A Tale of Two Tax Plans

By Howard Gleckman *Wed, Oct 12, 2016*

As explained by our guest columnist, a senior fellow at the Urban-Brookings Tax Policy Center at the Urban Institute, Trump's tax policy would echo supply-side solutions of the past while Clinton's tax philosophy echoes Obama's.

Two new Tax Policy Center reports quantify the dramatic contrast between the latest tax plans of Hillary Clinton and Donald Trump.

Clinton has proposed a significant tax increase on high-income households and businesses. Trump's plan, while less ambitious than the version he released in 2015, would still largely benefit high-income households and result in a substantial boost in the federal debt.

The Trump plan

Trump's latest plan would reduce federal revenues by $6.2 trillion over the next decade, with nearly half of the tax cuts going to the highest-income one percent of households. Clinton, by contrast, would boost federal revenue by $1.4 trillion over the next decade, with the bottom 80% of households receiving tax cuts and the top one percent paying over 90% of the net tax increase.

These revenue estimates use traditional budget scoring and exclude macroeconomic effects (dynamic scoring) and changes in interest costs. With added interest, the Trump plan would add about $7.2 trillion to the national debt over the next decade.

Because Clinton's tax plan would reduce interest costs, it would trim the debt by $1.6 trillion over the next 10 years (though her spending proposals would likely soak up much of that revenue). Tax Policy Center will soon release dynamic scores of both plans, which it produces in collaboration with the Penn Wharton Budget Model.

Under Trump's plan, households would receive an average tax cut of about $3,000 in 2017, or 4.1% of after-tax income. While all income groups would get a tax cut on average, those in the top one percent would enjoy a tax cut of nearly $215,000—a 13.5% increase in their after-tax income.

Middle-income households would receive a tax cut averaging about $1,000, or 1.8% of their after-tax income and low-income households would get a tax reduction of about $100, boosting their after-tax income by 0.8%. However, some single parents and large families would pay higher taxes under Trump's proposal than they do today.

Trump would collapse the current seven tax brackets to three—12%-25%-33%. He'd combine the current standard deduction and personal exemptions into a single increased standard deduction of $15,000 for single filers and $30,000 for couples, but eliminate head of household filing status. He'd add a new deduction for child and dependent care, and repeal the alternative minimum tax and the estate tax. He'd also cap itemized deductions and tax capital gains in excess of $5 million at death.

Trump would tax all businesses at a top rate of 15%, repeal the corporate AMT and some business tax subsides, and tax unrepatriated foreign earnings of US-based multinationals at a rate of 10% for cash and 4% for other income.

The Clinton plan

Clinton's plan is the mirror image of the Trump proposal. She'd raise taxes by an average of about 1.2% of after-tax income in 2017, or $800. However, those in the top one percent would face an average tax hike of 7.4% of after-tax income, or $118,000. She'd reduce taxes for low- and middle-income households by an average of about $100, with those in the bottom 20% getting an average tax cut of 0.7% of after-tax income and middle-income households seeing their after-tax incomes rise by 0.2%.

While Trump often accuses Clinton of raising taxes across-the-board—in Sunday night's debate he claimed she is "raising everybody's taxes massively"—the vast majority of households would pay roughly the same amount of federal tax under Clinton's plan as they do today.

Clinton has proposed new tax credits for some households, such as those with high medical expenses or that are caring for aging parents. Her latest plan also expands the child tax credit. To pay for these and other domestic policy initiatives, she's proposed a 4% surtax on adjusted gross income (AGI) in excess of $5 million, a new minimum tax on filers with AGI in excess of $1 million, and a 28% cap on the tax benefits from certain deductions and exclusions. She'd also retain the current AMT, raise capital gains taxes for assets less than 6 years, and increase taxes on large estates.

The upshot

While Clinton has made modest changes to her tax platform during the course of her campaign, Trump has significantly revised his proposal since last year. Compared to his initial version, his current plan is about one-third less costly, though it would still add trillions of dollars to the federal debt.

While his first proposal would have reduced taxes by an average of $5,000 and cut overall tax revenues by $9.5 trillion over 10 years, this version would reduce taxes by an average of $3,000, and slash federal revenues by $6.2 trillion. Both plans are similarly regressive.

By themselves, Trump's tax cuts would increase incentives to save, invest, and work while Clinton's would discourage those activities at the margin. However, because Trump would increase the federal deficit so much, most, if not all, of the macroeconomic benefits of his tax cuts would be washed away by higher interest rates.

When it comes to taxes, among many other things, voters face a stark choice in November.