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Trump will not get a win with this tax proposal

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Treasury Secretary Steven Mnuchin, right, and Director of the National Economic Council Gary Cohn discuss the goals and feasibility of President Trump's tax reform plan.

by **Mark Zandi**

Nearly 100 days into his term, President Trump is looking for a win.

He hopes that his proposal for massive tax cuts will be a slam dunk. It isn't. Like most things that involve Washington, it's complicated. And even if the president gets precisely the tax cuts he says he wants, it won't be a win for the nation's finances or economy.

Let me begin with what I like about the tax plan. It results in a tax code that in many respects is simpler than the current one. The standard deduction for individuals would be doubled, reducing the number of people who would pay federal tax.

There would also be three tax brackets instead of the current seven, and many deductions in the current tax code would be eliminated. For many of you with a home and mortgage, don't worry, the mortgage-interest deduction will stay, along with charitable-giving deductions.

The stock price of H&R Block, the tax-preparation company, fell Wednesday because investors believe that filing taxes will be easier under the Trump plan.

I also like the general principle in the plan for lowering marginal tax rates in exchange for fewer loopholes in the tax code. Individuals and businesses would enjoy big cuts in rates, with the tax rate for corporations and smaller businesses slashed to only 15 percent. All else being equal, this should prompt more work and savings by individuals, and more business investment — keys to a stronger economy and higher living standards.

The rub is that Trump's lower tax rates come with a huge price tag. By my calculation, the plan will cost \$4.3 trillion over 10 years: \$1.3 trillion for the individual tax cuts and \$3 trillion for businesses.

This is eye-popping. If Trump's plan never becomes a reality, the nation's debt is expected to balloon to an uncomfortable 85 percent of GDP. It would be closer to 100 percent under the Trump plan.

The president and his economic advisers say not to worry, the lower tax rates will generate so much economic growth that the resulting bigger economy will generate tax revenues to pay for them.

Sound familiar? Baby boomers like me may remember President Ronald Reagan's supply-side economics. He argued that his big tax cuts would lead to a bigger economy and pay for themselves. They didn't, and many of the cuts were reversed in the last major tax overhaul a few years later.

Trump's plan is supply-side economics on steroids, and will fail even more miserably. Any economic benefit of the lower tax rates under the plan on investment, productivity, and real GDP will be more than washed out by ill effects of the much larger government deficits and debt and higher interest rates. Mortgages, car loans, credit cards, home equity lines, and business loans will be much more expensive.

Also limiting the economic benefit is that given the budget rules for deficit-financed tax cuts, like Trump's plan, they will have to expire a decade from now. Businesses will thus be reluctant to make big, long-term investments based on the lower taxes, given the likelihood they aren't here to stay.

I also don't like that the Trump plan will likely benefit high-income and wealthy taxpayers the most. It is tough to know for sure since the president didn't tell us how much of one's income would apply to each of the new individual tax rates. We don't know what the change would mean in dollars and cents for any one of us.

However there are too many giveaways to the wealthy to think they won't benefit the most from the plan. Those include elimination of the estate tax and the Obamacare tax on the wealthy.

Given all this, I doubt the Trump tax plan will become reality. When all is said and done, Washington may be able to pass a very slimmed-down corporate tax-rate cut, and change the individual tax code to allow small businesses to have a similar rate. To get Democratic votes, there will be a temporary increase in infrastructure spending.

Something should eventually get done, but nothing close to what the president proposed Wednesday. He'll need to look for his win elsewhere.

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