Trump's Tax Plan and How It Would Affect You

Senate and House Promise to Get Bill to Trump by Year End

Sen. Rob Portman (R-OH) speaks to reporters about the proposed Senate Republican tax bill at US Capitol on November 14, 2017 in Washington, DC. Photo by Mark Wilson/Getty Images

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On December 1, 2017, the U.S. Senate passed its version of the Tax Cuts and Jobs Act. On November 16, 2017, the U.S. House of Representatives passed its version of the Act. Both plans are based on the Trump administration's plan presented on September 27, 2017.

The Senate plan cuts the corporate tax rate from 35 percent to 20 percent in 2019. The House plan does so in 2018. Both plans cut income tax rates, double the standard deduction, and eliminate personal exemptions.

Here's a summary of how both plans change income taxes, deductions for child and elder care, and business taxes. The Trump administration believes the final bill will look more like the Senate plan.

Income Tax Brackets

The Senate plan keeps the current seven income tax brackets but lowers some tax rates. These rates will revert to the current rate in 2025. Until then, the plan creates the following chart.

Income Tax Rate		Income Levels for Those Filing As:	
Current	**Senate**	**Single**	**Married-Joint**
10%	10%	$0-$9,525	$0-$19,050
15%	12%	$9,525-$38,700	$19,050-$77,400
25%	22.5%	$38,700-$60,000	$77,400-$120,000
25% - 28%	25%	$60,000-$170,000	$120,000-$390,000
28% - 33%	32.5%	$170,000-$200,000	$390,000-$450,000
33% - 39.6%	35%	$200,000-$500,000	$450,000-$1M
39.6%	38.5%	$500,000+	$1M+

The House plan **reduces the number of tax brackets to four and lowers three rates.** It creates the following chart.

Income Tax Rate		Income Levels for Those Filing As:	
Current	**House**	**Single**	**Married/Joint**
10-15%	12%	$0-$45,000	$0-$90,000
25-28%	25%	$45,000-$200,000	$90,000-$260,000
28-39.6%	35%	$200,000-$500,000	$260,000-$1M
39.6%	39.6%	$500,000+	$1M+

Both tax plans **eliminate most itemized deductions.** The exceptions are charitable contributions, mortgage interest, property taxes, and retirement savings. The Senate plan allows the mortgage interest deduction to remain up to

$1 million but eliminates it for home equity loans. The House plan allows the deductions up to $500,000. That would affect 6 percent of mortgages, mostly in large cities.

Current mortgage-holders aren't affected by either plan.

The Senate plan **expands the deduction for medical expenses** for 2017 and 2018. It allows taxpayers to deduct medical expenses that are 7.5 percent or more of income. Currently, people can deduct medical expenses that are 10 percent or more of income. At least 8.8 million people used the deduction in 2015. The House plan eliminates the deduction. AARP opposes the elimination because it hurts seniors the most. They are more likely to have chronic illnesses or be in nursing homes.

The Senate bill **repeals the Obamacare tax** on those without health insurance. The House will probably agree. Without the mandate, the Congressional Budget Office estimates 13 million people would drop their plans. The government would save $338 billion by not having to pay their subsidies. But health care costs will rise because fewer people will get the preventive care needed to avoid expensive emergency room visits. Senator Susan Collins, R-Maine, won't approve the final bill if Trump doesn't reinstate subsidies to insurers as outlined in the Murray-Alexander bill. The $7 billion in subsidies reimburse them for lowering costs for low-income Americans.

But the CBO said it won't offset the higher prices created by the mandate repeal.

Both plans **eliminate the deduction for state and local taxes**. That would hurt 44 million people, primarily residents in high-tax states like California and New York. It would add $1.3 trillion to federal revenues. The Senate plan allows corporations, but not small businesses, to deduct state and local taxes. Both plans allows taxpayers to deduct state property tax deductions up to $10,000.

Both plans **eliminate deductions for interest payments** on school loans, moving expenses, theft or loss of valuables, and electric vehicles. The New York Times further details other miscellaneous tax cuts and increases in the House bill.

Both plans **double the standard deduction** for everyone. A single filer's deduction increases from $6,350 to $12,000.

The deduction for Married and Joint Filers increases from $12,700 to $24,000. As a result, 94 percent of taxpayers will take the standard deduction. The National Association of Home Builders and the National Association of Realtors oppose this. As more taxpayers take a standard deduction, fewer would take advantage of the mortgage interest deduction. That could lower housing prices. But this could be a good time to do that. Many people are concerned that the real estate market is in a bubble that could lead to another collapse.

Both plans **eliminate personal exemptions**. Taxpayers can currently subtract $4,050 from income for each person claimed on the tax return. Under the Trump tax plan, families with many children would pay higher taxes despite the increased standard deductions. For example, a married couple with two children making $56,000 a year would pay $68 more a year.

Both plans **double the estate tax exemption**. Current tax law for 2018 exempts the first $5.6 million for singles and $11.2 million for couples. The House plan repeals the estate tax and the generation-skipping transfer tax as of January 1, 2024. That would help the top 1 percent of the population who pay it. These top 4,918 tax returns contribute $17 billion in taxes.

The House plan **eliminates the Alternative Minimum Tax**. That helps those who make enough to be subject to it. In 2017, the AMT could affect those with incomes above $54,300 (single) or $84,500 (married filing jointly). On December 1, 2017, the Senate restored the AMT to its plan, but will raise the exemption level.

The Senate plan **doubles the teacher deduction** to $500. That benefits teachers who buy their own classroom supplies. The House plan eliminates the deduction.

Child and Elder Care Deductions

The Senate plan **increases the Child Tax Credit** from $1,000 to $2,000. But more than a third of low-income families don't make enough to take advantage of the increase. The plan also increases the income level from $110,000 to $500,000 for married tax filers. That helps high-income families, at a cost of $13 billion a year. The House plan raises the Credit to $1,600.

Both plans preserve the **adoption tax credit**. The Senate plan allows parents to set aside money for an **unborn child** in a tax-advantaged account. It also allows parents to use **529 savings plans** for tuition at private and religious K-12 schools. They can also use the funds for certain educational expenses for home-schooled students.

The House plan eliminates the marriage penalty as it relates to the Child Tax Credit. Under the current tax system, two single parents receive the full credit up to a combined income of $150,000. The credit shrinks for a married couple if they earn more than $110,000. Research shows that subsidizing child care encourages people to work, boosting income and economic growth.

The Senate plan allows a **$500 credit for each non-child dependent.** The credit helps pay families for caring for elderly parents. The House plan gives a $300 credit. Trump's 2016 plan proposed a permanent $5,000 deduction for elder care.

Business Taxes

Both plans **lower the maximum corporate tax rate** from 35 percent to 20 percent. The Senate plan delays the change until 2019 to save $100 billion in revenue loss. The United States has one of the highest corporate tax rates in the world. But most corporations don't pay more than 15 percent. They can afford tax attorneys who help them avoid paying more.

Both plans **lower the maximum small business tax rate** to 25 percent. The cut applies to sole proprietorships, partnerships, limited liability companies, and S corporations. Over 85 percent don't make enough to benefit from the lower rate. But the wealthiest will. These include real estate companies, hedge funds, and private equity funds. The cut doesn't apply to legal and financial services. The House plan reduces the rate to 9 percent on the first $75,000 in income on businesses that make $150,000 or less. But it doesn't completely phase in until 2022.

The Senate plan eliminates the deductions for supplies, home office costs, and legal fees. But it includes a 23 percent standard deduction. The deduction doesn't apply to service businesses that make more than $250,000/single or $500,000/married.

Both plans allow **businesses to deduct the cost of depreciable assets** in one year instead of amortizing them over several years. It does not apply to structures. The House bill cancels the break in five years. The Senate bill phases it out. The write-off would encourage more investment.

Under the House plan, **corporations lose the ability to deduct interest expense**. That makes it more expensive for financial firms to borrow money. Companies would be less likely to issue bonds and buy back their stock. Stock prices could fall. But the repeal would generate $1.5 trillion in revenue to pay for other tax breaks.

Both plans **increased the holding period requirement on carried interest profits**. Carried interest is currently taxed at 23.8 percent instead of the top income tax rate of 39.6 percent. Firms must hold assets for a year to qualify for the lower rate. The plans extend that requirement to three years. That might hurt hedge funds that tend to trade frequently. It would not affect private equity funds that hold on to assets for around five years. Trump campaigned on making hedge fund managers pay their fair share. The change would raise $1.2 billion in revenue.

The Senate bill **retains the corporate AMT.** The House bill repeals it. The Senate saves at least $40 billion by saving it. The corporate AMT has a 20 percent tax rate that kicks in if tax credits push a firm's effective tax rate below that level. Once the AMT kicks in, companies can no longer deduct research and development spending or investments in low-income neighborhood.

Both plans advocate a change from the current "worldwide" tax system to a **"territorial" system.** Under the current system, multinationals are taxed on income earned overseas. They don't pay the tax until they bring the profits home. As a result, many corporations leave it parked overseas. Under the territorial system, they aren't taxed on that foreign profit. They would be more likely to reinvest it in the United States. This will benefit pharmaceuticals and high tech companies the most.

The tax plans allow companies to repatriate the $2.6 trillion in foreign cash stockpiles. They pay a one-time low tax rate of 14.5 percent on cash and 7.5 percent on equipment. The Congressional Research Service found that a similar 2004 tax holiday provided little boost to the economy. Companies distributed repatriated cash to shareholders, not employees. The repatriation could also raise Treasury note yields. Corporations hold most of the cash in 10-year Treasury notes. When they sell them, the excess supply would send yields higher.

The Senate plan **imposes new taxes on foreign companies** doing business in the United States. They must pay 10 percent on all payments to foreign parents or affiliates. The "border-based" tax system could trigger retaliatory taxes in other countries.

The plan also **limits the tax deductions foreign companies** now take on debt carried by their U.S. affiliates. The U.S. companies' deductions wouldn't be limited.

On November 15, 2017, the Senate added a measure to **allow oil drilling in the Arctic National Wildlife Refuge**. It would add $1.1 billion in revenues over 10 years. But drilling doesn't pay for itself unless oil prices are $70 a barrel.

The Senate plan also **proposes tax cuts on beer, wine, and liquor**. The Brookings Institute estimates that will lead to 1,550 more alcohol-related deaths each year. The study found that lower alcohol prices are directly correlated to more purchases and a higher death toll.

Trump's Promises No Longer in the Plan

Trump's 2016 proposal allowed up to $2,000 to be deposited tax-free into a Dependent Care Savings Account. The account would grow tax-free to pay for a child's education. Taxpayers could also receive a rebate for the Earned Income Tax Credit rand deposit it in the DCSA. Neither the House nor Senate plans include these features.

The plans also don't include Trump's promise to end the Affordable Care Act tax on investment income.

How It Affects You

The Senate plan **would help businesses more than individuals.** The corporate tax cuts are permanent, while the individual cuts are not.

Among individuals, it **would help higher income families the most.** Everyone gets a tax cut in 2019. But in 2021, taxes will increase on those making $30,000 or less. That's because the deductions and credits they lose won't make up for the lower tax rate. By 2023, costs will rise on everyone who makes less than $40,000 a year. The tax cuts expire in 2025. As a result, all income levels will pay higher taxes in 2027. That's according to the most recent analysis of the Senate plan by the Joint Committee on Taxation.

The Tax Policy Center found that taxpayers earning in the top 1 percent would receive a larger percent tax cut than those in lower income levels. By 2027, those in the lowest 20 percent would pay higher taxes.

The Tax Policy Center estimated the House bill would impose higher taxes on 31 percent of middle-class households in 2027.

The increase in the standard deduction will benefit 6 million taxpayers. That's 47.5 percent of all tax filers, according to Evercore ISI. But that's not enough to offset lost deductions for many income brackets.

Neither plan helps the lowest-income families. That's because more than 70 million Americans don't make enough to pay taxes. The plans also don't help the third of taxpayers who have incomes that fall below current standard deduction and personal exemptions, according to New York University law professor Lily Batchelder.

Both plans **increase the deficit** by almost $1.5 trillion over the next 10 years. The Joint Committee on Taxation reported that the bill would add $1 trillion even after including the tax cut's impact on economic growth. It wouldn't spur growth enough to offset the cuts' loss in revenue.

The Penn Wharton School of Business said the House plan would increase the deficit by $2 trillion over its first 10 years. The Wharton estimate includes $500 billion in additional interest on the debt. It said the House plan would boost growth by 0.4 percent and 0.9 percent in its first 10 years. But it might not improve growth at all in the subsequent 10 years.

Budget-conscious Republicans have done an about-face. The party fought hard to pass sequestration. In 2011, some members even threatened to default on the debt rather than keep adding to it. Now they say that the tax cuts would boost the economy so much that the additional revenues would offset the tax cuts. They ignore the reasons why Reaganomics would not work today.

The impact on the $20 trillion national debt will eventually be higher than $1.5 trillion. Congressional leaders admit that the future Congress will probably extend the tax cuts.

Increase in sovereign debt **dampens economic growth** in the long run. When a country's debt-to-GDP-ratio is more than 100 percent, investors get concerned. They demand higher yields on the nation's bonds, increasing interest rates. Those higher rates slow growth.

Supply-side economics is the theory that says tax cuts increase economic growth. The U.S. Treasury Department analyzed the impact of the Bush tax cuts. It found that they provide a short-term boost in an economy that is already weak.

Spending must be reduced to avoid increasing the federal debt. Left unchecked, a high debt load slows economic growth. Investors see it as a tax increase on future generations. That's especially true if the ratio of debt to gross domestic product is near 77 percent. That's the tipping point, according to a study by the World Bank. It found that every percentage point of debt above this level costs the country 1.7 percent in economic growth.

Also, supply-side economics worked during the Reagan administration because the highest tax rate was 70 percent. According to the Laffer Curve, that's in the prohibitive range. The range occurs at tax levels so high that cuts boost growth enough to offset revenue loss. But trickle-down economics no longer works because the 2017 tax rates are half what they were in the 1980s.

Many large corporations confirmed they won't use the tax cuts to create jobs. CEOs of Cisco, Pfizer, and Coca-Cola would instead use the extra cash to pay dividends to shareholders. The CEO of Amgen will use the proceeds to buy back shares of stock. In effect, the business tax cut will boost stock prices, but won't create jobs.

The most significant tax cuts should go to the middle class who are more likely to spend every dollar they get. The wealthy use tax cuts to save or invest. It helps the stock market but doesn't drive demand. Once demand is there, then businesses create jobs to meet it. Middle-class tax cuts create more jobs. But the best unemployment solution is government spending to build infrastructure and directly create jobs.

These increases to the debt could **trigger an automatic cut in Medicare**. The Pay-Go budget rule Congress must reduce spending on mandatory programs to offset tax cuts. The tax bill would force Congress to cut Medicare by $25 billion in 2018. In total, it would cut mandatory programs by $150 billion over the next 10 years. Congress usually waives Pay-Go when it passes each year's budget.

The bill could help immigrants who were protected by Deferred Action for Childhood Arrivals. One of Trump's immigration policies is to end the program in March 2018. Senator Jeff Flake, R-Ariz., got Senate leaders to agree to make the program permanent in exchange for his vote.

Next Steps

The House and Senate leaders plan to reconcile the two plans in a conference committee by December 15. The Senate cannot approve the House bill as it currently stands because it violates the Byrd Rule.

If the conference committee reconciles the two versions, each house of Congress votes on the final bill. Leaders want to send it to the president before Christmas. That's a very ambitious deadline. Typically that process would last until January 2018.

How Trump's Other Policies Affect You: Immigration | Health Care | Job Creation | Debt Reduction | NAFTA | Trump Versus Obama