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THE PRESIDENTIAL CANDIDATES’ TAX PLANS

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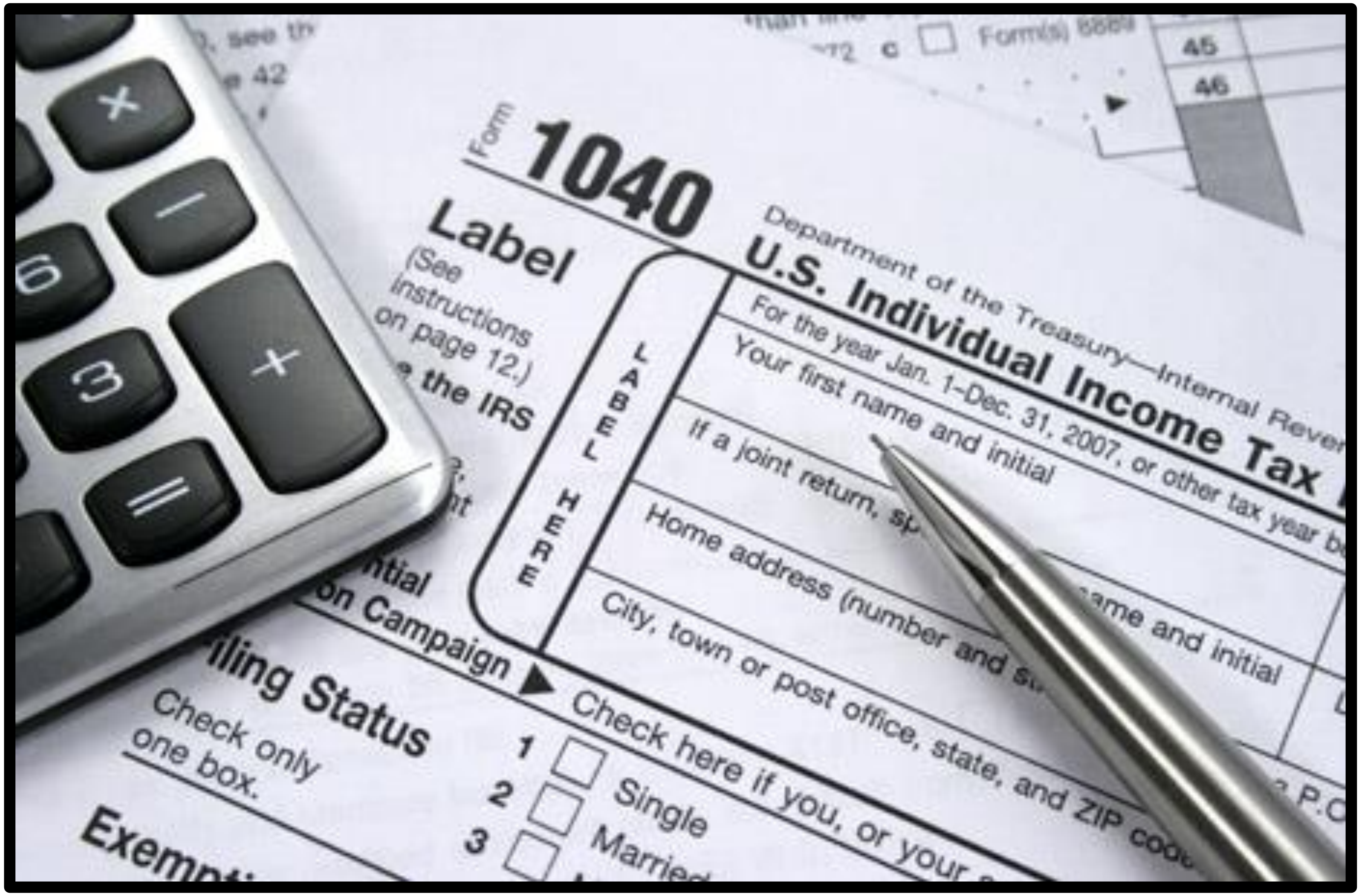
PROPOSED CHANGES FOR INDIVIDUALS



INDIVIDUAL TAX RATES

CLINTON

- Add a 4% "fair share surcharge" on incomes over $5 million, to provide 43.6% top marginal rate
- Minimum tax imposed on individuals with incomes over $1 million ("Buffet rule")

TRUMP

- Collapse tax rates into three brackets:
  12%, 25%, and 33%:

Singles

Taxable Income	Rate
Less than $37,500	12%
More than $37,500 but less than $112,500	25%
More than $112,500	33%

Married Filing Joint

Taxable Income	Rate
Less than $75,000	12%
More than $75,000 but less than $225,000	25%
More than $225,000	33%

CURRENT 2016 INDIVIDUAL TAX RATES

MARRIED INDIVIDUALS FILING JOINT RETURNS

If Taxable Income Is:	The Tax Is:
Not over $18,550	10% of the taxable income
Over $18,550 but not over $75,300	$1,855 plus 15% of the excess over $18,550
Over $75,300 but not over $151,900	$10,367.50 plus 25% of the excess over $75,300
Over $151,900 but not over $231,450	$29,517.50 plus 28% of the excess over $151,900
Over $231,450 but not over $413,350	$51,791.50 plus 33% of the excess over $231,450
Over $413,350 but not over $466,950	$111,818.50 plus 35% of the excess over $413,350
Over $466,950	$130,578.50 plus 39.6% of the excess over $466,950

SINGLE INDIVIDUALS

If Taxable Income Is:	The Tax Is:
Not over $9,275	10% of the taxable income
Over $9,275 but not over $37,650	$927.50 plus 15% of the excess over $9,275
Over $37,650 but not over $91,150	$5,183.75 plus 25% of the excess over $37,650
Over $91,150 but not over $190,150	$18,558.75 plus 28% of the excess over $91,150
Over $190,150 but not over $413,350	$46,278.75 plus 33% of the excess over $190,150
Over $413,350 but not over $415,050	$119,934.75 plus 35% of the excess over $413,350
Over $415,050	$120,529.75 plus 39.6% of the excess over $415,050

CAPITAL GAINS, INVESTMENT INCOME, AND CARRIED INTERESTS

CLINTON

- Increase the holding period for long-term capital gains to 6 years and phase in long-term rate:
  - 39.6% (held 1-2 years)
  - 36% (held 2-3 years)
  - 32% (held 3-4 years)
  - 28% (held 4-5 years)
  - 24% (held 5-6 years)
  - 20% (held more than 6 years)

- Taxes carried interests as ordinary income
- Include some passthrough income in 3.8% NII tax.

TRUMP

- Retains capital gains structure with a maximum rate of 20%:

Singles

Income	Capital Gains Rate
Less than $37,500	0%
More than $37,500 but less than $112,500	15%
More than $112,500	20%

Married Filing Joint

Income	Capital Gains Rate
Less than $75,000	0%
More than $75,000 but less than $225,000	15%
More than $225,000	20%

- Taxes carried interests as ordinary income
- Repeal 3.8% net investment income tax

STANDARD DEDUCTION AND ITEMIZED DEDUCTIONS

CLINTON

- No change to standard deduction
- Limit the benefit of itemized deductions for high-income taxpayers to 28% (except for charitable contributions).

TRUMP

- Increase standard deduction from $6,300 to $15,000 for singles and from $12,600 to $30,000 for joint returns.
- Cap itemized deductions for high-income taxpayers at $200,000 for joint filers and $100,000 for single filers.

PERSONAL EXEMPTIONS/FILING STATUS

CLINTON

- No provision

TRUMP

- Eliminates personal exemptions and the head-of-household filing status.

ALTERNATIVE MINIMUM TAX

CLINTON

- No provision

TRUMP

- Repeal individual AMT

INCREASE SOCIAL SECURITY WAGE BASE

CLINTON

- Increase social security wage base so higher-income taxpayers pay social security tax on more of their compensation. ($250,000) Current wage base is $118,500.

TRUMP

- No provision

CHILD AND ELDER CARE COSTS

CLINTON

- **Double the existing child care tax credit from $1,000 to $2,000 for children age 4 or younger.**
- **Eliminate $3,000 minimum earnings requirement.**
- **Increase refundable amount for children under age 5.**
- **20% credit for elder care up to $1,200.**

TRUMP

- **Above-the-line deduction for child care for children under age 13 capped at the state average, and for care of elderly dependents. Note:** Deduction allowed even if stay at home parent provides care.
  - **Limited to 4 children per family and eldercare deduction limited to $5,000 per year.**
  - **Not available to taxpayers with incomes over $500,000 for joint returns and $250,000 for singles.**
- **Spending rebates.** Up to $1,200 for childcare expenses of low-income taxpayers provided through the Earned Income Tax Credit (EITC).
- **Tax-favored, Dependent Care Savings Accounts limited to $2,000 per year.** Government would match 50% of contributions up to $1,000 per year if parents are low-income.

ESTATE AND GIFT TAXES

CLINTON

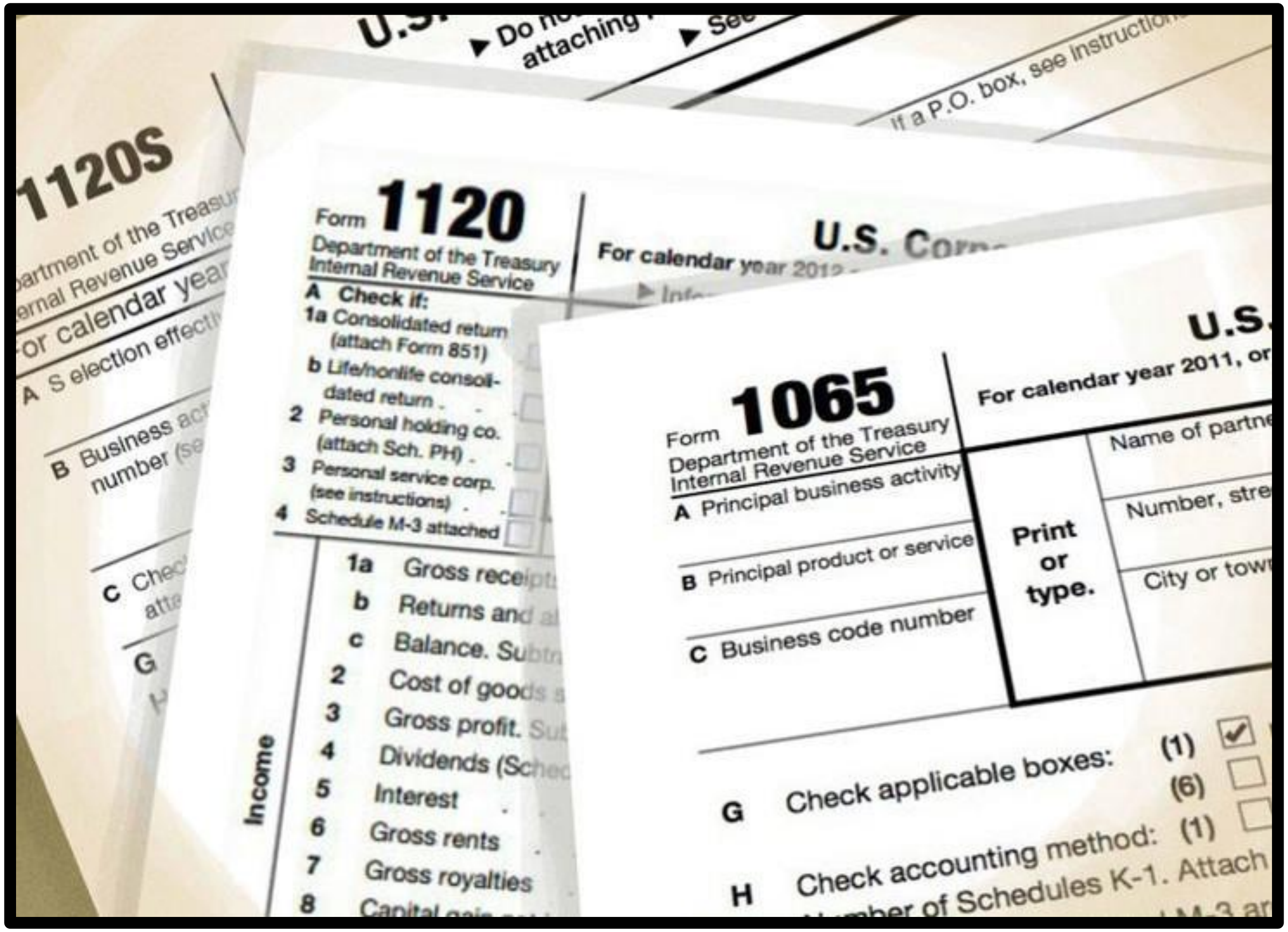
- Increase estate and gift tax rate to 45%* and reduce the exemption to $3.5 million per person with a $1 million gift tax exemption.
- Limit step-up in basis for inherited assets—tax asset appreciation.
- Eliminate indexing of exemption.

*Current rate 40% with $5,450,000 exemption per person.

TRUMP

- Repeals estate and gift taxes, but requires a carry-over basis for inherited assets, with a $5 million exemption per person.
- Disallows contributions of appreciated assets to a private charity established by the decedent or the decedent's relatives.

PROPOSED CHANGES FOR BUSINESS



BUSINESS TAX RATES

CLINTON

- No rate changes

TRUMP

- Reduce the "business tax rate" from 35 percent to 15 percent.
- Passthroughs can elect flat 15% rate or individual income tax rates.
- Tax distributions to "large passthroughs" as dividends.
- Trump plan states that this rate will be available to "all businesses, both big and small, that want to retain the profits within the business."

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CORPORATE ALTERNATIVE MINIMUM TAX

CLINTON

- No provision

TRUMP

- Eliminate the corporate AMT

CORPORATE TAX EXPENDITURES

CLINTON

- Limits deductions for executive compensation and fossil fuels.

TRUMP

- Eliminates most corporate tax breaks except for the Research and Development credit.

LIKE-KIND EXCHANGES

CLINTON

- Limit capital gains deferral to $1 million per taxpayer per year for both real and personal property
- Excludes art and collectibles from eligibility.

TRUMP

- No provision

DEPRECIATION, EXPENSING
and
CORPORATE INTEREST EXPENSE

CLINTON

- **Allow $1 million of immediate expensing for small businesses.**

TRUMP

- **Business could elect immediate expensing of all capital investments *or* the corporate interest deduction.**
  - **Election is revocable for three years only, then becomes irrevocable.**

SMALL BUSINESS INCENTIVES

CLINTON

- Design new standard deduction for small businesses as an alternative to itemizing their business deductions.
- Quadruple the deduction for business start-up expenses (from $5,000 to $20,000).
- Enable small businesses with gross receipts under $ 1 million to use "checkbook accounting."
- Allows businesses with up to $25 million in gross receipts to use cash method accounting. (Currently $5 million
- Expand and make permanent the New Markets Tax Credit.

TRUMP

- No specific provisions except business rate changes.

INTERNATIONAL

CLINTON

- **Exit tax on inverting companies' accumulated offshore earnings.**
- **Broaden definition of inversions by changing required % of new owners.**
- **Restrict interest deductions for U.S. affiliates of multinational companies to deter "earnings stripping."**

TRUMP

- **One-time 10 percent tax on deemed repatriated corporate profits now held offshore, payable over 10 years.**

EXECUTIVE COMPENSATION

CLINTON

- Revise deduction rules for performance-based compensation of highly-paid executives at public companies.

TRUMP

- No provision

FINANCIAL INSTITUTIONS AND TRANSACTIONS

CLINTON

- Impose "risk fee" on the liabilities of large financial institutions with more than $50 billion in assets.
- Charge a transaction tax on cancelled orders in high-volume trading.

TRUMP

- No provision

FOSSIL FUELS

CLINTON

- Eliminate tax incentives for fossil fuels, including expensing of intangible drilling costs, percentage depletion, and the deduction for domestic manufacturing for production of oil, natural gas and coal.

TRUMP

- No provision

OTHER IMPORTANT DETAILS

HEALTH CARE CREDIT

CLINTON

- Expand the small business health care credit.
- Repeal tax on “Cadillac plans”

TRUMP

- Repeal the Affordable Care Act

EMPLOYER-PROVIDED CHILD CARE FACILITIES

Clinton

- No provision

Trump

- Increase the credit for employer-provided child care facilities from $150,000 to $500,000
- Credits for acquiring, constructing, rehabilitating, or expanding facilities are subject to recapture for 5 years, rather than 10 years.

TAX-FAVORED RETIREMENT ACCOUNTS

CLINTON

- Prohibit additional contributions to high-balance, tax-favored retirement accounts

TRUMP

- No provision

TAXATION OF DERIVATIVES CONTRACTS

CLINTON

- Require that derivative contracts be marked-to-market annually, with resulting gain or loss treated as ordinary income.

TRUMP

- No provision

COMMUNITY DEVELOPMENT AND INFRASTRUCTURE

CLINTON

- Provide tax credits for businesses that invest in community development and infrastructure

TRUMP

- No provision

PROFIT-SHARING AND APPRENTICESHIPS

CLINTON

- Provide tax credits for businesses that implement profit-sharing and apprenticeships.

TRUMP

- No provision

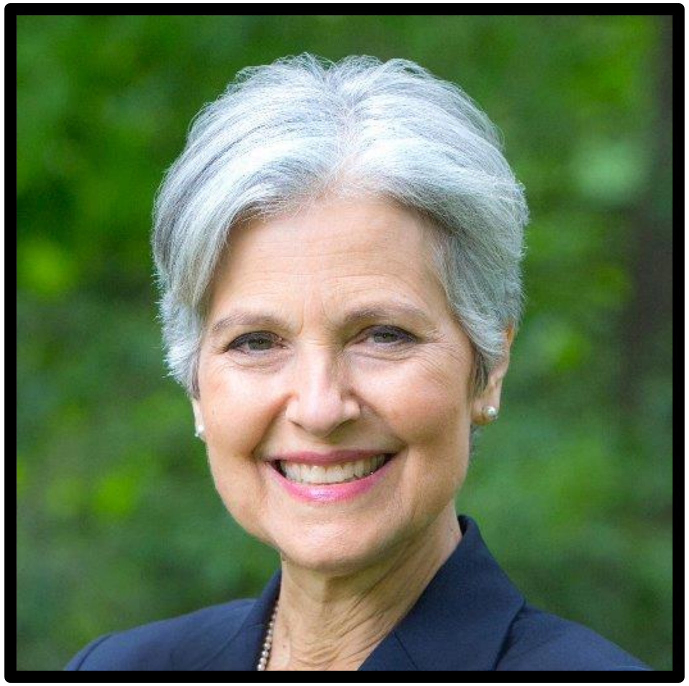
GARY JOHNSON, LIBERTARIAN

- Replace all income and payroll taxes with a single consumption tax.

- Similar to Fair Tax national sales tax with a rebate for the amount spent on basic necessities.

JILL STEIN, GREEN PARTY

- **Rewrite the entire tax code to be more progressive.**
- **Make Wall Street, big corporations, and the rich pay their "fair share" of taxes.**
- **Require full disclosure of corporate subsidies including corporate tax subsidies.**
- **Remove the cap on social security taxes above a certain level of income.**
- **End all subsidies for fossil fuels and impose a greenhouse gas fee/tax to charge companies that pollute.**
- **Prohibit the use of Low Income Housing Tax Credits to increase low income housing in already segregated neighborhoods.**



HOUSE GOP PLAN – "A BETTER WAY"
SPEAKER PAUL RYAN (R-WISC.)

INDIVIDUAL TAX CHANGES

- **Tax Rates.** Collapses the current seven tax brackets into three, 12%, 25%, and 33%.
- **Capital Gains, Dividends, and Interest Income.** Provides a 50% exclusion for capital gains, dividends, and interest income, with a maximum 16.5% rate.
- **Standard Deduction Increase.** Increases the standard deduction from $6,300 to $12,000 for singles, from $12,600 to $24,000 for married couples filing jointly, and from $9,300 to $18,000 for heads of household.
- **No Personal Exemption, Refundable Dependent Credit.** Replaces the $4,050 personal exemption with a $500 nonrefundable credit for dependents who are not children.
- **Child Tax Credit.** Increases the Child Tax Credit to $1,500 per child and raises the income phase-out threshold. Limits the refundable amount of the credit to $1,000.
- **Most Itemized Deductions Gone.** Eliminates all itemized deductions except the mortgage interest deduction and the charitable contribution deduction.
- **Health Insurance Exclusion.** Caps exclusion for employer-provided health insurance.
- **AMT.** Eliminates the individual alternative minimum tax.

BUSINESS TAX CHANGES

- **Corporate Tax Rate.** Reduces the corporate income tax rate from 35% to 20%.
- **Tax Rate on Pass-through Income.** Sets a maximum 25% tax rate on income from pass-through entities.
- **No Corporate AMT.** Abolishes the corporate alternative minimum tax.
- **Territorial Tax System.** Changes the U.S. worldwide tax system to a territorial system which only taxes economic activity within a country's borders. This change would exempt 100 percent of dividends from foreign subsidiaries from U.S. income tax.
- **Low Rate on Repatriation of Foreign Earnings.** Taxes offshore accumulated foreign profits of U.S. multinationals at a rate of 8.75 percent for cash and cash-equivalent profits and 3.5 percent on other profits.
- **Border-Adjustable Income Taxes.** Makes business income taxes border-adjustable by imposing a "destination-based cash flow tax." No tax on exports but tax on imports, which is similar to what other countries do with the VAT tax.

HOUSE GOP'S DESTINATION-BASED CASH FLOW TAX

- Revises the corporate income tax to be border-adjustable.
- Only revenue raised from business transactions in the U.S. would be taxed.
- The tax is levied based on where the good ends up (destination), rather than where goods are produced (origin).
- Revenue from sales to nonresidents would not be taxable, and the cost of goods purchased from nonresidents would not be deductible.
- **Example:** If a business purchases $100,000 in goods from an overseas supplier, the cost of those goods would *not* be deductible against the corporate income tax. If the business sells goods to a foreign person, the revenues would *not* be included in the corporation's taxable income.

MORE BUSINESS TAX CHANGES

- **Eliminates Depreciation, Allows All Expensing.** Businesses would be allowed to immediately deduct the entire cost of all both tangible and intangible assets rather than be required to depreciate or amortize these expenditures over time.
- **No Net Interest Expense Deduction.** Disallows a current deduction for net interest expense. Allows net interest expense to be carried forward indefinitely and be deducted against net interest income in future years.
- **NOLs.** Restricts net operating losses so they can only offset 90 percent of net taxable income. Eliminates NOL carrybacks but allows an unlimited carryover period and indexes NOLS for inflation.
- **Domestic Production Deduction, Other Incentives.** Eliminates the Sec. 199 domestic production activities deduction and all other business credits, except for the research and development (R&D) credit.

ESTATE AND GIFT TAXES

- Repeals the federal estate, generation-skipping, and gift taxes.

IRS ADMINISTRATION

Department of the Treasury
Internal Revenue Service

- Reorganizes the IRS into three major units: families and individuals, businesses, and an independent “small claims court” unit.
- **Families and Individuals Unit.** Customer service to taxpayers.
- **Business Unit.** For businesses of all sizes and types, including specialists with expertise on the issues facing start-up entrepreneurs and small businesses and specialists with expertise on the issues facing large domestic companies and American-based global corporations.
- **New Small Claims Court Unit.** A “small claims court” unit to handle disputes with taxpayers would be created and would be independent of the IRS.

A LOOK AT ONE CONGRESSIONAL VAT PROPOSAL:
REP. JIM RENACCI (R-OHIO)

SIMPLIFYING AMERICA'S TAX SYSTEM (SATS)

- Reduce individual income tax rates to 10%, 25%, and 35%. (Highest rate applies on income above $750,000 for singles and $1,500,000 for married couples).
- Increase standard deduction so no tax liability for families up to $50,000.
- Eliminates all itemized deductions except two, charitable contributions and mortgage interest up to $500,000 of debt.
- Expands the Earned Income Tax Credit (EITC).
- Eliminates the AMT.
- Replaces corporate income tax with a 7 percent value-added tax (VAT).
- Imposes a one-time tax on accumulated foreign earnings held abroad of 8.75% for profits held as cash and cash-equivalents and 3.5% on other assets.

QUESTIONS?

Oct. 13, 2016

Grading the Candidates' Tax Plans: WHAT WILL CLINTON & TRUMP DO FOR YOU?

David L. Sjoquist

THE CENTER FOR STATE AND LOCAL FINANCE

Georgia State University | Andrew Young School
CENTER FOR STATE & LOCAL FINANCE

Background Information

Federal Expenditures (in billions)		
Interest on Debt	$223.2	6%
Mandatory Expenditures	$2,297.2	62%
Discretionary Expenditures		
Defense	$583.3	16%
Nondefense	$584.7	16%
TOTAL	$3,688.3	100%

Federal Revenue (in billions)		
Income Taxes + Miscellaneous	$2,184.6	58%
Payroll Taxes	$1,065.3	29%
Borrowing	$438.4	13%
TOTAL	$3,688.3	100%

Source: Congressional Budget Office (FY 2015)

Revenue Effect – Static Estimate (in billions)

	10-Year	Annual Avg.	10-Year	Annual Avg.
	Clinton		Trump	
Tax Foundation	+$498.0	+$49.8	-$5,906.0*	-$590.6
Tax Policy Center	+$1,363.8	+$136.4	-$6,150.4	-$615.0

* -$4,368 if pass-through income is not taxed at 15 percent.

Distributional Analysis

	% Change in After-Tax Income			
	Clinton		Trump	
Percentile	TPC	TF	TPC	TF
0-20	+0.7	0	+0.8	+1.2
20-40	+0.4	0	+1.2	+0.8
40-60	+0.2	0	+1.8	+1.3
60-80	+0.1	0	+2.2	+1.9
80-90	-2.6	0	+6.6	+6.5*
90-100		-0.7		+8.3*
99-100	-7.4	-1.7	+13.5	+16.0*

*4.4%, 5.4%, and 10.2% if pass-through businesses are not taxed at 15 percent.

Economic Effects

- Savings
- Investment
- Labor/Work
- Economy (macro effects)

Four Examples

	Current	Clinton	Trump
Single parent, one child under 3, $8,000 in earned income	-$3,470	-$4,720	-$3,776
Single individual, $30,000 in earned income	$2,484	$2,483	$1,800
Married couple with two children (one under 3), earnings of $61,000, capital gains and dividends of $2,000 each	$1,902	$1,202	-$1,160
Single individual, $200,000 in earning, $50,000 in itemized deductions	$33,903	$33,903	$35,625

Negative values are rebates.

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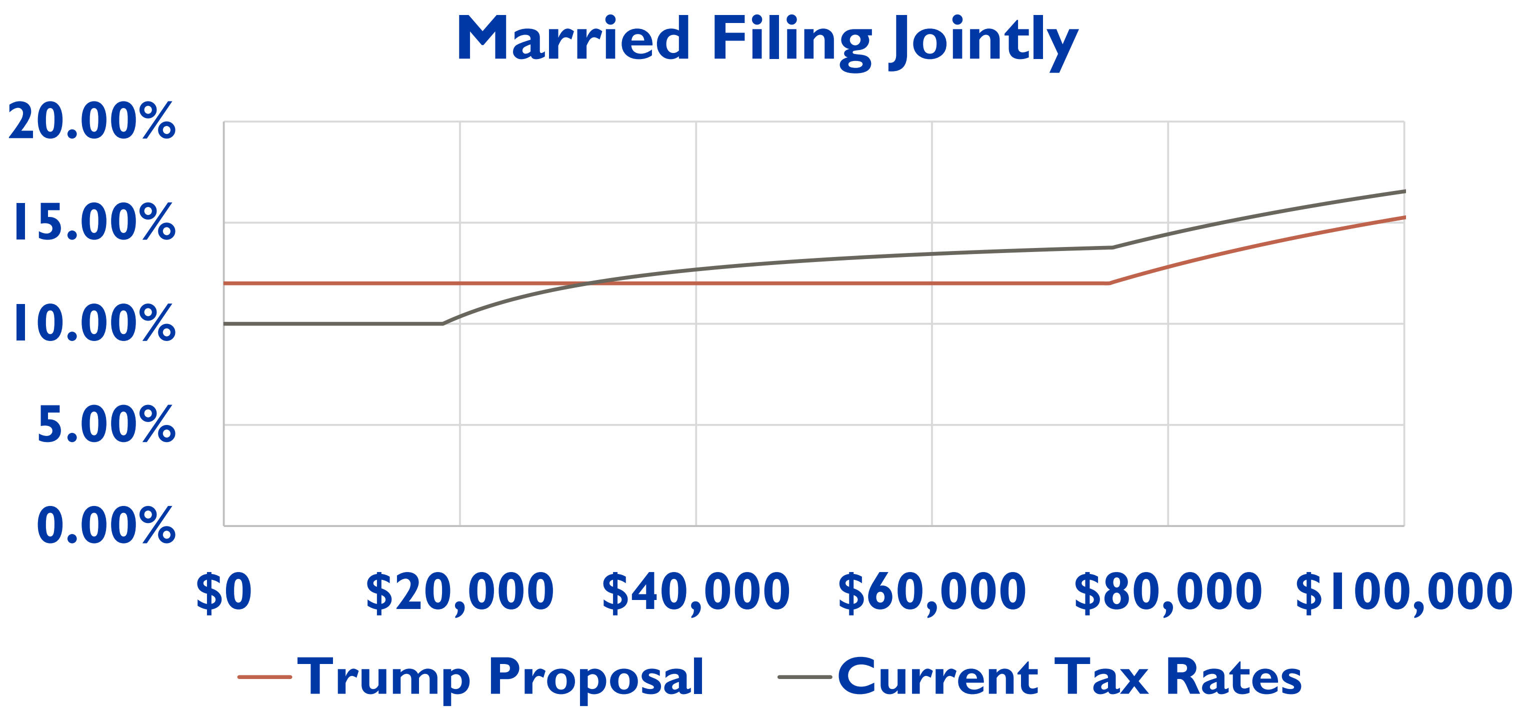
Taxes as Percent of Taxable Income



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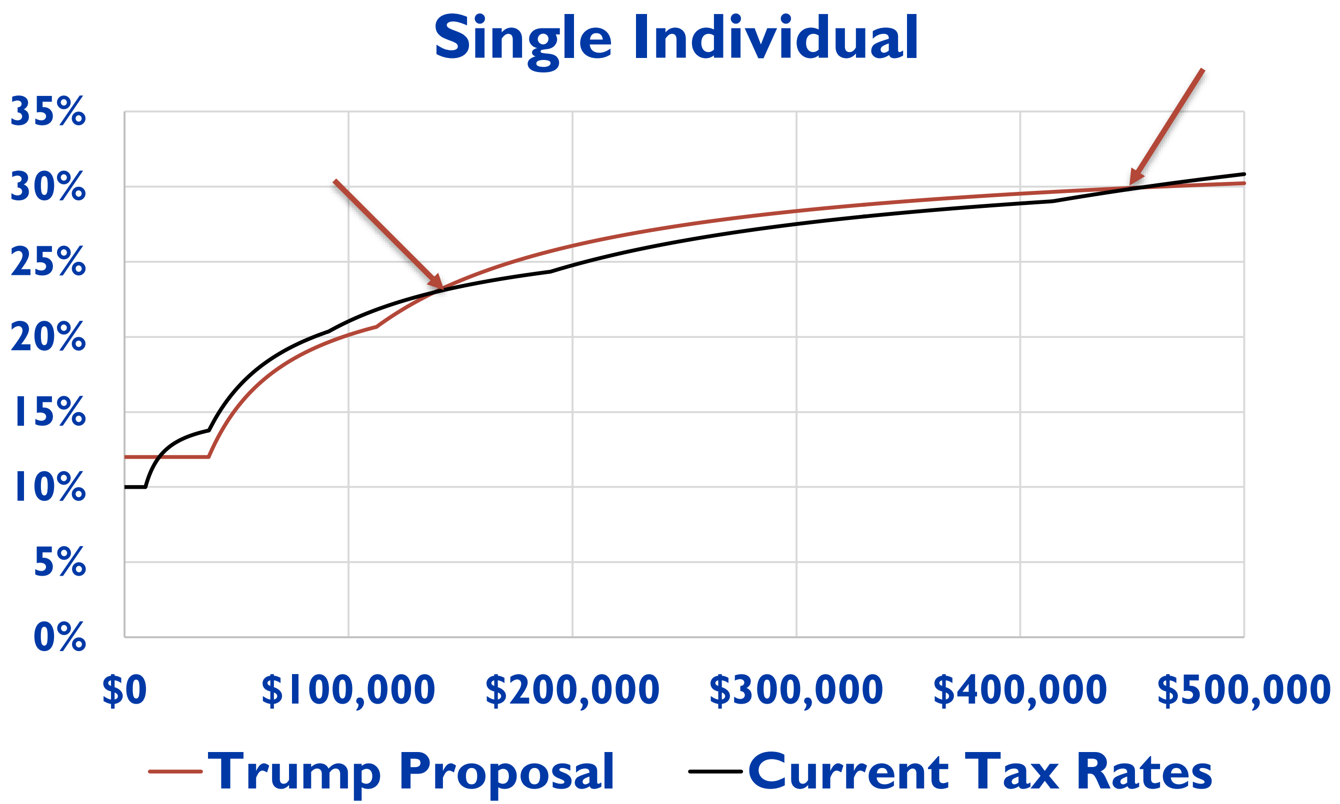

Clinton Child Care Proposal

Assume two children under 5, earnings of $15,000

Child Care Credit:

Current program: credit = $1,800

Proposed program: credit = $4,000

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Tax Value of Trump "Child Care Deduction"

Adjusted Gross Income	One worker, one child	Married, one worker, one child	One worker, two children
$25,000	$765	0	$956
$30,000	$765	0	$956
$35,000	$982	$600	$1747
$40,000	$1,200	$1,200	$1,965
$45,000	$1,200	$1,200	$1,582

The BIG Differences

Issue	Clinton	Trump
Tax Revenue	Small increase	Large decrease
Tax Rates on High-Income Filers	Large increase	Large decrease
Estate Tax	Increase	Eliminate
Taxes on Business	No real change	Large decrease

The Good, the Bad, and the Ugly

The Good	
Clinton	**Trump**
Small business simplification	Cut marginal tax rates
Eliminate subsidies for fossil fuel	Eliminate carried interest
Eliminate carried interest	

The Bad/Ugly	
Clinton	**Trump**
Minimum 30% tax	15% rate on pass-through income
Holding period for capital gains	State of residence exemptions