Trump tax cuts: A bonanza for corporations and the wealthy

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The Trump administration is proposing the largest tax cut for the wealthy in American history. The plan outlined on Wednesday would transfer trillions of dollars from future tax collections into the pockets of the super-rich. Its purpose is twofold: to enrich the financial aristocracy and force the destruction of programs such as Social Security and Medicare by depriving the federal government of the revenue needed to fund them.

Secretary of the Treasury Steven Mnuchin and Gary Cohn, chairman of Trump's National Economic Council, issued a one-page statement of principles at a White House press conference Wednesday afternoon, where they gave only a few highlights and took a handful of questions, which they largely avoided answering.

The entire exercise seemed rushed. Press accounts suggest that the tax plan was thrown together in haste in response to mounting criticism from Wall Street, particularly in the wake of the abortive attempt to repeal Obamacare, that the administration was failing to live up to its commitments to carry out a major transfer of wealth from working people to the multi-millionaires.

That said, the press conference Wednesday did give a glimpse of the naked personal greed that is a major driving force of American capitalist politics. Mnuchin and Cohn could scarcely control their excitement over what Cohn called a "once in a generation opportunity" to transform the tax code. The two former Goldman Sachs bankers, each worth more than half a billion dollars, spelled out the main features of a plan that will add to their own immense wealth.

Among the main measures that will benefit those in the highest income brackets are:

* Abolishing the estate tax, so that the wealthy can pass on their fortunes intact

* Abolishing the Alternative Minimum Tax (AMT), established in response to widespread tax evasion by the wealthy

* Cutting the tax rate for business profits taken as personal income (so-called "pass-through" income) from 39.6 percent to 15 percent

* Cutting the top income tax rate from 39.6 percent to 35 percent

* Ending the capital gains tax surcharge of 3.8 percent for Obamacare

Many of these measures will benefit President Trump personally, particularly the abolition of the AMT. According to Trump's leaked 2005 partial tax return, he paid $38 million in income tax that year, rather than $5 million, because of the AMT. He also takes much of his real estate investment income in the form of "pass throughs," for which the rate would be cut by more than half.

Abolishing the estate tax, which currently applies only to fortunes of $5 million or more, would allow Trump to pass on his billions to his five children without them paying a penny. The same applies to Cohn (net worth $610 million) and Mnuchin (net worth $500 million).

The tax bonanza for corporate America is even greater than that for wealthy individuals. The biggest single proposed cut is the reduction in the corporate income tax rate from 35 percent to 15 percent, at an estimated cost of $2.4 trillion over the next ten years. In 2018 alone this action would cut the tax bill for corporations from $340 billion to $125 billion, a direct injection of $215 billion onto their bottom line. The bulk of those funds would be returned to wealthy shareholders via stock buybacks and dividends.

Added to that is the proposed change in the taxation of US-based global corporations through the establishment of a "territorial" tax system, in which only income earned by the corporation within the United States would be subject to corporate income tax. Given the ability of corporations to manipulate the flow of income, there will be a renewed incentive to record income in overseas tax havens rather than in the US, and thus escape taxation altogether.

This would be coupled with a one-time incentive for corporations to repatriate profits being held in offshore accounts. The rate at which these profits are taxed could be set as low as 5 percent, a huge boondoggle for a handful of corporations, including Apple and General Electric, which are holding trillions of dollars overseas.

The business tax cuts are expected to win support from many congressional Democrats, who will verbally oppose the reduction to a 15 percent rate for corporate income, but trumpet a cut to 18 or 20 percent as an acceptable "compromise" forced on Trump by their supposedly determined resistance.

The Obama administration had previously proposed a reduction in the corporate income tax rate from 35 percent to 28 percent, and 25 percent for manufacturers—a windfall of "only" $100 billion a year—while Senate Minority Leader Charles Schumer is the co-author of a bipartisan plan to "incentivize" the repatriation of overseas profits through a tax holiday for the corporations involved.

Ahead of Wednesday's announcement, Schumer struck a pose of opposition, declaring on the Senate floor, "That's not tax reform… That's just a tax giveaway to the very, very wealthy that will explode the deficit."

The last phrase is the key. Opposition from Democrats, and some Republicans, will focus on the fiscal impact of the tax cuts. To the extent that tax cuts are enacted—and they are virtually certain to pass in some form—there will be bipartisan demands that the cost of the handout to the wealthy be "paid for" through cuts in spending. These cuts will not be made in the gargantuan Pentagon budget, which will be increased, but rather in so-called entitlements such as Social Security, Medicare and Medicaid, the most expensive domestic social programs.

This perspective was spelled out by the *Washington Post* in an editorial published on the eve of the tax plan's release, bemoaning the effect of the tax cuts on the federal deficit without mentioning the issue of economic inequality and the plundering of the country for the benefit of the super-rich. The editorial concluded, "For eight years, Republicans mercilessly attacked President Barack Obama for doing too little to cut federal deficits. Will they really turn around now and approve a budget-busting tax cut?"

The tax plan outlined Wednesday includes a number of provisions that will affect middle-income taxpayers, both positively and negatively. The net result cannot be seriously calculated because so many details remain undetermined.

Cohn said the White House is proposing to double the standard income tax deduction to $24,000 for a married couple. This would be offset by the elimination of the tax deduction for employer-paid health insurance and for payment of state and local taxes.

Lower income workers would gain nothing from the increased standard deduction, since they generally pay little or nothing in income taxes and are far more affected by payroll taxes for Medicare and Social Security, which would be unchanged under the Trump plan.

Cohn and Mnuchin described the tax plan outlined Wednesday as an "opening bid," preparatory to lengthy negotiations between the White House and Congress. There are two possible legislative tracks—a bipartisan deal, which would require the support of at least eight Senate Democrats to overcome any filibuster, or passage under a procedure known as "reconciliation," which requires only a simple majority but limits the duration of the tax cuts to a ten-year period.