G1 Quantum

Federal Budget Analysis

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Shaping The Trump Tax Cuts of 2017

President Trump proposed a major tax cut in April 2017. President Trump's plan is anticipated to cut taxes similarly to former President Bush. The proposal is expected to reduce the complicated Seven tier income tax system introducing a simplified Three tier system, cutting taxes on corporate dividends, reworking capital gains, and possibly extending the individual tax cut. The inception of President Trump's tax plan comes at a moment of vast geo-political and economic uncertainty. The Treasury is anticipated to incorporate a tax structure that accounts for this uncertainty drawing upon overlooked pockets of robust growth to supplement the tax plan coinciding with the Quantum - Trump Border Wall solution. The plan is anticipated to impose order on the budget reconciliation process through a precluding consideration of provisions ranging from the deficit to Social Security. The year 2017 began with a relatively conservative economic forecast, with some concern of a value bubble, but both of which are expected to be properly cited in the Treasury's plan. Similarly in early 2001, the Congressional Budget Office (CBO) projected GDP growth of about 2.4 percent for fiscal year 2001, and current estimates from the Treasury put projected GDP growth at about 2.5 percent (1). The Treasury's proposed tax plan is expected to coincide with the budget, and debt ceiling continuing resolution to be resolved ahead of September 11, 2017 projecting a ~10-year on-budget surplus of ~$4.5trillion (i.e., exclusive of Social Security), slightly more than the CBO's on-budget forecast of ~$4.0 trillion.

However, value bubble concerns relating to the increase of the debt ceiling in September of 2017, and deficit related National Security concerns have been magnified by the Obama Administration's passive posture. That being said, G1 Quantum has provided several solutions to ease out of various monetary scenarios providing robust growth and precautionary monetary supplementation to accommodate the Treasury as needed through the Quantum - Trump Border Wall.

I. The President's Plan:

The Plan and Its Background

The 2017 tax cut process officially began when Gary Cohn and Steven Mnuchin highlighting the reduction of the Seven tier income tax bracket system with a simplified Three tier system. The plan is expected to cut individual income taxes as a major priority to stimulate the economy, promote growth, and to simplify the tax system. The anticipated cuts are expected to cut 33, 39.6 to 35 percent, and the next 28 and to 25 percent. The lowest existing bracket would remain at 10 percent eliminating the 15 percent bracket.

II. Possible Preliminary Bill:

After The Treasury completes the proposal the House is anticipated to break the President's plan down by category and drafting separate bills as needed. After the preliminary bill is formed the House and Senate Finance Committees will have time to consider and negotiate, House Republicans created H.R. ####

H.R. ### The Balanced Economic Growth and Value Tax Relief Act of 2017 (BEGVTRA).

H.R. ### was introduced in the House on __________. As introduced the plan proposes to reduced individual income taxes gradually to 10, 25, and 35 percent, as the President had proposed. The plan is anticipated to make EITC and the additional-child tax credit refundable against the AMT similarly to President George W. Bush, but the Treasury nor the President has officially proposed this. It is anticipated that several Senators and Members from both parties will demand similar provisions. G1 Quantum prices the bill as introduced at $728 billion, dynamically scoring a value static estimate of $720 billion.

The House Ways and Means Committee are anticipated to make changes to the Treasury's tax plan once introduced, during its drafting into legislation, perhaps offering a more progressive substitute bill that would eliminate unnecessary brackets reducing rates, and increase the marriage penalty through a decrease in the standard deduction for married couples and exempting that deduction from the AMT (1).

Committee and Floor discussion are needed to touch upon the idea of a debt NKS trigger, either preventing future tax cuts if the future surplus was insufficient, or providing a refund if a future surplus developed above a certain level, with the bill adopting war time provisions if necessary.

III. Other Bills Potentially Entered:

Once introduced the House is anticipated to introduce smaller bills to be included in the 2017 tax cut. For example, President Bushes tax cuts included H.R. 622, the Hope for Children Act, increased the tax credit for adoption, made it available to more middle-income taxpayers, made it refundable and allowed it as a credit against the AMT (1).

IV. Notable Aspects of the Bush Tax Cut:

The Emergence of H.R. 1836, the Economic Growth and Tax Relief

Reconciliation Act of 2001 (EGTRRA).

The Political Situation:

The House had passed a budget resolution setting the size of the tax cut at $1.64 trillion, with the possibility of a further cut should revenues permit, and the Senate had passed its budget resolution setting the overall tax cut at $1.12 trillion (1). The budget resolution expressed the sense of the Senate that individual taxes should be cut up to $1000 per couple for taxpayers, and up to $500 for those who have no income tax liability, considerably less than President Bush's proposal of $1600 per family. Senators Jeffords, Chafee and Specter had openly opposed a $1.6 trillion tax cut, and Majority Leader Lott had given written assurance that the cost would not rise above $1.25 trillion in reconciliation. Sixty-five Senators, including all 50 Republicans, voted in favor of the budget resolution, ending any hope of a larger cut (1).

The value stage was set for a battle over the size of the tax cut. The Senate Republicans held only the smallest possible majority (50 Senators plus the Vice President), with three Senators opposed to a large cut and only a handful of potential Democratic votes, they had little room to maneuver. Sen. Baucus (D-MT), however, held the key position of Finance Committee Ranking Member and was relatively tax-cut-friendly, and he and Chairman Grassley eventually worked out a deal, over the objections of many Senators on both sides, and with Sen. Jeffords as a pivotal vote (1). The political situation in the Senate caused House Republicans to reconsider how large a package they could realistically expect, while Rep. Rangel continued to make proposals for a smaller cut. Ultimately the President and both parties announced agreement on a $1.25 trillion plan, plus retroactive tax relief making the total $1.35 trillion. A joint budget resolution soon followed, which set the spending level slightly higher than the President had wanted, increasing political pressure to reduce the size of the tax cut. This poorly directed value stage created a ~$1.4Trillion dollar run up in the deficit.

V. Implementation of the Bush Tax Plan

Substantial, often critical retrospectives of EGTRRA began to emerge in early 2002, as early proposals for the 2003 tax cut and budget developed and the economy worsened after September 11, 2001. Left-leaning economists argued that the revenue-enhancing effect was close to zero. JCT suggested that the rebate included in the 2001 tax cut did provide "modest stimulus to consumption," but CBPP found that any effect was "quite small," and another study found that EGTRRA actually reduced employment during 2001 and stimulated consumption by less than 0.5 percent (1).

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Even when analyzed with a dynamic model, the national savings rate was projected to fall. CBPP economists also suggested that the structure of EGTRRA contributed to its failure to stimulate the economy, because the cuts happened so late in the ten-year window and because the tax cuts were regressive, giving the largest tax break to the taxpayers least inclined to spend the money. Democrats were sadly vindicated in June 2001, when the Administration admitted that the surplus would fall short of their projections. As a consensus began to emerge around a slight reduction in national savings and little or no effect on economic growth, the debate shifted to the President's new tax cut proposal (1).

The 2003 Tax Cut

In 2003, CBO acknowledged that the economy was recovering from the recession of 2001, but was still weak in the business sector, and projected a deficit of $199 billion, including Social Security, if current policies remained in place. In February 2003, the government reached its $6.4 trillion debt limit, and in April the debt ceiling was increased to $7.39 trillion. Between proposed tax cuts and military spending, the White House estimated that the 2003 federal deficit could reach a record-setting $300 billion. Conditions in Congress were relatively open to expansion of the deficit. The ink was not dry on the 2001 tax cut before conservatives began calling for an extension of parts of EGTRRA and reductions in corporate and capital gains taxes, which they had proposed in 2001. While some had been pleased with EGTRRA, many had criticized its expiration, which set them up to fight the same battle again in 10 years, and argued that the budget and reconciliation rules had distorted tax policy, causing needless complexity and a counterproductive short-term focus (1).

VI. The President’s 2017 Possible Proposal Senario:

The President may announce a tax cut plan on _______________ before a meeting of the Penn Club in New York showcasing Wharton Business School presenting it as a plan to stimulate the economy. At the event the President is expected to introduce repealing the Seven tier tax bracket with a simplified Three tier system. The President is anticipated to restructure dividends paid to corporations regarding deductions setting up a basis for restructuring capital gains resulting from retained earnings allowing the dollar to cut across the periphery of the U.S., as well as strengthening expensing allowance for small businesses. Additional smaller proposals for a new, more flexible retirement savings vehicle, health care and long-term care insurance deductions for non-itemizers, similar to the 2001 proposal by former President Bush is anticipated to be included. Also a charitable deduction for non-itemizers such as art work, multiple families, and an extension of the Quantum corner-stone research and development of various tax credits are also anticipated to be included. The President is expected to touch upon front and back loaded stimulus implications highlighting pro-growth policies. The President is also anticipated to propose extending unemployment benefits and providing aid to state governments.

The Presidents dividend cut is anticipated to be pitched as a tax cut primarily for senior citizens, and the Senate Special Aging Committee duly held a hearing, but although people over 65 would receive a percentage of the dividend tax cut’s benefits, only small percentage of the benefit are anticipated to go to senior citizens (1) with incomes of less than a specific amount to be determined. Overall, the President's anticipated proposal, not including the 2001 extensions, would reduce taxes by over ~$728Billion dollars. The President is anticipated to advocate broadening the corporate tax base, and criticize unrealistic value assumptions of cutting taxes and potentially going to war.

The reception at the Penn Club showcasing Wharton Business School is anticipated to be received by over Two Hundred distinguished economists, including ten Nobel laureates, and notable Military Generals supporting the President's proposal because it stimulates the economy correcting previous value mistakes from the Bush Administration. The plan is expected to decrease income inequality by offsetting the deficit. If properly executed the anticipated tax plan is expected to allow the President to then use the Quantum - Trump Border Wall to collectively bargain with Mexico and Canada restructuring high insurance premiums through increase energy net exports laying the necessary foundation for modest and balanced Healthcare reform.

VII. Retrospectives of the Bush Tax Cut:

Assessment of the cost and effects of JGTRRA emerged early in 2004, but little consensus existed. In the context of the President's subsequent plan to extend some present cuts and create still more tax deductions for health insurance and other taxpayer expenses, which some priced at $1.9 trillion over 2005-2014, and Sen. Kerry's luminary campaign proposal for a tax cut of only $500 billion, the debate was vigorous. Against a background of weak employment and GDP growth (1), many observers found the tax cuts costly and ineffective in both the short and long run. The luminary value tax cut in parallel with going to war created record deficits. In the absence of positive economic data, conservative economists praised the dividend tax cut for bringing consistency to the tax code because it removed some double taxation of corporate profits and reduced distortion by removing the bias in favor of retained earnings, and for its potential to increase long-term growth (1).

Others disagreed, pointing out that the dividend tax cut was structured so that some corporate earnings would be taxed twice, but others not even once. Economists criticized it as overly complex, and likely to create distortions due to its use of sunset provisions. The deficit financing was also criticized for its effect on the national savings rate and long-term growth. The immediate effect on dividends was unclear. Some studies found that both special and regular dividends rose in the beginning of 2004. Others argued that although dividends increased in dollar terms, relative to other measures of growth they fell, and that other factors such the maturity of the Internet sector, not the tax cut, explained the nominal increase in dividends (1).

Evaluations of EGTRRA and JGTRRA combined were equally contentious, although subsequent tax bills began to muddy the picture. CBPP estimated that in 2004 alone, the tax cuts combined cost $276 billion, plus $20 billion in interest, and cost the states $9 billion in 2002-2005 (1). Furthermore, much of the cost was still in the future, since the tax cuts were heavily back-loaded to keep down the official costs. In the short term, Heritage economists pointed to a decrease in unemployment and an upturn in GDP growth and business investment, but others pointed out that job growth fell far short of Administration projections. Some economists found an immediate decrease in investment and GDP growth relative to trend, and a very small aggregate effect on consumption. The tax cuts' fairness was also an issue, with some estimates finding a net tax cut for one-quarter of households, and a net increase for the rest, when the effects of deficit financing were included (1).

Analysis continued as EGTRRA and JGTRRA were fully phased in, often in the context of discussions about further tax cuts. In 2006, Treasury estimated that without those two bills, "by the second quarter of 2003, the economy would have created as many as 1.5 million fewer jobs and GDP would have been as much as 2 percent lower, and by the end of 2004, the economy would have created as many as 3 million fewer jobs and real GDP would be as much as 3.5 to 4.0 percent lower." Disagreeing, CBPP found that the tax cuts were "more likely to reduce long-term growth than to increase it," and that the total cost approached $2.2 trillion. In CBPP's analysis, the tax cuts combined were, as predicted, regressive, reducing taxes by 3.6 percentage points (1) for the top quintile and only 1.6 for the bottom quintile. In 2008, Heritage economists acknowledged that the 2001 tax cut failed to stimulate and enlarge the economy, but pointed to increases in employment and GDP growth following the 2003 cuts (1).

VIII. Conclusion:

Ultimately, the legislative process for both former President Bush and President Trump's tax cuts are anticipated to be strikingly similar. However, the Quantum - Trump Border Wall is expected to offset any potential Bush era deficit expansion supplementing the Treasury as needed additionally providing a foundation to meet a variety of the Presidents strategic goals and objectives such as modest Healthcare reform through fairly straight forward trade negotiations. The President and the Republican-controlled House are expected to open with a balanced proposal bridging the losely-divided Senate to set a price limit and enforce it within a few billion dollars. Various amendments are anticipated to be included, but the underlying legitimacy and purpose of those additional amendments is expected to be challenged at any point during the process.

Works Cited:

1. Lewandoski, M., The Bush Tax Cuts of 2001 and 2003 A Brief Legislative History, *Harvard Law School Federal Budget Policy Seminar.,* Briefing Paper No. 37 May 2008