Comparison of Clinton and Trump Tax Proposals

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As the 2016 Presidential Election approaches the Democratic and Republican candidates and their staff are busy refining and promoting their respective economic and tax reform proposals. While neither candidate is proposing a real fundamental change to our system of taxation both have put forward proposals that would significantly impact both individuals and businesses. As expected, Clinton's proposals generally follow those of the current administration, such as using the tax code to extract additional revenues from wealthy taxpayers in order to redistribute income and fund other initiatives, while Trump's proposals follow the traditional Republican approach of reducing taxes, both for businesses and individuals, in order to stimulate economic growth.

In terms of revenue and expenses, the non-partisan, non-profit Committee for a Responsible Federal Budget (CRFB) estimates that over the next 10 years the Clinton Tax Plan would raise $1.55 trillion in revenue (which she has earmarked to fund various spending initiatives) and that the Trump Tax Plan would cost $4.50 trillion. Taking into account not just taxes but all aspects of the Clinton and Trump economic proposals, the CRFB estimates that Clinton would add $200 million whereas Trump would add $5.30 trillion to the federal deficit over the next 10 years.

Promises and Price Tags: A Preliminary Update

The below chart compares the major elements of the two competing tax reform proposals.

CLINTON

CURRENT LAW

TRUMP

INDIVIDUAL TAXATION
Income Tax Rates

Clinton proposes a four percent tax surcharge on "the top 0.02 percent of taxpayers" to the extent their adjusted gross incomes exceed $5 million. For those with incomes above $1 million, she would install a 30 percent effective tax rate, a version of what has become known as the "Buffett rule."

Clinton's campaign materials do not describe any changes to the AMT.

Under current law, there are seven individual income tax brackets with marginal tax rates of 10, 15, 25, 28, 33, 35, and 39.6 percent.

Current law also imposes an Alternative Minimum Tax (AMT) designed to ensure that taxpayers with income above certain levels pay at least a minimum amount of tax.

Trump proposes the following brackets and rates for married-joint filers (brackets for single filers would be one-half of these amounts):

Taxable income:

- Less than $75,000 (Rate: 12%)
- $75,000-$225,000 (Rate: 25%)
- More than $225,000 (Rate: 33%)

Trump proposes to completely eliminate the AMT.

Capital Gains/Dividends

Under Clinton's plan, taxpayers reporting capital gains held for one to two years would pay their ordinary income tax rate, which currently goes as high as 39.6 percent, just as they do now for gains held less than a year. Gains of two to three years would be subject to a 36 percent rate, and after that the rate would decline by four percentage points each year until it reached the current long-term rate of 20 percent. Clinton proposes to tax the receipt of carried interests as ordinary income.

Under current law, qualified capital gains and dividends are taxed at zero percent for taxpayers in the 10 and 15 percent income tax brackets, 15 percent for taxpayers in the 25, 28, 33, and 35 percent brackets, and 20 percent for taxpayers in the 39.6 percent bracket. The required holding period for long-term capital gains is one year. Hedge fund managers pay capital gains rates on the receipt of so-called “carried interests” as compensation for managing investments.

The Trump plan would retain the existing capital gains rate structure (maximum rate of 20 percent) within the tax brackets shown above. Trump also proposes to tax the receipt of carried interests as ordinary income.

The Affordable Care Act (ACA)

Clinton has expressed her support for the ACA including retaining the additional Medicare tax and expanding the net investment income surtax to business income from pass-thru entities. She has, however, expressed support for repealing the “Cadillac” tax on certain high-cost health plans.

The ACA imposes an additional Medicare tax of 0.9 percent and an additional 3.8 percent surtax on net investment income (including certain capital gains) on taxpayers with income above certain threshold amounts; a medical device excise tax and a 4% so-called “Cadillac” tax on certain high-cost health plans.

Trump proposes to repeal the ACA and this would include repeal of the additional Medicare tax, the net investment income surtax, the medical device excise tax, and the “Cadillac” tax on certain high-cost health plans.

Federal Estate Tax

Clinton proposes to reduce the lifetime exclusion to $3.5 million per estate and increase the rate to 50 percent for estates worth more than $10 million, 55 percent for those worth more than $50 million and 65 percent for those worth more than $500 million and impose income tax on certain bequests of assets with unrealized gains.

For estates of decedents dying after December 31, 2012, the maximum federal estate tax rate is 40 percent with an inflation-adjusted $5 million exclusion (inflation-adjusted to $5.45 million in 2016). Estates receive a stepped-up basis in assets allowing them to be sold free of income tax.

Trump proposes to completely repeal the federal estate tax, but he would income taxes on estates on unrealized capital gains above $10 million. He would disallow contributions of appreciated assets to a private charity established by the decedent or the decedent's relatives.

Child and Elder Care Tax Incentives

Clinton has stated that she will "work to ensure no family pays more than 10 percent of their income on child care by making the Child Tax Credit more generous for working families." However, she has not yet released any specific proposals to expand tax credits for caregiving expenses.

Current law allows a credit for child care and household service expenses of up to $600 to $1,000 per child for up to two children under the age of 13 in order to enable the taxpayer to be gainfully employed. The law also allows a "Child Tax Credit" for each "qualifying child" of the taxpayer of $1,000 which is subject to a phase-out above certain income levels.

Trump proposes to add above-the-line deductions for child care expenses (capped at the average cost of such expenses in the taxpayer's state of residence), a similar deduction for elder care (capped at $5,000/year), expansion of the earned income tax credit, and tax favored contributions of up to $2,000/year to Dependent Care Savings Accounts.

Education Tax Incentives

Clinton's campaign materials do not describe any specific changes to the AOTC or other education incentives. However, Clinton has called for tax relief from college costs for middle-income families. On her website, she also calls for a program to give scholarships of up to $1,500 per year to students who are also parents to help them pay for child care.

Education incentive include the American Opportunity Tax Credit (AOTC), Lifetime Learning credit, tuition and fees deduction, deduction for student loan interest, and savings bonds income exclusion. The benefits phase-out for taxpayers with adjusted gross income over certain thresholds.

Trump's campaign materials do not specifically discuss the AOTC or other education incentives over and above capping deductions and credits based upon tax bracket.

Itemized Deductions/Personal Exemption Phase-out

Clinton proposes to limit the value of itemized deductions to 28 percent for higher-bracket taxpayers. She would also close what the Democrats call the "Romney Loophole" by limiting the ability of the wealthy taxpayers to shelter income in certain tax-preferred retirement accounts.

In lieu of expanding the itemized deduction for medical expenses, she proposes to create a new refundable credit of up to $2,500 for individuals ($5,000 for families) to assist insured individuals facing high out-of-pocket costs for prescription drugs.

Under current law, the deduction for personal exemptions is $4,050 and the standard deduction for taxpayers who do not itemize is $6,300 for singles and $12,600 married filing joint.

Itemizers are subject to the so-called "Pease limitation" which reduces the total amount of a higher-income taxpayer's otherwise allowable itemized deductions, subject to certain limitations. The Personal Exemption Phase-out reduces the total amount of exemptions that may be claimed by higher-income taxpayers.

The Trump plan would increase the standard deduction for single filers to $15,000 and to $30,000 for joint filers. The personal exemption deduction would be eliminated as would the head-of-household filing status. In addition, the Trump plan would cap itemized deductions at $200,000 for Married-Joint filers or $100,000 for Single filers. He has also proposed to phase out "the tax exemption on life insurance interest for high-income earners."

BUSINESS TAXATION

Corporate Tax Rates

Clinton's campaign materials do not describe any specific change to the corporate tax rate. Clinton has called for unspecified measures to "broaden the tax base" in order to lower the rate as a necessary component to being more competitive in the global economy.

The maximum U.S. corporate tax rate currently 35 percent is the third highest in the world, lower only than the United Arab Emirates' rate of 55 percent and Puerto Rico's rate of 39 percent.

Trump proposes to reduce the maximum corporate tax rate to 15 percent and to eliminate the corporate alternative minimum tax.

Small Businesses

Clinton proposes to allow small businesses a standard deduction of an as yet unspecified amount; immediate expensing of up to $1 million in new business investment; 100 percent tax exclusion on capital gains for long-term investments; cash accounting for businesses with gross receipts of less than $25 million; and a quadrupled limit for deducting start-up and organizational costs from $10,000 to $40,000.

Most small businesses operate as pass-thru entities such as S Corporations, LLCs or Partnerships so that their income is taxed only once at the owners' rates as compared to public and other widely-held companies which are generally taxed at the corporate level and again at the shareholders upon the payment of dividends.

Trump's proposed reductions to the individual and corporate tax rates would benefit owners of small businesses. He would also allow businesses that pay employee childcare expenses to exclude those contributions from income and increase the annual cap for the business tax credit for on-site childcare to $500,000 per year.

Business Tax Incentives and "Loopholes"

Clinton proposes a "Manufacturing Renaissance Tax Credit" modeled on the New Markets Tax Credit. She would also allow a $1,500 tax credit for companies that hire apprentices and a larger tax credit if the company hires a "young person." She would close "tax loopholes" applicable to foreign reinsurance and derivative trading and limit the benefits of like-kind exchanges.

Under current law various businesses and industries enjoy special tax incentives. Some of these incentives are at times referred to as tax loopholes, depending upon the viewer's perspective.

Trump proposes to eliminate all business tax incentives except for the Research and Development credit. However, as discussed in more detail below, he would allow firms engaged in manufacturing in the US an election to expense capital investment in lieu of deducting corporate interest expense.

INTERNATIONAL TAXATION

Repatriation of Foreign Profits

Clinton's campaign materials do not discuss any specific tax proposals relating to the repatriation of foreign profits. However, she has proposed to limit the ability of foreign companies doing business in the U.S from engaging in so-called "earnings stripping" which is essentially the tax-free repatriation for profits out of the U.S.

Many companies have accumulated profits in foreign subsidiaries that have not yet been taxed in the U.S. Under current law, upon repatriation to the U.S. those profits would be subject to U.S. tax reduced by credits for foreign taxes paid on the same profits.

Trump proposes a one-time deemed repatriation of "corporate cash held overseas at a discounted 10 percent tax rate." Additionally, Trump has proposed to end the deferral of taxes on corporate income earned abroad while retaining the foreign tax credit regime.

Outsourcing v. Insourcing

Clinton proposes "to provide support for companies that move jobs and production back to the U.S. from abroad." She has also proposed an "exit tax" on corporations that move jobs overseas and "tax relief for research and innovation in America." The "exit tax" would be imposed on the untaxed overseas earnings of multinational companies that leave the U.S.

Our currently high corporate tax rate is an incentive for companies to outsource jobs to foreign countries with lower tax rates and lower wages/worker benefits.

Trump proposes to allow firms engaged in manufacturing in the U.S. an election to expense capital investment in lieu of deducting corporate interest expense. An election once made could only be revoked within the first three years of election; if revoked, returns for prior years would need to be amended to show revised status. After three years, the election would become irrevocable.