other areas. For the budget for the upcoming year, House Republicans are reportedly considering cutting up to $500 billion in “mandatory” spending over 10 years—including Medicaid, unemployment insurance, and nutrition assistance. They plan to “tout [these cuts] as a sign of fiscal discipline as they consider a menu of tax cuts for businesses and individuals favored by President Donald Trump.”[24]

Congressional Republicans have also indicated their long-term intention to reduce Social Security and Medicare benefits. For years, Speaker of the House Paul Ryan has maintained that deep cuts to Medicare are needed to balance budgets, even as he endorses budget-busting tax cuts. In fact, the tax cuts for high-income individuals in the House-passed bill to repeal the ACA—known as Trumpcare—would take revenue directly out of the Medicare trust fund and thereby hasten the trust fund’s depletion by two years.[25] Influential Republican economist Martin Feldstein recently wrote an editorial in *The Wall Street Journal* encouraging Republicans to offset the lost revenue from Trump’s tax cuts by cutting Social Security, Medicare, and Medicaid, including by raising the Social Security retirement age.[26]

Trump promised during the campaign not to cut Social Security, Medicare, and Medicaid. But how much is that promise worth? He has already broken the last part of his promise by endorsing severe cuts to Medicaid in the AHCA and further cuts in his own proposed budget.[27] His budget also breaks his promise not to touch Social Security by cutting the SSDI program. Speaker Ryan and others—including Director of the Office of Management and Budget Mick Mulvaney—have reportedly encouraged Trump to embrace cuts to Medicare as well.[28] If Congress enacts a tax cut anywhere near the magnitude of what Trump has proposed, it won’t be long before Ryan and his colleagues point to swelling deficits to justify cuts to Social Security and Medicare, and even deeper cuts to Medicaid.

Conclusion

Middle-class and working families would lose from the Trump tax plan in various ways. Millions of middle-class and working families could see their taxes rise under the Trump outline, even as it reduces revenue overall through large tax cuts to corporations and the wealthy. Many more families could lose tax benefits that they currently claim, which could outweigh any benefit they get from a larger standard deduction and lower tax rates. More fundamentally, middle-class and working families would lose if massive tax cuts for wealthy individuals and corporations worsen inequality and undermine tax fairness. Finally, the magnitude of Trump’s tax cuts lay the groundwork for inevitable attacks on Medicare, Medicaid, and Social Security.

Seth Hanlon is a senior fellow at the Center for American Progress.

Appendix

Why the Trump tax plan unavoidably cuts taxes for the rich

President Trump has asserted that he and other wealthy individuals would pay more in taxes under his tax plan. But a brief look at the distributional effects of his proposals shows why that is implausible.

For example, the one major tax break benefiting high-income individuals that Trump has proposed eliminating—the deduction for state and local taxes—would offset only a small fraction of the tax windfall for the wealthy. The benefit from that deduction for the top 1 percent of income earners is, on average, 2.1 percent of their after-tax income. At the same time, just one of Trump's proposed tax cuts—the proposal to create a special 15 percent tax rate for pass-through business income—would increase that cohort's after-tax income by 4.8 percent. And that is just one of the many substantial tax cuts Trump would provide those with very high incomes.

The table below shows the tax cuts that the top 1 percent would receive, on average, from Trump's various tax cut proposals. The cumulative impact of the plan Trump has outlined thus far would be roughly similar to Trump's campaign plan, which increased the after-tax income of the top 1 percent by a stunning 13.5 percent and increased the after-tax income of the top 0.1 percent by 14.2 percent.

There is no plausible way to offset tax cuts of this magnitude. In fact, Trump has already taken off the table some of the largest tax breaks for high-income individuals—most significantly the preferential rates for capital gains and dividends. The bulk of the benefit from preferential rates for capital gains and dividends accrues to the top 1 percent. Trump's plan would retain the current preferential rates on capital gains and dividends—while also eliminating the 3.8 percent net investment income tax that applies to capital gains, dividends, and other forms of investment income. As noted above,[29] the Trump administration has publicly opposed several major corporate and business base-broadeners. As the table illustrates, even if the corporate tax cut is fully offset with corporate base-broadeners, and even if the Trump plan eliminates more major deductions for high-income individuals, the top 1 percent will still receive a massive tax cut.

TABLE A1

Wealthy receive windfall from Trump tax plan even if some deductions are eliminated

The proposed tax cuts for the top 1 percent far exceed plausible offsets

Proposed tax cuts	
2016 Trump campaign pledge	**Top 1 percent, change in after-tax income from 2016 proposal**
Candidate Trump's proposed plan	13.5%
April 2017 Trump tax plan	**Top 1 percent, change in after-tax income from 2017 proposal**
Cap tax rate on pass-through business income at 15 percent	4.8%
Reduce corporate tax rate to 15 percent	4.5%
Cut individual income tax rates, with top rate of 35 percent	2.6%
Repeal 3.8 percent investment income tax	1.6%
Repeal alternative minimum tax	0.8%
Eliminate estate tax	0.8%
Repeal 0.9 percent additional Medicare tax as part of American Health Care Act (AHCA)*	0.5%
Potential base-broadening provisions to offset tax cuts	
Tax breaks for individuals Trump has proposed to eliminate	**Top 1 percent, existing benefit as percent of after-tax income**
State and local tax deduction	2.1%
Other itemized deductions	0.6% (at most)
Personal exemptions	none (phased out)
Head-of-household status (eliminated in campaign plan)	0.01%
Major tax breaks for individuals Trump has not addressed	**Top 1 percent, existing benefit as percent of after-tax income**
Exclusion of capital gains on assets transferred at death ("step-up in basis")	0.9%
Municipal bond exemption	0.5-0.6%
Exclusion for employer-sponsored health insurance, self-employed deduction	0.4%
Education tax benefits	0.0%
Major tax breaks for individuals Trump has taken off the table	**Top 1 percent, existing benefit as percent of after-tax income**
Preferential rate on capital gains and dividends	5.8%
Charitable deduction	1.5%
Mortgage interest deduction	0.4%
Retirement tax preferences	0.7%

* While the elimination of the 0.9% additional Medicare Tax wasn't specifically mentioned in Trump's April Tax plan it is one of the tax cuts in the AHCA.

Note: Corporate tax figure reflects 20/35ths of corporate tax burden for top 1 percent and 0.1 percent, as estimated by TPC; estate tax burden represents full burden. Figures are intended to be illustrative: They do not sum because of interactions, and baselines and tax years differ somewhat.

Source: Tax Policy Center, "Model Estimates," Tables T17-0164, T17-0042, T17-0159, T16-0310, T17-0153, T17-0128, T17-0132, T13-0225, T17-0137, T17-0136, T17-0134, T17-0130, T17-0144, T16-0302, available at http://www.taxpolicycenter.org/model-estimates (last accessed June 2017); James R. Nunns and others, "An Analysis of Donald Trump's Revised Tax Plan" (Washington: Tax Policy Center, 2016), available at http://www.taxpolicycenter.org/publications/analysis-donald-trumps-revised-tax-plan; Harvey Galper and others, "Municipal Debt: What Does It Buy and Who Benefits?," National Tax Journal 67 (4) (2014): 901-924, available at http://www.urban.org/sites/default/files/publication/33631/109047-municipal-debt-what-does-it-buy-and-who-benefits-.pdf; Congressional Budget Office, "The Distribution of Major Tax Expenditures in the Individual Income Tax System (2013), available at https://www.cbo.gov/publication/43768; and author's calculations based on Tax Policy Center and U.S. Internal Revenue Service data.

Endnotes

1 Colin Wilhelm, "Mnuchin won't guarantee middle-class tax cut," *Politico*, April 27, 2017, available at http://www.politico.com/story/2017/04/27/steven-mnuchin-tax-cuts-middle-class-237684.

2 The White House one-pager can be viewed at Dylan Matthews, "Donald Trump's tax plan, in fewer than 500 words," Vox, April 26, 2017, available at https://www.vox.com/2017/4/26/15438404/trump-tax-plan-april-mnuchin-cohn-changes.

3 Committee for a Responsible Federal Budget, "How Much Will Trump's Tax Plan Cost?", April 26, 2017, available at http://www.crfb.org/blogs/how-much-will-trumps-tax-plan-cost.

4 One exception is that President Trump's budget proposes to deny the Child Tax Credit (CTC) for families filing tax returns with Individual Taxpayer Identification Numbers rather than Social Security numbers—a proposal that would deny the credit to millions of immigrant families who work, including those with U.S. citizen children. The budget proposes a similar requirement for the Earned Income Tax Credit (EITC), though the scope of that proposal is unclear because the EITC already has a Social Security number requirement. See Office of Management and Budget, *Budget of the U.S. Government: A New Foundation for American Greatness, Fiscal Year 2018* (Executive Office of the President, 2017), pp. 10–11, 13–14, available at https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/budget/fy2018/budget.pdf.

5 During the press briefing announcing the tax plan, National Economic Council Director Gary Cohn stated that under the Trump plan, a couple would not pay taxes on the first $24,000 they earn. That is the amount of the enhanced standard deduction under the Trump tax plan, implying that families cannot also claim personal exemptions, as they can now. See The White House Office of the Press Secretary, "Briefing by Secretary of the Treasury Steven Mnuchin and Director of the National Economic Council Gary Cohn," Press release, April 26, 2017, available at https://www.whitehouse.gov/the-press-office/2017/04/26/briefing-secretary-treasury-steven-mnuchin-and-director-national. Cohn also stated in a CBS News interview that a family with $56,000 of gross income would have $32,000 of taxable income, similarly implying that families cannot claim personal exemptions in addition to the $24,000 couples standard deduction. See CBS News, "Gary Cohn, National Economic Council Director, speaks to 'CBS This Morning': Full transcript," May 1, 2017, available at http://www.cbsnews.com/news/gary-cohn-national-economic-council-director-speaks-to-cbs-this-morning-full-transcript/.

6 Under current law, personal exemptions are phased out for high-income taxpayers, beginning at $261,500 of adjusted gross income for singles and $313,800 for married couples. See Internal Revenue Service, "In 2017, Some Tax Benefits Increase Slightly Due to Inflation Adjustments, Others Are Unchanged," Press release, October 25, 2016, available at https://www.irs.gov/uac/newsroom/in-2017-some-tax-benefits-increase-slightly-due-to-inflation-adjustments-others-are-unchanged.

7 Jim Nunns and others, "An Analysis of Donald Trump's Revised Tax Plan" (Washington: Tax Policy Center, 2016), Table 2, available at http://www.taxpolicycenter.org/sites/default/files/alfresco/publication-pdfs/2000924-an-analysis-of-donald-trumps-revised-tax-plan.pdf.

8 Lily L. Batchelder, "Families Facing Tax Increases Under Trump's Tax Plan" (Washington: Tax Policy Center, 2016), available at http://www.taxpolicycenter.org/sites/default/files/publication/135696/2000983-Families-Facing-Tax-Increases-Under-Trumps-Plan.pdf.

9 Matthews, "Donald Trump's tax plan, in fewer than 500 words."

10 The Tax Policy Center found that families with children with incomes between $50,000 and $75,000 would receive an average benefit of only $150, and families with children with incomes under $30,000 would see an average benefit of only $10. See Lily L. Batchelder and others, "Who Benefits from President Trump's Child Care Proposals?" (Washington: Tax Policy Center, 2017), available at http://www.taxpolicycenter.org/sites/default/files/publication/138781/2001170-who-benefits-from-president-trumps-child-care-proposals.pdf; Rasheed Malik, Katie Hamm, and Harry Stein, "Trump's Child Care Plan Doesn't Help the Families that Won Him the Election," Center for American Progress, April 25, 2017, available at https://www.americanprogress.org/issues/early-childhood/news/2017/04/25/427105/trumps-child-care-plan-doesnt-help-families-won-election/.

11 Batchelder and others, "Who Benefits from President Trump's Child Care Proposals?"

12 The White House plan does not say where the 10 percent bracket ends and the 25 percent bracket begins, but this issue brief assumes that the breakpoints are the same as in Trump's campaign plan. Under that plan, the bottom bracket—12 percent—applied to the first $37,500 of taxable income for singles and $75,000 for couples.

13 Congressional Budget Office, "H.R. 1628, American Health Care Act of 2017 Cost Estimate," May 24, 2017, available at https://www.cbo.gov/publication/52752; Matthew Fiedler, "New changes to essential benefits in GOP health bill could jeopardize protections against catastrophic costs, even for people with job-based coverage," The Brookings Institution, March 24, 2017, available at https://www.brookings.edu/blog/up-front/2017/03/24/new-changes-to-essential-benefits-in-gop-health-bill-could-jeopardize-protections-against-catastrophic-costs-even-for-people-with-job-based-coverage/.

14 Matthews, "Donald Trump's tax plan, in fewer than 500 words."

15 Glenn Kessler, "Schumer's claim that 'millions would pay more' under Trump plan," *The Washington Post*, May 2, 2017, available at https://www.washingtonpost.com/news/fact-checker/wp/2017/05/02/schumers-claim-that-millions-would-pay-more-under-trumps-tax-plan/?utm_term=.d285fed98871.

16 See, for example, Damian Paletta and Max Ehrenfreund, "Trump's Treasury Secretary: The tax cut 'will pay for itself,'" *The Washington Post*, April 20, 2017, available at https://www.washingtonpost.com/news/wonk/wp/2017/04/20/trumps-treasury-secretary-the-tax-cut-will-pay-for-itself/?utm_term=.e7aca5eb6514.

17 Alexia Fernández Campbell, "37 top economists all say Trump's tax plan won't pay for itself," Vox, May 5, 2017, available at https://www.vox.com/policy-and-politics/2017/5/4/15536394/american-economists-trump-tax-plan.

18 Fox News, "President Trump reflects on his first 100 days," April 28, 2017, available at http://www.foxnews.com/transcript/2017/04/28/president-trump-reflects-on-his-first-100-days.html; Anna Edgerton, "'Mnuchin Rule' Against Wealthy Tax Cuts Comes Back to Bite Him," *Bloomberg Politics,* May 25, 2017, available at https://www.bloomberg.com/politics/articles/2017-05-25/-mnuchin-rule-against-wealthy-tax-cuts-comes-back-to-bite-him.

19 Trump's tax plan repeals the Net Investment Income Tax, a 3.8 percent tax on capital gains, dividends, and other investment income that was enacted as part of the ACA. His plan would leave the top regular income tax rate on capital gains and qualified dividends at 20 percent. See The White House Office of the Press Secretary, "Briefing by Secretary of the Treasury Steven Mnuchin and Director of the National Economic Council Gary Cohn."

20 Eric Toder, "Trump's Phony Claim about Carried Interest," Tax Policy Center, October 10, 2016, available at http://www.taxpolicycenter.org/taxvox/trumps-phony-claim-about-carried-interest.

21 At a May hearing, Treasury Secretary Mnuchin expressed support for retaining the deduction for business interest expense, the last-in-first-out inventory accounting method, and the tax preference for municipal bonds. He said the administration is not considering changes to the New Markets Tax Credit and the Low-Income Housing Tax Credit. See Richard Rubin, "GOP's Proposed Tax Changes Are No Match for Status Quo," *The Wall Street Journal*, May 29, 2017, available at https://www.wsj.com/articles/gops-proposed-tax-changes-are-no-match-for-status-quo-1496055605. The Trump administration has also signaled its opposition to the border tax adjustment proposed by House Republicans, which would increase revenue in the near term but is unlikely to do so over the long term. See David Kamin and Brad Sester, "House Plan's Bad Math: Over-Estimates of Revenue from a Border Adjustment" (The Social Science Research Network, 2017), available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2932400.

22 Under current law, the standard deduction for singles is half of the standard deduction for couples, and the standard deduction for heads of household is roughly halfway between the two. The author assumes here that if the standard deduction for couples is $24,000 under Trump's plan, it would be $12,000 for singles and $18,000 for heads of household, if that status is retained. Without head of household status, the family's standard deduction would be the same as for single individuals without dependents—or $12,000. Thus, the family in this example would lose $6,000 off its standard deduction, resulting in a $600 increase in tax liability.

23 Author used data from tax year 2014. See Internal Revenue Service, "Tax Statistics, Statistics of Income," available at https://www.irs.gov/uac/tax-stats (last accessed June 2017); Tax Policy Center, "T17-0128 – Tax Benefit of the Exclusion of Employer-Sponsored Health Benefits and Deduction for Self-Employed Health Insurance Premiums, Baseline: Current Law, Distribution of Federal Tax Change by Expanded Cash Income Percentile, 2017," April 18, 2017, available at http://www.taxpolicycenter.org/model-estimates/individual-income-tax-expenditures-april-2017/t17-0128-tax-benefit-exclusion; The Henry J. Kaiser Family Foundation, "Health Insurance Coverage of the Total Population, Timeframe: 2015," available at http://kff.org/other/state-indicator/total-population/?currentTimeframe=0&sortModel=%7B%22colId%22:%22Location%22,%22sort%22:%22asc%22%7D (last accessed June 2017).

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26 Martin Feldstein, "Balancing Lost Tax Revenue the Reagan Way," *The Wall Street Journal,* April 26, 2017, available at https://www.wsj.com/articles/balancing-lost-tax-revenue-the-reagan-way-1493245888.

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28 David Sherfinski, "Paul Ryan: Repealing and replacing Obamacare is entitlement reform," *The Washington Times,* February 28, 2017, available at http://www.washingtontimes.com/news/2017/feb/28/paul-ryan-repealing-and-replacing-obamacare-entitl/; David Weigel, "White House Budget Director Mulvaney: I'm getting president to 'look at' entitlement reform," *The Washington Post,* March 6, 2017, available at https://www.washingtonpost.com/news/powerpost/wp/2017/03/06/white-house-budget-director-mulvaney-im-getting-president-to-look-at-entitlement-reform/?utm_term=.63c9cd90bda3.

29 The White House Office of the Press Secretary, "Briefing by Secretary of the Treasury Steven Mnuchin and Director of the National Economic Council Gary Cohn."