

Using the NCPA Model to Score Tax Reform

Statement for the Record

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“How Tax Reform Will Grow Our Economy and Create Jobs”

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I am Pamela Villarreal, Senior Fellow at the National Center for Policy Analysis. The current tax system is drain on the national economy. Besides the billions of dollars spent a year on compliance, the marginal rates on both individuals and corporations disincentive productive activities — such as working, saving and investing. Although the right and the left may not agree on specific reforms, they generally agree that there are too many loopholes, but if the tax system were simpler, broad-based and less punitive there would be no need for loopholes.

Using a dynamic model that is exclusive to NCPA, senior fellow Dr. David Tuerck, president of Beacon Hill Institute, and his team have modeled the effects of tax reform on the economy. Using the second version of the Trump tax plan (or Trump 2.0), Tuerck and his team found that if tax reform via the Trump plan were implemented in 2017, it would increase private sector jobs by 3 million. Trump's plan would also promote other economic growth effects [see the tables]:

- In the first year (2017), real GDP would increase \$985 billion, representing a growth rate of 5.64 percent above Congressional Budget Office baseline estimates.
- In 2026, this growth rate would increase to 9.36 percent.
- Personal income in 2017 would be \$646 billion more than CBO baseline estimates, a growth rate of 3.83 percent.
- In 2026, this growth rate would increase to 5.64 percent.
- Business investment would increase by \$191 billion in 2017, representing a 7.16 percent growth rate.
- In 2026, this would increase to a substantial 11.72 percent above CBO baseline estimates.

Economic Effects of the Trump Tax Proposals

Change relative to CBO baseline

	2017		2026	
	<i>'000 jobs</i>	%	<i>'000 jobs</i>	%
Total Employment	2,512	1.66	3,162	1.61
Private Employment	3,066	2.07	3,762	1.94
Public Employment	-554	-21.31	-601	-23.20
	<i>\$ billion</i>	%	<i>\$ billion</i>	%
Real GDP (\$billion)	985	5.64	1,981	9.36
Personal Income	646	3.83	1,374	5.64
Business Investment	191	7.16	540	11.72
Imports	23	0.69	95	2.26
Exports	27	0.98	97	2.80

Source: NCPA-DCGE model.

This analysis is based on key elements of the second version of the Trump plan, including:

- A federal personal income tax with three brackets – 12 percent, 25 percent and 33 percent (that has since changed to 10 percent, 25 percent and 35 percent).
- The standard deduction, currently \$6,300 for single filers and \$12,600 for married filing jointly, would rise to \$20,000 and \$40,000 respectively.
- The plan would cap itemized deductions at \$100,000 for a single filer and at \$200,000 for a married couple filing jointly.
- The plan would abolish the Alternative Minimum Tax, Estate, and Gift Tax.
- In September, he also called for an income tax deduction for childcare and “Dependent Care Savings Accounts” for childcare development and elderly care.
- Within the personal income tax, there would be a tax rate cap of 15 percent on business income; while long-term capital gains and dividends presumably would be taxed at somewhat lower rates than other forms of income.
- The revised plan also calls for the immediate 100 percent expensing of new investment to replace the current depreciation schedules.
- The Trump plan would cut the corporate tax rate to a flat rate of 15 percent in line with the rate he proposes for business income filed on the personal income tax forms.

Furthermore, the plan would reduce the tax burden among all income deciles and increase "broadly-measured" income, even among the lowest-income earners.

- Under the current tax code, the average amount paid by an income earner in the bottom 10 percent is \$197, the top 10 percent, \$52,082. [See the table below.]
- Under the Trump plan, taxes paid would fall in every decile. The bottom 10 percent would receive an average \$296 per person, while the top 10 percent would receive \$15,897 per person.
- While these tax cuts tilt heavily toward the rich, it is important to note that the bottom two income groups would experience the largest percentage change in taxes paid. The tax burden for the poorest 10 percent would fall 150 percent, and the burden for the second poorest group would fall 375 percent.
- In general, 70 percent of the gains from lower taxes would accrue to the top 10 percent of earners. The bottom 10 percent of earners would receive 10 percent of the tax cuts.

Changes in Federal Taxes Paid: Trump Proposals vs. Current Rules					
Tax paid: current rules	Tax paid: Trump proposal	Change in tax paid	% change in tax paid	% of tax cuts	Tax change as % of income
<i>dollars per capita in 2017</i>			<i>Percentages</i>		
Deciles					
1) (poor) 197	-99	-296	-150.4	1.8	-3.6
2) 108	-296	-404	-374.5	2.5	-2.3
3) 776	527	-248	-32.0	1.7	-0.9

4) 466	388	-78	-16.7	1.6	-0.2
5) 8,701	7,411	-1,290	-14.8	2.3	-2.9
6) 8,032	6,685	-1,347	-16.8	4.0	-2.5
7) 9,978	8,319	-1,659	-16.6	5.6	-2.5
8) 13,345	11,554	-1,791	-13.4	6.4	-2.2
9) 17,695	16,662	-1,032	-5.8	4.0	-1.0
10) 52,082	36,185	-15,897	-30.5	70.1	-6.7
Total/Ave 10,827	8,645	-2,182	-20.2	100.0	-3.2
<i>Note: Deciles refer to trimmed broad income per adult equivalent.</i>					

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There are other plans that could be implemented that would also have positive effects on the economy, this is just one example. For additional information on the NCPA's modeling efforts and methodology, see the complete report:

[The Economic Effects of Trump 2.0: The Candidate's Updated Tax Proposal](#)