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Trump Tax Plan Would Reinforce DC's High Income Inequality

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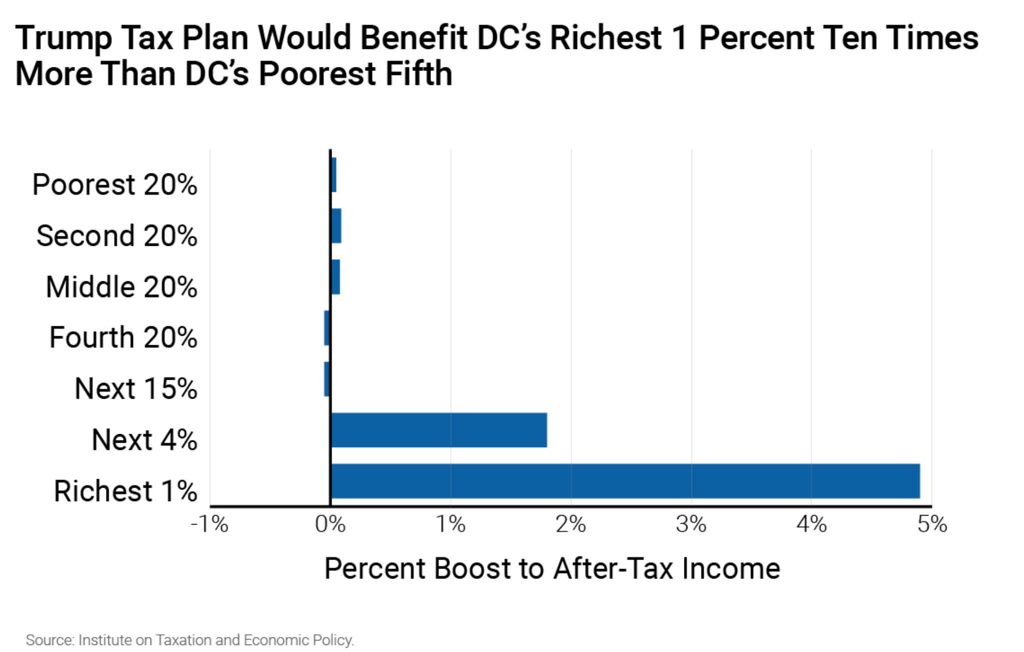
The tax overhaul proposed by President Trump would be a windfall to the District's richest one percent, while doing very little to support DC's low-income residents and small businesses. The Trump tax plan would worsen DC's substantial income inequality.

Under the GOP-Trump "tax reform framework" released on September 27, the District's richest one percent would receive the lion's share of the tax cuts within DC, while low-income residents would receive only minor benefits that would erode over time. According to an analysis by the Institute on Taxation and Economic Policy:

- DC's richest one percent would receive 84 percent of the District's tax cuts. These residents, who have incomes above $1,022,000, would get an average tax cut of $147,500. That cut would boost their after-tax income by 5 percent.
- The bottom fifth of DC residents, those with incomes below $26,700, would see a meager $70 boost to their after-tax income, or 0.5 percent.

The benefits of the GOP-Trump tax framework are so skewed because its signature components—reducing the top income tax bracket, reducing the seven tax brackets to three, eliminating the estate tax and alternative minimum tax, and cutting the corporate tax rate—disproportionately benefit the wealthy and large corporations and their investors.



The tax framework recycles the tried and failed idea that tax cuts for the wealthy and corporations will jumpstart economic growth and "trickle down" to benefit low- and middle-income people. Most mainstream economists agree that the plan would not enhance economic growth enough to offset the plan's price tag—an idea most recently proven in Kansas, where tax cuts were followed by lagging growth and a budget crisis.

While the plan has some small benefits for low- and middle-income residents, such as increasing the standard deduction and child tax credit, the plan would actually shrink the real value of tax credits that help low-income families over time, by limiting how they are increased for inflation each year. Moreover, the plan would add burdens to the process of claiming the Earned Income Tax Credit—an important tax benefit claimed by 56,000 DC households that work but have low-incomes.

Like the tax benefits for families, the GOP-Trump tax frame would skew tax cuts for businesses toward larger businesses, with few small businesses seeing any benefit. Only very wealthy business owners would benefit from a special tax rate for "pass-through" business income. Nationally, 87 percent of small business owners would get no tax cut at all.

Troublingly, the GOP-Trump tax plan could fuel calls to cut critical federal programs, such as Medicaid, rental assistance, and SNAP, that thousands of DC residents use to meet their basic needs. That's because the plan would substantially reduce federal revenue and lead to a higher federal deficit.

The combination of tax cuts for the richest households and businesses, and potential cuts to programs that help families with low incomes, means that the GOP-Trump tax plan would worsen already widening gaps between rich and poor families across the nation and in DC.