

Donald Trump's Tax Plan under the NCPA's Model of the U.S. Economy

by Pamela Villarreal

Presidential candidate Donald Trump's revised tax plan (Trump 2.0) would increase private sector jobs by 3 million in 2017, while reducing public sector jobs by 554,000, according to a report by the National Center for Policy Analysis. In other words, for every public sector job lost, *over five private sector jobs would be gained*. In 2026, *more than six private sector jobs would be gained* for every public sector job lost. Trump's plan would promote tremendous job growth as well as 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. In 2026, this would increase to a substantial 11.72 percent above CBO baseline estimates!

This analysis is based on results from the NCPA's modeling of the U.S. economy, in partnership with Dr. David Tuerck and his team at the Beacon Hill Institute in Boston, Massachusetts.

Economic Effects of the Trump Tax Proposals

	Change relative to CBO baseline			
	2017		2026	
	'000 jobs	%	'000 jobs	%
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
	\$ billion	%	\$ billion	%
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.

However, Trump's plan would reduce federal revenues \$7.4 trillion over 10 years (2017 to 2026) compared to CBO baseline estimates.

- The largest revenue reductions would come from the personal income tax and corporate income tax, which would fall 28 percent and 67 percent, respectively, over 10 years.
- Payroll tax revenues would increase 3.8 percent due to more people working and more income growth.
- However, state and local tax revenues would increase \$1 trillion over 10 years.

Revenue Effects of the Trump Tax Proposals Relative to CBO Benchmark

	Change in revenue					
	2017		2026		Cumulative, 2017-26	
	<i>\$ billion</i>	%	<i>\$ billion</i>	%	<i>\$ billion</i>	%
Federal Revenue	-707	-19.40	-993	-19.69	-8,394	-19.94
Payroll Tax	31	2.63	69	4.33	514	3.81
Personal Income Tax	-486	-26.49	-742	-27.85	-6,040	-27.86
Corporate Income Tax	-236	-64.48	-299	-67.34	-2,682	-67.25
Estate and Gift Taxes	-21	-100	-30	-100	-249	-100
Other Taxes and Fees	5	2.06	9	2.88	63	2.37
State and Local Revenue	62	0.03	139	3.98	1,015	3.49
Total Government Revenue	-645	-10.94	-854	-10.01	-7,379	-10.37

Source: Based on NCPA-DCGE model simulations.

Donald Trump's plan would reform the tax code substantially from the current system. It includes:

- A federal personal income tax with three brackets – 12 percent, 25 percent and 33 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.