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WHAT IS KNOWN ABOUT DONALD TRUMP'S TAX PLAN?

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On April 26, 2017, the White House released a brief outline of its proposed "2017 Tax Reform for Economic Growth and American Jobs." This short paper lays out what we know about the Administration's tax plan as well as preliminary suppositions about unspecified components. This work will form the basis for subsequent analysis of the plan. We welcome comments and suggestions on our description, and especially additional details from the Administration.

The findings and conclusions contained within are those of the author and do not necessarily reflect positions or policies of the Tax Policy Center or its funders.

On April 26, 2017, the White House released a brief outline of its proposed "2017 Tax Reform for Economic Growth and American Jobs." Aspects of this plan are similar to those Donald Trump detailed during his presidential campaign. However, many key components of the Trump Administration's 2017 tax plan remain unknown.

This short paper lays out what we know about the Administration's tax plan as well as preliminary suppositions about unspecified components. This work will form the basis for subsequent analysis of the plan. We welcome comments and suggestions on our description, and especially additional details from the Administration.

WHAT WE KNOW (AND DO NOT KNOW)

Some provisions of the Administration's tax plan are well specified, including proposals to:

- Repeal the Affordable Care Act's 3.8 percent net investment income tax.
- Repeal the alternative minimum tax (AMT) for individuals and corporations.
- Reduce the corporate income tax rate to 15 percent.

The Administration's description of the plan omitted many details, however. Some provisions of the plan require additional specifications, including proposals to:

- Double the standard deduction. We assume the plan doubles all standard deduction amounts, including the additional deduction for blind and elderly taxpayers.
- Set individual income tax rates of 10, 25, and 35 percent. The April 26 outline listed the tax rates but not the income ranges to which they would apply. During the presidential election, the Trump campaign specified the income tax brackets, and we assume these thresholds apply to the Administration's tax plan.

Trump Proposed Tax Schedule and Rates

Single filers			Married couples filing jointly		
Taxable income ($)		Proposed marginal rate (%)	Taxable income ($)		Proposed marginal rate (%)
Over	But not over		Over	But not over	
0	37,500	10	0	75,000	10
37,500	112,500	25	75,000	225,000	25
112,500	and over	35	225,000	and over	35

Notes: Income thresholds are based on brackets specified in the Trump 2016 campaign proposal.

- Preserve the itemized deductions for home mortgage interest and charitable contributions. We assume this means all other itemized deductions (state and local income, sales, and property taxes; medical and dental expenses; investment interest and investment expenses; casualty and theft losses; unreimbursed employee expenses; tax preparation expenses; gambling losses, and other miscellaneous deductions) would be repealed.
- Reduce the tax rate to 15 percent on income from pass-through businesses. The Administration has suggested the plan will limit which pass-through businesses (and owners of these businesses) can use the preferential rate but has offered no specifics.
- Provide tax relief for taxpayers with child and dependent care expenses. The Trump campaign outlined a more detailed child care proposal than in the April 2017 outline—we assume this is the proposal that the Administration includes in its tax plan.
- Repeal the estate tax. During the campaign, Trump suggested that estates should pay income tax on unrealized capital gains above a threshold but such detail is missing from the current plan. Also missing are proposals concerning generation-skipping transfer and gift taxes.
- Adopt a territorial system of taxing foreign-source income and impose a deemed repatriation tax on untaxed foreign earnings. The Administration has provided neither the nature of the territorial system nor the repatriation tax rates.
- Repeal "special interest" tax provisions. We assume this includes the domestic production activities deduction, tax credits for renewable energy producers, the low-income housing tax credit, and various other specific industry tax credits.

During the 2016 presidential election, the Trump campaign detailed additional tax changes—mostly provisions that would increase revenues—that were not in the April outline but might be part of the Administration's tax plan. These include proposals to:

- Repeal the head of household filing status.
- Repeal all personal exemptions for both taxpayers and dependents.
- Treat distributions from "large" pass-throughs as qualified dividends, subject to tax at the individual level when received.

DETAILED LIST OF ASSUMPTIONS

The assumptions that would form the basis for future TPC analysis of the revenue, distributional, and economic effects of the Administration's proposal include:

- Double the standard deduction

  TPC will assume that all standard deduction amounts are doubled, including the additional deduction for blind and elderly taxpayers.

- Set individual income tax rates of 10, 25, and 35 percent

  TPC will assume that the income thresholds are the same as in the campaign proposal and that the brackets are expressed in 2016 dollars and will be indexed for inflation. The preferential rate structure of 0, 15, and 20 percent for long-term capital gains and qualified dividends will be retained, corresponding with the regular income tax brackets.

- Preserve the deductions for home mortgage interest and charitable contributions

  TPC will assume that the plan repeals all itemized deductions other than the ones for home mortgage interest and charitable contributions. TPC will further assume that the current limit on itemized deductions ("Pease") is retained.

- Reduce tax rate to 15 percent on pass-through income

  TPC will assume that the 15 percent rate applies to all pass-through income, including all net income earned by sole proprietorships and farms (reported on Schedules C and F) and all net partnership and rental income and all S-corporation profits (reported on Schedule E). TPC will assume that the special tax rate on qualifying pass-through income is applied in a similar way to the preferential rate structure for capital gains and qualified dividends under current law. Net losses from pass-throughs can only be used to offset positive business income, but can be carried forward as under current law.

- Tax relief for taxpayers with child and dependent care expenses

  TPC will assume the proposed above-the-line child care/eldercare deduction is limited to earnings of the tax unit; the child care deduction for two-earner couples and singles is capped at the state averages for center-based care in the table on page 53 and 54 of the 2015 report of Child Care Aware of America, "Parents and the High Cost of Child Care" (http://usa.childcareaware.org/wp-content/uploads/2016/05/Parents-and-the-High-Cost-of-Child-Care-2015-FINAL.pdf); that the allowable deduction for one-earner couples is that shown for "family child care" in the report, with a $5,000 cap on eldercare expenses; that the deduction phaseout begins at $400,000 for joint

filers and at $150,000 for single filers, and phases out pro rata over the $100,000 of income between the beginning and end of the phaseout ranges (so 1% of the deduction phases out per $1,000 of income in the phaseout range), and that the income limitation levels are expressed in 2016 dollars and will be indexed from 2016; that the child care rebate added to the EITC would not be available to a one-earner married couple, that only expenses not used for the deduction, credit, or exclusion are eligible for the rebate, and that the rebate earnings limits represent the end of phaseout ranges that begin at half the limit, with a phaseout rate of 3.825 percent (i.e., half of 7.65 percent) of earnings in excess of the beginning of the phaseout range; and that withdrawals from the proposed Dependent Care Savings Accounts would be taxable, but if used for eligible child care or eldercare expenses they would qualify for the proposed deductions (or credit or exclusion), and if used for eligible higher education expenses would qualify for related credits or deductions.

- Repeal the estate and gift taxes

  TPC will assume that the GST and gift taxes are also repealed and that "capital gains held until death will be subject to tax, with the first $10 million tax free as under current law" (a statement made by the Trump campaign plan). TPC will further assume that the exemption amount is $5 million per decedent, that carryover basis applies on appreciated assets transferred to spouses, and that the exemption of the deceased spouse also carries over. The dollar thresholds would be indexed for inflation.

- Adopt territorial system of taxing foreign-source income; deemed repatriation tax on untaxed foreign earnings

  TPC will assume that the repatriation tax is structured in a manner similar to that in former Rep. Dave Camp's plan, with a 10 percent rate applying to accumulated cash earnings and a 4 percent rate for non-cash earnings (resulting in the same proportional difference between the 8.75 and 3.5 percent rates in the Camp proposal). We will further assume that tax payments on the deemed repatriated earnings would be made ratably over 10 years (rather than 8 as in the Camp proposal).

- Repeal "special interest" tax provisions

  TPC will assume that the "special interest" provisions the plan would repeal are the section 199 domestic production activities deduction and all credits except the research credit, and that these same tax expenditures would be repealed for pass-through businesses taxed under the individual income tax. TPC will further assume that any unused repealed business credits as of the effective date of repeal could be used, generally under current law rules.

- Treat distributions from "large" pass-throughs as qualified dividends.

TPC will assume that pass-through distributions paid out of earnings elected to be taxed at the flat 15 percent business rate would be taxed as qualified (corporate) dividends. Distributions from qualifying "small businesses"(assumed to be pass-throughs with less than $10 million in gross receipts) would be exempt and not subject to tax as dividends. Pass-through income taxed as ordinary income would be deemed distributed in that year with no additional tax due.

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