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Policy Alert

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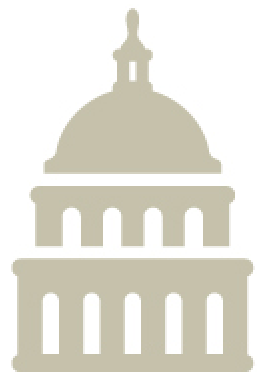
Key Points

- Tax policy has not been an issue of primary debate during this campaign season, although both presidential candidates have advanced significant tax policy initiatives that are likely to gain congressional attention in early 2017.
- Democratic candidate Hillary Clinton has proposed tax policies which seek to strengthen the middle-class and other policy initiatives on infrastructure, education and health care, funded by tax increases on wealthy individuals and corporations.
- Republican candidate Donald Trump's plan seeks significant reductions in both individual and corporate tax rates, with the elimination or cutback in various current tax benefits, and proposes policies designed to encourage repatriation of foreign earnings for reinvestment in the United States.



Final Debate Yields Few Details on Candidates' Tax Policy

On October 19, 2016, Democratic candidate former Secretary of State Hillary Clinton and Republican candidate Donald Trump met in the third and final debate of the 2016 presidential election. While the debate featured significant discussion of the candidates' economic plans and views, few new details emerged concerning their tax policies.

Third Presidential Debate

Tax policy was largely overshadowed by the candidates' larger attacks on their respective economic plans, with each candidate criticizing the other and stating that their opponent's plan would result in job losses, poor economic growth and tax increases.

When questioned on her plan to improve the economy, Secretary Clinton reiterated the basic tenets of her economic platform—to lower tax rates for middle-class earners while increasing tax rates on wealthy individuals and corporations in order to pay for increased spending on social programs such as education and health care. Secretary Clinton stated that only those individuals earning more than $250,000 per year would see an increase in tax rates. When questioned on whether she would enact policies to prevent Social Security and Medicare programs from running out of funds, Secretary Clinton indicated that she would use revenue gained from tax increases on wealthy earners, specifically, by raising the payroll tax wage cap, to replenish the Social Security Trust Fund. Mr. Trump responded to the question by saying he would cut taxes, but did not explain how he would boost revenue for the two entitlement programs, except to say that his plan would produce “tremendous” economic growth.

Mr. Trump criticized Secretary Clinton’s plan, arguing that it would increase tax rates for all earners. Mr. Trump restated his plan to use lower tax rates to repatriate foreign corporate earnings. When questioned by moderator Chris Wallace over several analyses of his tax plan, which conclude that it would increase the national debt and fail to result in the economic boost he claims, Mr. Trump refuted such analyses and pivoted away from the question by criticizing U.S. free trade agreements.

Outlook

As evidenced by the discussions during each of the three presidential debates, tax policy has become a lesser issue in this controversial campaign season, with the possible exception of Mr. Trump’s failure to release any of his tax returns. While the candidates have formulated comprehensive tax plans (detailed in an explanatory chart available here), they have released the details of their plans in piecemeal fashion over the course of the past several months.

As stated above, Secretary Clinton’s plan emphasizes raising revenue through increased tax rates on corporations and wealthy earners, such as the so-called Buffett tax on high-earners, while lowering rates for the middle-class and using the additional revenue to pay for social programs and possibly infrastructure investments. She has also proposed a number of tax credits aimed at reducing the burdens of costs for families, including child care, education and health care. While her plan would seek to eliminate loopholes and other tax provisions that advantage corporate employers, she has proposed tax credits for businesses that share profits with employees, hire additional workers and invest in economically distressed areas of the country.

In contrast, Mr. Trump has developed a tax plan that seeks to simplify the tax code and lower taxes for both middle-class and wealthier earners by reducing the existing seven individual tax brackets to three lower-rate brackets. Mr. Trump’s plan would also reduce the corporate tax rate to 15 percent and provide a one-time, 10 percent tax rate for the repatriation of foreign earnings. Mr. Trump has said he would repeal or eliminate many deductions for wealthier individuals (with the exception of the mortgage interest and charitable giving deductions), while increasing deductions (though he provides little specifics) for middle-class earners. He has also proposed to cap the total amount of itemized deductions that could be claimed at $100,000 for single filers and $200,000 for joint filers.

With the election less than three weeks away, current polling suggests that Secretary Clinton is likely to win the presidency. What remains to be seen is whether Republicans will retain their majorities in the House and Senate. Any change in control of either chamber increases the chances for Secretary Clinton (should she be elected) to successfully implement parts or all of her tax plan. Given that much of her domestic policy planning will require significant revenue increases, it is possible that her efforts to advance those policies will include a piecemeal approach to tax policy rather than the pursuit of comprehensive reform. Secretary Clinton has promised that she would seek to work with Republicans (who, at this point in time, are expected to at least retain control of the House) on all issues, which leaves open the door to a continued debate over comprehensive tax reform in the 115th Congress.

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