The Daily Dish

Evaluating the Trump Tax Plan

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Last week Transportation Secretary Elaine Chao told reporters that the Trump Administration is aiming to release their $1 trillion infrastructure plan this summer. She stated that the administration is “on track” and will release the plan once the administration finishes up tax reform. Meanwhile, some Democratic Members have indicated their support for tying an infrastructure rebuilding plan to a tax overhaul.

On Monday Treasury Secretary Steven Mnuchin announced that the U.S. has imposed new sanctions on Syria. The sanctions target 271 Syrian government officials and will prevent U.S. entities from doing business with these individuals. The move by the U.S. comes in response to the chemical weapon attack in Syria earlier in April which is said to have been perpetrated by the Syrian government.

Today the American Action Forum will host an event on The Future of Fintech: Consumer Benefits and Regulatory Outlook. Congressman Patrick McHenry, Vice Chair of House Financial Services Committee, will be the keynote speaker. For more information or to register for the event, please click here.

Eakinomics: Evaluating the Trump Tax Plan

President Trump has promised to roll out his tax plan tomorrow. What should one look for? From a policy perspective, there are three main points to focus on.

The first is economic growth. Poor trend growth is the defining economic problem of this era, so tax (and other) policy should be focused on improving that growth. The corporation tax is the single most anti-growth tax, so the first key is whether the proposal focuses on business taxes. If it is heavily weighted toward individual tax cuts, the growth impacts will be more modest and the proposal will be more about retail politics and appeasing middle class voters than generating superior economic performance.

The second key is whether it is simply tax cuts, or structural reforms to the way the U.S. collects its taxes. The current system locks overseas earnings offshore, incentivizes the loss of headquarters, favors foreign production over domestic production, encourages too much borrowing, and has too many loopholes. Real, structural changes like those that move toward a territorial system, integrate the business and personal tax systems, shift from taxing on the basis of where a product is made to where it is sold, and shifting to easily-to-understand cash flow rules will be just as important — or more — than lower tax rates.

The third, related, key is permanence. Permanent policies have a greater bang for the buck than temporary ones. In this regard, politics enters in two ways. First, structural reforms are more likely to stand the test of time than a simple rate cut. It is too easy for a future administration and Congress to simply undo the proposal. Further, if the proposal is intended to pass legislation using reconciliation, then it will have to be revenue neutral in order to receive the protections that allow a 51-vote majority for passage in the Senate.

The president's proposal is a significant step in the process of tax reform as no reform can pass without deep White House involvement and substantial presidential leadership. But what the president proposes is just as important as having a proposal.