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Trump Tax Plan Offers Overdue Relief for All Taxpayers

Americans deserve a less antiquated and a simpler tax code, writes attorney Curtis B. Hunter, who supports the first significant tax overhaul in more than 30 years.

by Curtis B. Hunter

One of the cornerstones in President Trump's campaign was the promise of overall tax reform and tax cuts for the middle class. The Trump tax reform — a unified effort of the Trump administration, House Ways and Means Committee and Senate Finance Committee — provides a framework of specific revisions to the tax code. It serves as a template for Congress to develop legislation by providing granular detail necessary to effectuate tax cuts. Specific details have been discussed by the House and Senate for weeks, and earlier this month the House passed its version of reform targeting the middle class. Critics, however, continue to erroneously project the tax cuts will benefit only the wealthy.

The top 10 percent of wage earners pay 71 percent of all federal income taxes. The top 1 percent pay almost one-half of the taxes and accounted for more income taxes paid than the bottom 90 percent combined. By contrast, the bottom 50 percent of taxpayers pay approximately 3 percent of all income taxes. Naturally, any significant tax reform would likely benefit the "wealthy" to some degree, although the Trump tax reform targets tax cuts for the middle and lower classes.

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Highlights

In addition to simplifying the tax code and reporting requirements, the foundation of Trump reform are:

- Reduce the current seven tax brackets to three — 12 percent, 25 percent and 35 percent — with the potential for an additional top rate (such as the current 39.6 percent) for the highest-income taxpayers.
- Double the standard deduction — $12,000 for individuals and $24,000 for married couples. Most itemized deductions are eliminated, retaining important deductions for home mortgage interest and charitable contributions.
- Significantly increase the child tax credit and the income

levels at which the credit begins to phase out.

- Create a maximum tax rate of 25 percent for small and family-owned pass-through entities (i.e., S corporations, limited liability companies). The framework further considers eliminating carried interest to prevent wealthy individuals from re-characterizing income and avoiding the top personal rate.
- Reduce the corporate income tax rate from 35 percent to 20 percent.
- Enable businesses to immediately write off (expense) the cost of new investments in depreciable assets for at least five years.

If reform passes, most taxpayers will recognize an immediate reduction in taxes with the reduced progressive tax rates. Families with annual income of $24,000 or less will pay no taxes. Only 20 percent of taxpayers itemize deductions, so doubling the standard deduction results in immediate reduction in taxes for 80 percent of married taxpayers with income exceeding $24,000. Increasing the child tax credit and the income level for phase out reduces taxes for the middle class, and makes the credit available to more families. As for families owning pass-through entities, the maximum tax rate of 25 percent will reduce taxes for those presently making $153,000 or more in annual income — a significant tax savings for most if not all of these families.

Reducing the corporate tax rate (and expensing assets) will have a profound effect on job creation in the U.S. and will enable companies to pass on tax savings to employees with increased compensation and retirement benefits. More significantly, the tax rate will be competitive with the industrialized world and will incentivize repatriation of U.S. companies that moved overseas to avoid excessive taxes, resulting in a substantial increase in revenue for the federal government that can offset the cost of reform.

Members of both parties in states with high state and local income tax rates have pushed back on eliminating the federal deduction for state and local taxes. States with minimal or no income taxes, however, should not be required to subsidize inefficient high tax states such as New York and California. Eliminating the deduction would primarily impact high net worth taxpayers with income in excess of $1 million.

Tax reform passed by the House was in line with the Trump plan, with some modifications. The bill continues the top income tax rate of 39.6 percent for joint filers with income exceeding $1 million and would allow itemized state and local property tax deductions up to $10,000.

The Senate will vote on it version of a tax reform bill in the coming days, expected to implement most of the Trump plan. The Senate bill will likely include repeal of the individual insurance mandate of Obamacare, a tax measure punishing low- to middle-income taxpayers who cannot afford coverage. Repeal would be an immediate tax cut for the taxpayers targeted by the Trump plan.

If history is any indicator, not only will Trump's tax reform reduce taxes for the middle class but it will stimulate an already growing economy. The two biggest tax reform measures in modern history —under Presidents Kennedy and Reagan — resulted in significant increases in the gross domestic product and doubled tax revenue for the federal government. It is estimated that a 0.5 of a percent increase in GDP would translate to $1.3 trillion in revenue.

The first significant tax reform in over 30 years is long overdue. American taxpayers deserve a less antiquated and complex tax code — and the right to retain a greater percentage of their income.

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