Tax Foundation Rates Tax Plans of Trump and Clinton: Trump's Plan Wins

Analysis by the Tax Foundation of all that is currently known about the tax plans proposed by presidential candidates Donald Trump and Hillary Clinton concludes that, if enacted, Clinton's plan would expand government at the expense of a shrinking economy. On the other hand, Trump's plan would grow the economy, shrink government's revenues, raise wages, and expand employment.

But it's not tax "reform," claims the study's author, Kyle Pomerleau, just modifications of the existing tax code. The code would be more complex under Clinton's plan and only slightly less so under Trump's.

Because Trump's plan is unclear about something called "pass through" — the taxation of income that is passed from a business entity onto its owner's personal income tax form — the foundation did two analyses: one based on leaving present law as it is, with the other based on its interpretation of remarks made by Trump and his advisors.

Either way, Trump's plan, if enacted, wins going away: GDP over the next 10 years under Clinton would shrink by 2.6 percent while under Trump it would grow between 7 and 8 percent. Capital investment in the economy would be discouraged under Clinton's plan, declining by seven percent, while it would grow by between 20 and 23 percent under Trump's.

Real wages under Clinton would drop 2 percent, while under Trump they would grow between 5.4 percent and 6.3 percent. Jobs under Clinton would decline by 700,000 while they would increase under Trump by between 1.8 million and 2.2 million.

The details are equally ugly under a Clinton plan: She would put a 4-percent "surcharge" on high-income earners, establish a 30-percent minimum tax on taxpayers earning more than $1 million a year, would limit the amount of itemized deductions those high earners could claim (thus exposing more of their income to taxation), and raise the tax on capital gains to a maximum of nearly 40 percent. She would also limit the total value of tax-deferred and tax-free retirement accounts that citizens could accumulate, forcing more of their income to be subject to taxation.

Trump's plan, on the other hand, would cut tax rates substantially on ordinary income to 12 percent, 25 percent, or 33 percent, depending on amount. He would also cut the tax on capital gains accordingly. He would increase the standard deduction from $6,300 (currently, for singles) to $15,000 and from $12,600 (currently, for married couples) to $30,000. His plan would also cut corporate tax rates from today's 35 percent — the highest in the world — to just 15 percent.

To help readers understand the Tax Foundation's study and conclusions better, its author said that "Trump's tax plan would increase the size of the economy … because [it] would increase investment opportunities in the United States … and … would drive foreign investors to invest more in the United States." On the other hand, Clinton's plan, wrote Pomerleau, "would reduce the long-run size of the

economy … [while taking] all of the new revenue (and then some) and spending it on new government programs."

He added that Clinton's plan would increase the tax code's present complexity significantly while Trump's plan would simplify it a little. The big unknown in the Clinton plan centers on what she calls "business tax reform" but which is never defined. Pomerleau explains:

> For months she has promised to raise more than $200 billion through "business tax reform." However, no one seems to know exactly how she would do it. It could be borrowed from President Obama … which would tax multinational [corporations'] overseas profits at 14 percent.

The difference between the two plans is predictable, and startlingly clear: Clinton wants to punish capital while Trump wants to reward it. She wants larger government and a smaller economy while Trump wants to cut government's revenues while giving the economy a chance to breathe again.

Missing from the Tax Foundation's discussion, however, is any mention of the methodology used to make its calculations. We don't know if they took into account the incoming flood of new investable capital that multinationals have been forced to keep overseas thanks to the United States' present burdensome tax rates. Estimated at more than $2 trillion, even some of that capital coming back into the country would have a positive effect, resulting in more jobs, higher wages for the skilled workers that would be needed, and an expanded tax base.

Also missing from the foundation's conversation was any mention of the Laffer Curve. We don't know if the Foundation used the predictable and eminently logical analysis of how lower tax rates usually raise government's revenues — often significantly — thanks to a larger economy generating higher profits. The U.S. economy presently produces about $18 trillion worth of goods and services in a year. If that number could be expanded by just 10 percent, to $20 trillion, not only would government revenues increase due to higher productivity of existing workers but also by the new ones who would come into the labor market in response to greater demand and higher wages. Those new employees would also reduce demands on the welfare state, reducing government's funding of unemployment benefits, food stamps, and disability payments (some of those currently on "disability" are likely to be persuaded to come back to work given sufficient economic incentive).

More realistically the Tax Foundation's efforts may be an exercise in futility. In the sausage-making machine (no one wants to know how either sausages or laws are made) in Washington, politicians will no doubt seize upon whatever plan is offered and make certain that their own particular interests are served in private agreements and quid-pro-quo deals that ultimately define what finally arrives on the floor for a vote.

To be noted: Nothing presented by either candidate addressed the pending financial implosions of Social Security, Medicare, or ObamaCare. Nothing was said about the heavy hand of the administrative state that makes it increasingly difficult for any employer to turn a profit, no matter what the tax code is. Nothing was said about military spending or how wars to build the American empire abroad would be financed. Instead, it was all about offering to manipulate the present tax code to favor certain interests over others in order to get elected in November.

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