The Trump-Republican Theat to Fair Taxes and Fiscal Integrity

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The Scope of the Trump Tax Cuts

Medicaid, SNAP and other budget cuts are necessary to the Republicans in order to pay for part of the huge tax cuts they plan on creating in the reconciliation bill. That's not to say that those tax cuts will be paid for—nothing could be farther to the truth. Indeed, if the Republicans enact all the tax cuts they have been talking about and no cuts are made to federal budgets, lost revenue would equal revenue losses would total—and deficit increases would equal the deficit would increase by some estimate by roughly $7.7 trillion over ten years and $9 billion if additional the interest costs that result from higher debt levels are including in the estimate.[1]

At this point in the budget reconciliation process, we cannot be sure what tax provisions will be in the final bill, and we expect the total tax reduction will be scaled down substantially to fit within the budget resolutions requirement that the total bill not add more than $5 trillion to the deficit.

This brief reviews and evaluates the central tax ideas Trump and the Republicans have been putting forward this year and their antecedents in the 2017 Tax Cuts and Jobs Act (TCJA). It shows how the various Trump tax plans are heavily skewed individually and together to benefit the richest people in America while offering very little in tax cuts to those at the bottom and in the middle.

The Cost of Extending the 2017 Tax Cuts

The center piece of the Trump-Republican tax plan is the extension of the 2017 Tax Cut and Jobs Act (TCJA) tax cuts for individuals, which will otherwise expire at the end of the current year.

The 2017 Tax Cuts Provided Few Economic Benefits

Before looking at which groups of people benefited the most from the 2017 tax cuts, and which who will benefit from their extension, let's just review their limited benefits for the economy as a whole.

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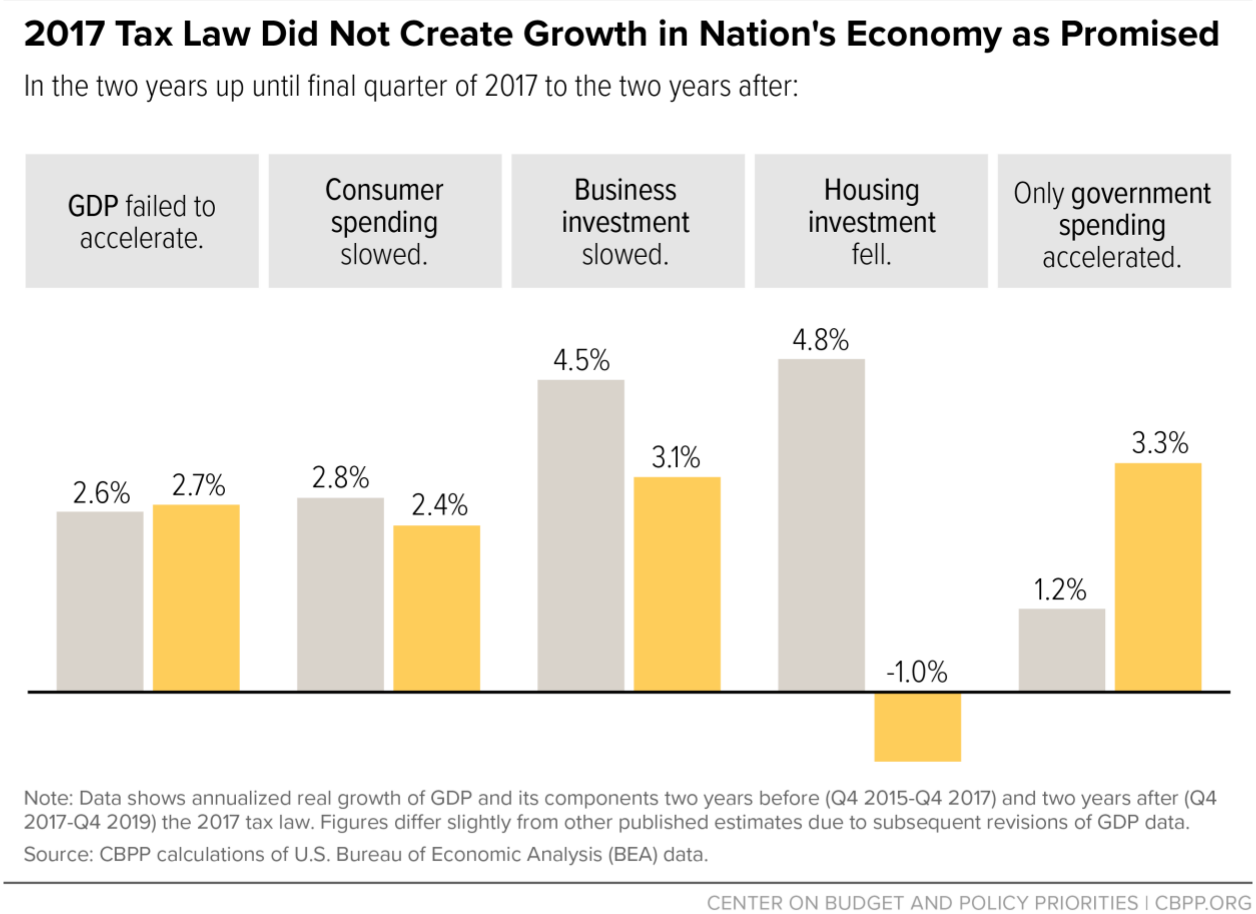
1. Peter G. Peterson Foundation, "Full Array of Republican Tax Cuts Could Add $9 Trillion to the National Debt," March 31, 2025, https://www.pgpf.org/article/full-array-of-republican-tax-cuts-could-add-9-trillion-to-the-national-debt/. This analysis includes the impact of making the 2017 Tax Cut and Jobs Act (TCJA) individual tax cuts permanent; restoring the full deduction of state and local taxes; extending the TCJA estate and pass-through business tax cuts exempting Social Security Benefits, Overtime Pay, and Tips from income tax; creating an itemized deduction; and lowering the corporate tax rate to 15% for domestic production.

In addressing the impact of proposed tax cuts on the budget our preference is to use static analyses from centrist or even right-leaning analysts such as the Peterson Foundation or the Tax Foundation. We ignore so-called dynamic analyses that assume that tax cuts will lead to economic growth that will in turn limit some of the revenue lost form tax cuts. As our review of the impact of the 2017 tax cuts on the economy below shows, these dynamic analyses tend to extremely over-optimistic about the impact of tax cuts for businesses and the rich.

However, when it comes to examining the distributional impact of tax cuts on households at different income levels, we rely on the Institute for Tax and Economic Policy (ITEP) and the Tax Policy Center, a joint project of the Urban Institute and Brookings Institution. The reason we do this is that, as we explain in footnote 8, ITEP and the Tax Policy Center try to take into account the full range of income households receive at both the top and bottom of the income scale. Analyses of the distribution of tax cuts that are based on, say, Adjusted Gross Income reported on tax returns, leave out a great deal of income received by US taxpayers.

Recall that the 2017 individual tax cuts were coupled with deep tax cut for corporations. Yet, together, they had very little positive impact on the economy.

The chart below from the Center on Budget and Policy Priorities compares the two years up to the final quarter of 2017 before the 2017 tax cuts went into effect with the two years after.



GDP increased slightly. But consumer spending, housing investment, and business investment all slowed. This should not surprise us. As I wrote soon after the tax cuts were enacted,

Republicans defend the huge tax breaks to business as a way to generate more business investment that will, in turn lead to economic growth. Though the American economy continues to grow as the effects of the Great Recession move into the past, additional investment might lead to faster growth. But there is no reason to think that tax cuts for business will generate new investment.

With corporate savings and business profits near record highs with while interest rates are near record lows businesses have little trouble find funds to invest. What American businesses do need is new customers who can purchase their good and service. But finding those customers is hard because incomes for all but the top 1% are stagnant. So, what does the House bill do? It provides more income for the very rich — exactly the people who are least likely to spend their additional income.

What would increase consumer demand is a substantial increase in the post-tax income of working and middle class families as a result of targeted tax cuts or, even better, increased wages brought about by a higher minimum wage; support for labor organizing; new infrastructure spending; expansion of programs that benefit working people; or reductions in health care premiums and out of pocket expenses.

But the tax cut did little to increase post-tax income of working and middle class families. So as can see from the chart, consumer spending actually fell despite the huge individual tax cuts. Thus, despite higher deficits and government spending, which would normally lead to faster economic growth, we saw little economic acceleration in the two years after the tax cut was adopted/

Perhaps one reason that the economy did not grow quickly despite the stimulus of increased government spending and a larger government deficit is that interest rates, which were already increasing before the tax cuts accelerated due to those deficits.

William Gale, Jeffrey Hoopes, and Kyle Pomerleau concluded that, "Aggregate studies generally do not find a significant short-term impact of the [Tax Cuts and Jobs Act] on macro variables such as GDP, investment, employment, and labor compensation.[2]

Nor has research on particular elements of the individual tax cuts shown any substantial economic benefit. For example, while it is clear that the much-touted 20 percent deduction for pass-through business income mostly benefited those at the top, there is little evidence that it provided any general economic benefit at all.[3] Yet more than half of the benefit of the pass-through deduction in 2018 was received by households with $820,000 or more in income and nearly two-thirds went to those with more than $400,000.[4]

We will see in a moment that the TCJA substantially increased the deficit. While the Trump administration claimed that the tax cuts would lead to increased revenues, the truth is that they did not.

The 2017 Tax Created Huge Deficits; So Will The 2025 Extension

The Congressional Budget Office projected in 2018 that the TCJA would reduce revenues by 1.9 trillion over ten years and that is essentially what occurred.[5] As a consequence, revenue as a share of gross domestic product (GDP) fell from about 19.5 percent in the years immediately preceding the Bush tax cuts to just 16.023 percent in the years immediately following the Trump tax cuts. While revenue as a share of GDP went up as the economy recovered from the pandemic to 18.8 at the start of 2022, it has since fallen again to 16.85%[6]. Falling revenue is of course one reason that the deficit has grown.

Extending the 2017 tax cuts will be very expensive. The Institute on Tax and Economic Policy (ITEP) estimates that the revenue loss in 2026 alone will be $466 billion Over ten years. Over ten years, from fiscal 2026 to 2035, the total cost of extending the individual tax cuts in the TCJA is estimated to be between $4.1 trillion and $4.9 trillion.[7]

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2. William G. Gale, Jeffrey L. Hoopes, and Kyle Pomerleau, "Sweeping Changes and an Uncertain Legacy: The Tax Cuts and Jobs Act of 2017" (August 01, 2024), https://ssrn.com/abstract=4846721.

3. Lucas Goodman et al., "How Do Business Owners Respond to a Tax Cut? Examining the 199A Deduction for Pass-through Firms," NBER Working Paper 28680, November 2022, https://www.nber.org/system/files/working_papers/w28680/w28680.pdf.

4. Joint Committee on Taxation, "Present Law and Background Regarding the Federal Income Taxation of Small Businesses," JCX-10-23, June 5, 2023, https://www.jct.gov/publications/2023/jcx-10-23/.

5. Congressional Budget Office (CBO), "The Budget and Economic Outlook: 2018 to 2028," April 9, 2018, https://www.cbo.gov/publication/53651.

6. Data from Federal Reserve Ban of St. Louis; U.S. Office of management and Budget via FRED. https://fred.stlouisfed.org/series/FYFRGDA188S.

7. The Tax Policy Center estimate is $ 4.4 trillion. Tax Policy Center, Impact on federal tax revenue for fiscal years 2026-35 of extending certain provisions in the 2017 Tax Act (the Tax Cuts and Jobs Act, or TCJA), https://taxpolicycenter.org/model-estimates/t25-0031-extend-certain-provisions-2017-tax-act-impact-tax-revenue-2026-

The 2017 Individual Tax Cuts Were Unfair; The 2025 Extension of Them Will be as Well

The evidence that the Trump tax cuts are well known to have been skewed heavily to the rich. The most detailed analysis of the impact of the law, by the Tax Policy Center, shows just how much better the richest Americans did under the TCJA than those of us in the working and middle class. Those in the lowest 20% of incomes received an average tax reduction of $70, a tax cut of .4%; those in the middle received an average tax cut off $901, a tax cut of 1.4%. But those in the top .1% got an average tax cut of $252,300, a tax cut of 2.7%.[8]

It stands to reason that extending the 2017 individual tax cuts would also provide tax reductions that are skewed to the rich and the best estimates we have shown exactly that, as in figure 1 from ITEP. It shows the distributive consequences of an extension of the TCJA individual tax cuts for Pennsylvanians in the first year of the extension, 2026. the difference between the benefits for those at the top and those at the bottom resemble the impact of the 2017 law, as one would expect for an extension of it.[9]

This chart does not include any changes to the deduction of state and local taxes—the so-called SALT provisions, which we discuss below. Nor does it include any estimate of the impact of tariffs. We discuss them below.

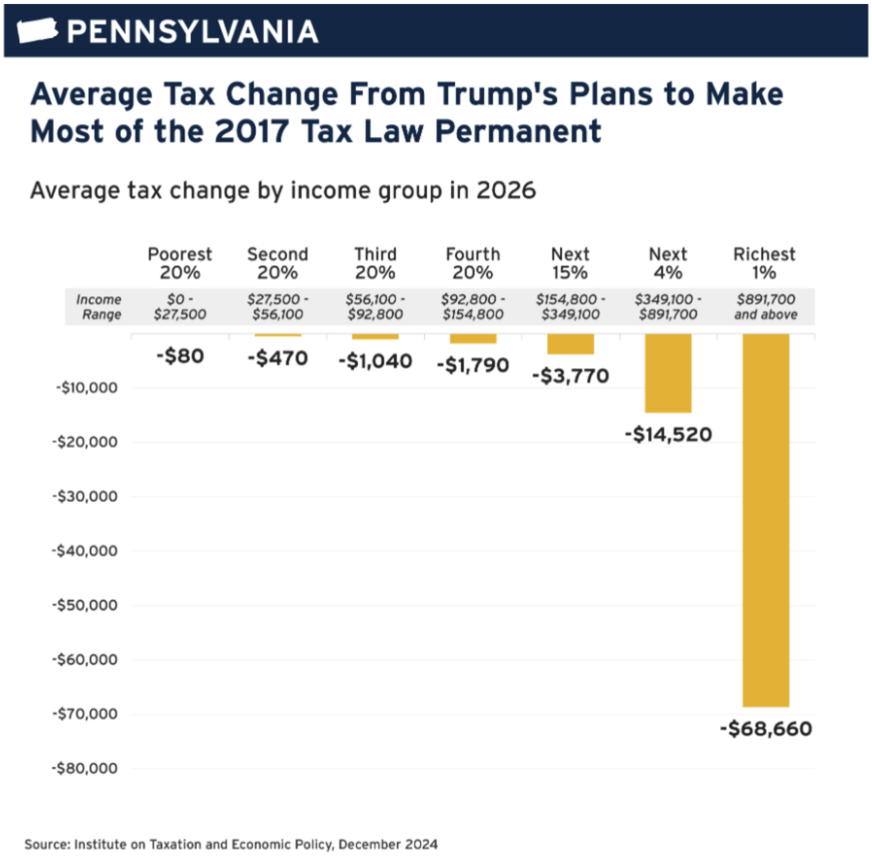
Figure 1

35-fiscal. The Peter G. Peterson Foundation estimates of $4.9 trillion includes the additional interest costs of additional deficits created by an extension of the tax cuts. Peter G. Peterson Foundation, "Full Array of Republican Tax Cuts Could add $9 Trillion to the National Debt," https://www.pgpf.org/article/full-array-of-republican-tax-cuts-could-add-9-trillion-to-the-national-debt/. The US Treasury Office of Tax Analysis estimate, which does not include the cost of additional interests is $4.1 trillion. https://home.treasury.gov/system/files/131/The-Cost-and-Distribution-of-Extending-Expiring-Provisions-of-TCJA-01102025.pdf.

8. I am aware that there are reports available from conservative sources that dispute these numbers and show a much larger percentage cut for people with low-incomes and a larger percentage cut for those with higher incomes. So let me briefly explain the difference. Those studies typically look at tax returns and estimate the impact of a change in individual tax rates on adjusted gross income. Looking at the impact of taxes in this way leaves out a great deal of income and also the distribution of post-tax income gained as a result of corporate tax cuts. Some of the excluded income benefits mainly the rich and some middle class folks, such as realized and unrealized capital gains, tax-exempt interest, the inside buildup of direct contribution retirement plans, pension accruals in defined benefit plans, employer contributions to pension plans and fringe benefits, the employer's share of payroll taxes, and non-taxable pension distributions and the like. Obviously the very rich benefit a great deal more than the middle class from some of these sources of incomes especially those connected to corporate profits. Other income excluded from adjusted gross income mainly goes to working people and the poor such as non-taxable Social Security benefits, supplemental social security, TANF, SNAP. When you exclude income earned by any income group, their post-tax income from a reduction in taxes will look larger as a percentage of income. And when you exclude income from a group that is taxed much less under a new tax law, the reduction in post-tax income will look smaller. Since transfer payments mainly go to those with lose incomes, excluding their income makes their tax cuts look relatively larger. On the other hand, since the rich secure most of the income directly or indirectly from corporate profits, excluding that income vastly understates the impact of corporate tax change on their post-tax income.

The data in this table is based on what the Tax Policy Center calls "expanded cash income (ECI)." ECI includes the various kinds of income not included in adjusted gross income described above. A summary of how the Tax Policy Center constructs ECI can be found here: https://taxpolicycenter.org/sites/default/files/alfresco/publication-pdfs/412871-Measuring-Income-for-Distributional-Analysis.PDF?fbclid=IwY2xjawJ_hAVleHRuA2FlbQIxMABicmlkETBINXZLeWJvRUhacUJNVXZGAR5AGoQk91Q2roKtbLlnBxaIKngF-shNVXbLPWWbNO9I8EbCxc260d0rgwsCDA_aem_8VenV-okfWWTO32SIRmk9w.

9. This ITEP charts shows the impact of an extension of the 2017 tax cuts with one exception. It assumes that the cap on the state and local tax deduction is eliminated as President Trump (and House Republicans in some high tax states) demand. If the SALT cap is retained or just raised, benefits to the richest taxpayers will be somewhat lower as it is primarily those taxpayers who can take advantage of the deduction.



Source: ITEP, Trump's Plan to Extend His 2017 Tax Provisions: Updated National and State by State Estimates, January 8, 2025. https://itep.org/trump-tax-law-temporary-provisions-without-salt-cap/ .

Other Tax Cuts Are Unfair and Will Also Benefit the Rich

President Trump has proposed a number of other tax changes, some of which are likely to be added to the final reconciliation bill. Here we examine a few of them.

Eliminating the SALT Cap

Republican (and some Democratic) members of Congress from states with relatively high state and local taxes have been bemoaning the $10,000 cap on the deductibility of such taxes from federal taxes since it was enacted in 2017. And they are threatening to vote against a budget reconciliation bill that does not lifts or eliminate the State and Local Tax (SALT) cap.

Some progressive argue that the SALT deduction reduces the impact of high state and local taxes on taxpayers, thus encouraging states to enact higher taxes and expanding public goods. But so many other factors are clearly far more important in determining state and local tax policy.

And we think there are strong reasons for progressives, especially in Pennsylvania to oppose lifting the SALT cap. For one thing, Pennsylvania state and local taxes, either on a per capita or share of personal income basis are not high. So, Pennsylvanians would not benefit much from a lifting or eliminating the cap.

Second, and more importantly, the households that benefit from SALT deduction are overwhelmingly those with higher incomes. The Tax Policy Center estimates that households with incomes of less than $200,000 would see no change in their taxes.[10] Most of them do not itemize now and would still not do so if the SALT cap were raised or eliminated. On the other hand, households with incomes in the 90th to 99th percentile, making between roughly 430,000 and $1 million in income would get a tax cut averaging $1,400, about 0.3 percent of their after-tax income.

Meanwhile the revenues lost from raising or eliminating the SALT cap are substantial. Doubling the SALT cap from $10,000 to $20,000 would cost $225 billion over ten years. Raising it to $30,000 would cost even more. And eliminating it entirely would cost, on some estimates, $1 trillion over that time according to the conservative Tax Foundation. .

Eliminating Taxes on Tips

Trump's promise to eliminate taxes on tips goes back at least to his primary campaign in Nevada which has the highest rate of tipped workers in the country—3.7%. That rate, however, is almost 2 percentage points higher than the average in the country. While a tax on tipped workers initially strikes one as an advance for working people, it will have an impact on very few workers, even in Nevada.

Nor would an elimination of taxes on tips shift taxes in the United States taxes in a very progressive way, depending on how the plan is designed. Figure 2 shows how the share of all tax reductions is distributed under three different proposals.

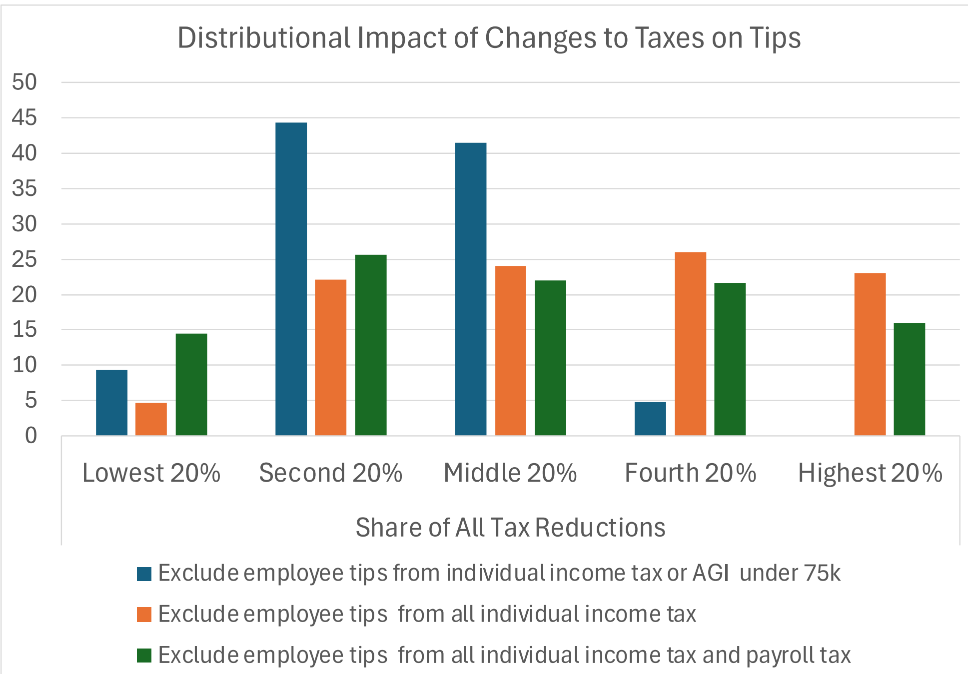
The first excludes employee tips from income taxes for those with an adjusted gross income under 75,000. In that case most of the benefits of the tax reduction plan goes to those in the second and third quintile. Nothing goes to the highest quintile. The overall impact on the federal tax system is to make it a bit more progressive, although the bottom 20% benefit little.

10. Howard Gleckman, "A $20,000 SALT Cap would be costly a Mostly Benefit High-Income Households," Tax Policy Center, January 9, 2025, https://taxpolicycenter.org/taxvox/20000-salt-cap-would-be-costly-and-mostly-benefit-high-income-households.

The second plan excludes tips from income taxes for all, which leads to 45% of the tax benefits going to the top 40% of taxpayers and less than 5% going to the bottom 20%. This plan makes the tax system more regressive.

Finally, the third plan excludes tips from both income and payroll taxes. Because the bottom 20% of taxpayers pay more in payroll taxes than income taxes, this plan gives them a great share of the tax benefit. This third plan, like the first, makes the tax system slightly more progressive although, again, the second and third quintiles save more on their taxes than the lowest one.

Figure 2



Source: Pennsylvania Policy Center based on data from Peter G. Peterson Foundations, Not Taxes on Tips Would Drive Deficits Higher, April 2, 2025, https://www.pgpf.org/article/no-taxes-on-tips-would-drive-deficits-higher/.

On the whole, then, eliminating taxes on tips does not make the tax system more progressive or, as we sometimes say, "vertically equitable." It will remain the case that adding this provision to the 2025 tax bill will not change the overall regressive impact of it. Those at the top of the income scale will get larger tax cuts in absolute and percentage terms than those at the bottom.

But eliminating taxes on tips will make the tax system less equitable form a horizontal point of view. Horizontal equity simply means that those with the same income pay at the same effective rate. The US tax system already departs from horizontal equity in many ways. Some are justified, including variations in taxes based on the size of a family. Others are more problematic. For example, capital gains and, since the 2017 tax cuts, pass-through business income, is taxed at lower rates than wage income with little evidence that either policy is necessary to increasing economic growth. The proposal to eliminate taxes on tips adds one more inequity to the system in that someone whose income consists 80% of wages and 20% of tips will pay less in taxes than someone with the same total income all of which is from wages.

There is simply no moral or practical argument for introducing this new element of horizontal inequity into our tax system. There is no reason why those who earn tips should get a tax break over those who earn wages.

And there are at least two very good reasons not to eliminate the tax on tips. The first is that tipped workers often understate their tipped income because such income is very hard to trace.[11] The second and most important one is that providing a tax break for tipped work might lead to more workers having to rely on tips as businesses reclassify workers as tipped workers, encouraging patrons to supplement wages with this. This is bad for workers for multiple reasons:

- Tipped workers, especially women, are much more subject to sexual and other forms of harassment.
- Tipped workers in most states and in those states subject to federal laws, are paid a much lower minimum wage. The federal minimum wage is $7.25. The federal minimum wage for tipped workers is $2.13.
- Tipped worker is more economically unstable than wage work as tips fluctuates far more than wages.
- Tipped workers might lose safety net benefits such as the earned income tax credit and child tax credit, which are based on wage income. Lower wage income would lead to lowers safety net benefits.

Finally, while making the tax system less fair, the proposal would increase budget deficits for no good reason. How much it would do so is difficult to estimate both because we don't really know how much people earn from tips and because we don't know how many workers would have their status changed to become tipped workers. Estimates of the lost revenues from eliminating individual taxes on tips range from $107 to $118 million over ten years; of eliminating individual and payroll taxes on tips from $195 to $200 million.[12] But if we assume that the number of tipped workers increase by those estimate increase by 10% the revenue lost goes up by a similar percentage. And some studies suggest that the number of tipped workers might go up by 50% or 100% leading to revenue losses of more than $300 to $400 million over ten years if tips are excluded from all taxes.

Other proposals

Donald Trump also proposes eliminating taxes on overtime pay and on Social Security Benefits.

First, both proposals are costly. The best estimate we have is that eliminating the tax on Social Security benefits would cost $1.18 trillion over ten years. Eliminating taxes on overtime pay would cost $747 million over ten years.

Second both policies exacerbate horizontal inequity by, again, taxing different kinds of income at different rates for reasons that are not at all clear.

And third, neither policy helps those at the bottom very much. Employers of low-income workers ten not to use overtime much because they want to hold wages low. For example, fast food restaurants try to minimize their payrolls by sending workers home at slow time. And to ensure they sufficient workers when they need them, they keep many employees on the pay roll working part time. And while payroll taxes take a substantial share of their income, low-income workers pay little in income taxes.

Finally, while these policies might provide some tax benefits to households in the middle, they do not make up for the regressive nature of other tax cuts.

11. I did tipped work for many years at a number of different establishments each of which employed about 30 tipped workers. Very few even tracked their tips that carefully. No one reported every dime they earned in tips.

12. Peter G. Peterson Foundation No Taxes on Tips Would Drive Deficits Higher, April 4, 2025 https://www.pgpf.org/article/no-taxes-on-tips-would-drive-deficits-higher/.

Figure 3 shows ITEP's estimate of the distributional impact of exempting social security, Overtime and Tips clearly shows that, taken together, far higher benefits go to the 90th to the 99th percentile of households than to those at the bottom.

Figure 3

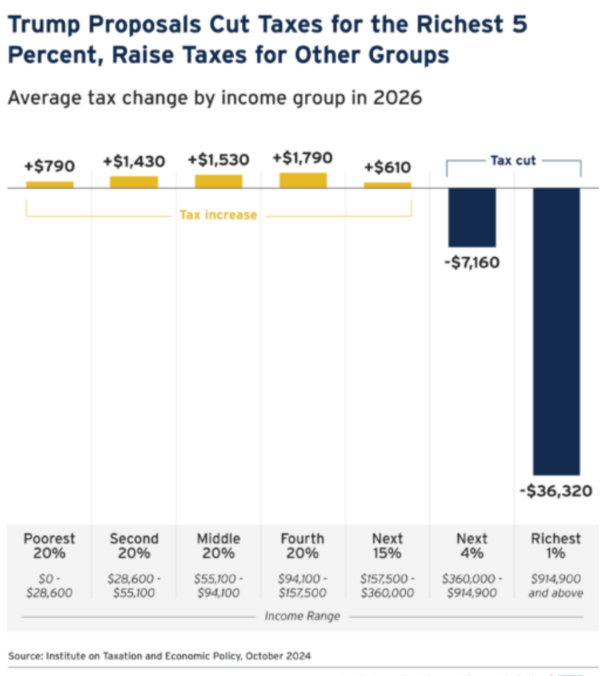
Impact of Exempting Social Security, Overtime, and Tips from Income Taxes							
Income category	Poorest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Richest 1%
Income range	$50-28,600	$28,600-55,100	$55,100 - 94,100	$94,100-$157,500	$157,000-$360,000	$360,000-$914,900	$914,900 and above
Average tax change	-$50	-$190	-$870	-$1,790	-$3,420	-$3,660	-$3,470

Tariffs will Make Trump Tax Changes Even More Unfair

Tariffs are, Donald Trump's views notwithstanding, a tax. So, to truly estimate the impact of the Trump-Republican tax cuts, we have to take into account the impact of tariffs.

This is extremely difficult to do for the simple reasons that Trump's tariff policy changes almost daily.

But to get a sense of the impact, at the end of the paper we present a tentative analysis from ITEP in figure 4, which takes into account all of the tax idea discussed above while estimating the impact of a 20% across the board tariff and a 60% tariff on China.



Source: Steve Wamhoff et. al, A Distributional Analysis of Donald Trump's Tax Plan, Institute on Tax and Economic Policy, October 7, 2024, https://itep.org/a-distributional-analysis-of-donald-trumps-tax-plan-2024/.

Tariffs raise taxes for almost all income groups except those in the top 5%, totally swamps the individual tax cuts. As we have pointed out before, tariffs—in addition to tax cuts that mainly benefit those at the top, and budget cuts that mainly harm those at the bottom and middle—are one of the three legs of the stool that makes up Trump effort to tilt our economy even further to the benefit of the ultra-rich and corporate elite at the expense of working people and the middle class.