The Trump Tax Penalty and Its Impact on the Economy

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The Tax Cuts and Jobs Act (TCJA) was signed into law by former President Donald J. Trump in 2017.The law took effect on January 1, 2018.The law permanently cut the corporate tax rate to 21% and temporarily lowered individual tax rates. Evidence in this paper will demonstrate how an older married couple on Social Security and a modest pension actually incurred higher federal income taxes during the years 2018-2021 as a result of TCJA. Paying higher federal income taxes as a result of TCJA is the Trump Tax Penalty.

Keywords: business, taxes, tax policy, economics, itemized deductions, tax changes

INTRODUCTION

The Tax Cuts and Jobs Act (TCJA) was signed into law by Former President Donald J. Trump in December of 2017.The law took effect on January 1, 2018.The new law impacted individual taxpayers as well as business owners and corporations.

The law passed largely along party lines. The Senate passed the legislation by a vote of 51-49 and the house passed the legislation by a vote of 224-201.All house democrats voted no along with 12 house Republicans.

The law resulted from campaign promises made by candidate Donald Trump during the run-up to the November 2016 presidential election. Candidate Trump promised to provide significant tax relief to corporations and individuals if elected President.

When promoting his plan for this significant tax overhaul, then President Trump claimed, “The rich will not be gaining at all with this plan” (Kiely, 2017). However, the nonpartisan Tax Policy Center estimated the impact of the Trump-like plan would provide 40% of the benefits to the top 1% (Kiely, 2017).

According to the Tax Policy Center, policymakers and the public should understand that the 2017 Trump tax law: “Was skewed to the rich**.** Households with incomes in the top 1 percent will receive an average tax cut of more than $60,000 in 2025, compared to an average tax cut of less than $500 for households in the bottom 60 percent, according to the Tax Policy Center (TPC). As a share of after-tax income, tax cuts at the top — for both households in the top 1 percent and the top 5 percent — are more than *triple* the total value of the tax cuts received for people with incomes in the bottom 60 percent” (Tax Policy Center, 2017).

In his article titled “The Two Biggest Lies in Donald Trump’s Tax Plan, Matthew Gardner wrote “The tax plan was always going to be a huge giveaway to corporations. And the individual tax cuts were always heavily tilted to the top (Gardner, 2018). Gardner also contends: “Two ‘big lies’ drove the Trump tax cuts—the claims that corporate taxes were especially high, and that the president’s tax overhaul would be geared toward the middle class. The development of the Trump tax plan was the embodiment of the man himself:

a moving target, vaguely defined, constantly changing, and sometimes reversing itself abruptly." (Gardner, 2018).

Regarding the Individual income tax:

> The TCJA simplified the tax code by making it more advantageous for many filers to take the standard deduction, instead of itemized deductions. The TCJA expanded the standard deduction from $6,500 to $12,000 for single filers and $13,000 to $24,000 for joint filers in 2018. This near doubling of the standard deduction limited the value of itemized deductions, making it more attractive to use the standard deduction, Additionally, under the TCJA, the three provisions that reduce household income taxes based on household size were consolidated into two: the personal exemption was eliminated, replaced by the aforementioned expanded standard deduction and an expanded child tax credit. These changes, along with new limitations on certain itemized deductions, simplified the tax code for many Americans. (York, W. & Muresianu, A., 2018)

The reality of this change of doubling the standard deduction and eliminating personal exemptions coupled with new limitations on certain itemized deductions causes an increase in the couples' tax liability. The $12,000 increase in the standard deduction is more than offset by the loss of personal exemptions and the loss of itemized deductions. This increase due to the Trump Tax Plan (TCJA) is the Trump Tax Penalty.

MAJOR PROVISIONS OF THE TAX CUTS AND JOBS ACT ON INDIVIDUALS

The new law is hundreds of pages long with significant changes for both individuals and businesses. The major provisions for individuals are noted below:

- **Income Tax Rates:** The law retained the seven individual income tax brackets. The top rate fell from 39.6% to 37%, while the 33% bracket dropped to 32%, the 28% bracket to 24%, the 25% bracket to 22%, and the 15% bracket to 12%. The lowest bracket remained at 10%, and the 35% was unchanged.
- **Standard Deduction**: TCJA significantly raised the standard deduction. For tax year 2024, the standard deduction for single filers is $14,600 and $29,200 for married couples filing jointly.
- **Personal Exemption:** The law suspended the personal exemption which was $4,150, through 2025.0
- **Health Coverage Mandate:** TCJA ended the individual mandate, a provision of the Affordable Care Act (ACA) that levied tax penalties for individuals who did not obtain health insurance coverage.
- **Child Tax Credit:** The law raised the child tax credit to $2,000 and created a non-refundable $500 credit for non-child dependents. The child tax credit can only be claimed if the taxpayer provides the child's Social Security number (SSN). Qualifying children must be younger than 17 years of age. The child credit begins to phase out when adjusted gross income (AGI) exceeds $400,000 (for married couples filing jointly, not indexed to inflation). These changes expire in 2025.
- **Estate Tax:** The law temporarily raised the estate tax exemption. For single filers, the maximum is $13.6 million for 2024. This change will be reversed after 2025.
- **Student Loans:** TCJA allows 529 plans to fund K to 12 private school tuition—up to $10,000 per year, per child. Under the SECURE Act of 2019, the benefits of 529 plans were expanded, allowing plan holders to withdraw a maximum lifetime amount of $10,000 per beneficiary penalty-free to pay down qualified student debt.
- **Retirement Savings:** The law repealed the ability to recharacterize one kind of contribution as the other, that is, to retroactively designate a Roth contribution as a traditional one, or vice-versa. Since the passing of the Setting Every Community Up for Retirement Enhancement

(SECURE) Act in December 2019, individuals can contribute to Individual Retirement Accounts (IRAs) past 70½. Health savings accounts (HSAs) were not affected by the law.

- **Alternative Minimum Tax:** The law temporarily raised the exemption amount and exemption phase-out threshold for the alternative minimum tax (AMT), a device intended to curb tax avoidance among high earners by making them estimate their liability twice and pay the higher amount.
- **Mortgage Interest:** TCJA limits the mortgage interest deduction for married couples filing jointly to $750,000 worth of debt, down from $1,000,000 under the old law, but up from $500,000 under the House bill. The change expires after 2025.15
- **Pease Limitation:** The law repealed the Pease limitation on itemized deductions and gradually reduced their value when adjusted gross income exceeds a certain threshold.
- **Miscellaneous Itemized Deductions:** Through 2025, miscellaneous itemized deductions suspended include deductions for moving expenses, except for active-duty military personnel and union dues (Floyd, 2024)

MAJOR PROVISIONS OF THE TAX CUTS AND JOBS ACT ON BUSINESSES

- **Corporate Tax Rate:** The law created a single corporate tax rate of 21% and repealed the corporate AMT. Unlike tax breaks for individuals; these provisions do not expire. Supporters of cutting the corporate tax rate argued that it reduced incentives for corporate inversions, in which companies shift their tax base to low- or no-tax jurisdictions, often through mergers with foreign firms. Combined with state and local taxes, the statutory rate under the new law is 26.5%. In 2023, the U.S. was above the weighted average for EU countries (25.21%).20
- **Immediate Expensing:** TCJA allows full expensing of short-lived capital investments rather than requiring them to be depreciated over time. The section 179 deduction cap doubles to $1 million, and phase out begins after $2.5 million of equipment spending, up from $2 million.
- **Pass-Through Income:** Owners of pass-through businesses—which include sole proprietorships, partnerships, and S-corporations—gained a 20% deduction for pass-through income. To discourage high earners from recharacterizing regular wages as pass-through income, the deduction is capped at 50% of wage income or 25% of wage income plus 2.5% of the cost of qualifying property.
- **Interest:** The net interest deduction was limited to 30% of earnings before interest, taxes, depreciation, and amortization (EBITDA). After four years, it is capped at 30% of earnings before interest and taxes (EBIT).
- **Cash Accounting:** Businesses with up to $25 million in average annual gross receipts over the preceding three years can use cash accounting—up from $5 million from the old tax code.
- **Net Operating Losses:** The law scrapped net operating loss (NOL) carrybacks and caps carryforwards at 90% of taxable income, falling to 80% after 2022. The 2020 Coronavirus Aid, Relief, and Economic Security (CARES) Act temporarily reinstated a carryback period for all net operating losses generated in years beginning after December 31, 2017, and before January 1, 2021.2
- **Section 199:** The law eliminated the section 199 (domestic production activities) deduction for businesses that engage in domestic manufacturing and other production work. This is also known as the domestic manufacturing deduction, U.S. production activities deduction, and domestic production deduction.
- **Foreign Earnings:** TCJA deemed repatriation of overseas profits at 15.5% for cash and equivalents and 8% for reinvested earnings. The law introduced a territorial tax system, under which only domestic earnings are subject to tax. Companies with over $500 million in annual gross receipts are subject to the base erosion anti-abuse tax, designed to counteract base erosion and profit shifting, a tax-planning strategy that involves moving taxable profits from one country to another with low or no taxes. BEAT is calculated by subtracting a company's regular corporate tax liability

from 10% of its taxable income, ignoring base-eroding payments. Tax credits can offset up to 80% of BEAT liabilities. (Floyd, 2024).

ALTERNATIVE VIEWS OF TCJA

The literature following passage of TCJA was quite varied. Many writers sang the praises of the new law while others sang a tune of great benefit to wealthy Americans at the expense of the poor and middle class.

On the one side, some believed the Law was skewed to the rich, expensive, eroded the U. S. Revenue base, and failed to deliver promised economic benefits. (Marr, Jacoby & Fenton, 2017). The top 1% of households with income would receive an average tax cut of about $60,000 whereas the bottom 60% would receive an average tax cut of $500; The law is expected to cost 1.9 trillion over ten years; the law was a trickle down failure. (Marr, Jacoby & Fenton, 2017).

Six years following their publication noted above, Marr and Jacoby wrote:

> The 2017 tax cuts enacted under President Trump were regressive and expensive, and their benefits to the wealthy failed to trickle down as promised. Looking at the pass-through deduction specifically, more than half of its benefits flow to the richest households, and extending this provision beyond its scheduled expiration at the end of 2025 would cost over $700 billion over the decade that would follow. No provision of the 2017 tax cuts highlights the need for a course correction in 2025 more than the pass-through deduction, and yet some congressional Republicans are doubling down: House and Senate Republicans recently introduced bills that would permanently extend the deduction. Any extension should be rejected this year, next year, and finally, in 2025. (Marr, & Jacoby, 2023).

Jim Blasingame wrote about the good, the bad and the ugly of TCJA. On the good side, he noted at the macro level, the new law will be good for America and C corporations got a significant early Christmas gift with the reduction in the corporate tax rate from 35% to 21%; on the bad side, he noted TCJA is not real tax reform since many of the provisions are only temporary; and on the ugly side, noted small businesses did not get the same tax benefit as large businesses (Blasingame, 2018).

AN EXAMPLE OF TAX RESULTS PRIOR TO TCJA.

The time frame for this paper begins in 2017, the year before TCJA became law. The focus is on an older married couple (both over 65) where both are on social security and one draws a modest pension for a career in education. The numbers for 2017 were taken directly from the actual tax return for the couple.

Table one shows the 2017 amounts. The total income is $67,349, however, since much of the Social Security benefits are not taxable; the taxable amount of income taxable begins at $33,534.

Then itemized deductions are recognized for the couple. The couple incurred medical expenses in excess of the threshold, paid other taxes, incurred a bit of home mortgage interest, and made some charitable contributions Subtracting the total itemized deductions from the beginning point for taxable income, the difference is $11,258.The couple is entitled to $8,100 in personal exemptions in 2017.Subtracting personal exemption amounts, the couple has $3,158 of taxable income and total tax due of $316.

Calculating the amount of the Trump Tax Penalty on older married couples on Social Security and a modest pension begins with the amount of tax due in 2017.For comparative purposes, many of the 2017 amounts are held constant, while others are adjusted for changes brought about by TCJA.

TABLE 1
FOR TAXABLE YEAR 2017
OLDER MARRIED COUPLE ON SOCIAL SECURITY AND MODEST PENSION

FORM 1040ITEMS	TOTALS	FROM FORM 1040
Taxable interest	$66	$66
Taxable State Return	$294	$294
Social Security payments	$41,868	$8,053
Pension	$25,121	$25,121
Sub totals	$67,349	$33,534
Medical		$11,215
Taxes		$756
Home Mortgage Interest		$305
Cash Contributions		$10,000
Non-Cash Contributions		0
Sub Total income		$11,258
Personal Exemptions		$8,100
Standard Deductions		0
Taxable income		$3,158
Total Tax due		$316
Total itemized deductions		$22,276
Personal Exemptions		$8,100
Standard Deductions		0
Total Deductions		$30,376

TAX CHANGES RESULTING FROM TCJA

Table 2 shows the result of applying applicable TCJA laws to the couples 2018 tax return. The taxable portion of the Social Security benefits changed slightly and the starting point for taxable income is $32,990. Then we can see the significant changes brought about by the new law.

The standard deduction for the couple increased to $26,600, meaning the couples itemized deductions must exceed this amount before they may deduct any itemized deductions. The reason all the amounts in the 2018 return for itemized deductions are zero is because the total itemized deductions did not exceed the standard deduction of $26,600. Thus, the couple is better off to take the standard deduction.

Then we note another significant change for this couple. The $8,100 in personal exemptions disappeared. Bottom line, the couple lost $3,776 in deductions. This is because itemized deductions dropped from $22,276 to zero; personal exemptions dropped from $8,100; while the standard deduction increased from zero to $26,600.

Fewer deductions lead directly to higher taxes for the couple. In this case the Trump Tax Penalty for the couple for 2018 is $323.The difference between the 2018 tax of 639 and the 2017 tax of $316.This is more than a 50% increase.

TABLE 2
FOR TAXABLE YEAR 2018
OLDER MARRIED COUPLE ON SOCIAL SECURITY AND MODEST PENSION

FORM 1040 ITEMS	TOTALS	FROM FORM 1040
Taxable interest	$66	$66
Taxable State Return		
Social Security payments	$41,868	$7,803
Pension	$25,121	$25,121
Sub totals	$67,055	$32,990
Medical		$0
Taxes		$0
Home Mortgage Interest		$0
Cash Contributions		$0
Non-Cash Contributions		$0
Sub Total income		$32,990
Personal Exemptions		
Standard Deductions		$26.660
Taxable income		$6,390
Total Tax due		$639
Total itemized deductions		$0
Personal Exemptions		$0
Standard Deductions		$26,660
Total Deductions		$26,600

Table 3 shows the Trump Tax penalty for 2019.Once again, the increase in the standard deduction coupled with the loss of itemized deductions resulted in a loss of overall tax deductions. The overall loss of deductions resulted in a total tax due of $599.The difference between the $599 tax due for 2019 and the previous tax due prior to TCJA of $316 results in a Trump Tax Penalty for 2019 of $283.

TABLE 3
FOR TAXABLE YEAR 2019
OLDER MARRIED COUPLE ON SOCIAL SECURITY AND MODEST PENSION

FORMITEMS	TOTALS	FROM FORM 1040
Taxable interest	$66	$66
Taxable State Return		
Social Security payments	$41,868	$7803
Pension	$25,121	$25,121
Sub totals	$67,055	$32.990
Medical		$0
Taxes		$0
Home Mortgage Interest		$0
Cash Contributions		$0
Non-Cash Contributions		$0
Sub Total income		$32.990
Personal Exemptions		$8,100

Standard Deductions		$27,000
Taxable income		$5,990
Total Tax due		$599
Total itemized deductions		$0
Personal Exemptions		$0
Standard Deductions		$27,000
Total Deductions		$27,000

Table 4 shows the Trump Tax penalty for 2020.Once again, the increase in the standard deduction coupled with the loss of itemized deductions resulted in a loss of overall tax deductions. The overall loss of deductions resulted in a total tax due of $504.The difference between the $504 tax due for 2019 and the previous tax due prior to TCJA of $316 results in a Trump Tax Penalty for 2019 of $188.

TABLE 4
FOR TAXABLE YEAR 2020
OLDER MARRIED COUPLE ON SOCIAL SECURITY AND MODEST PENSION

FORMITEMS	TOTALS	FROM FORM 1040
Taxable interest	$66	$66
Taxable State Return		
Social Security payments	$41,868	$7,548
Pension	$25,121	$25,121
Sub totals	$67,055	$32,735
Medical		$0
Taxes		$0
Home Mortgage Interest		$0
Cash Contributions		$300
Non-Cash Contributions		$0
Sub Total income		$32,435
Personal Exemptions		$
Standard Deductions		$27,400
Taxable income		$5,035
Total Tax due		$504
Total itemized deductions		$0
Personal Exemptions		$0
Standard Deductions		$27,400
Total Deductions		$27,400

Table 5 shows the Trump Tax penalty for 2021.Once again, the increase in the standard deduction coupled with the loss of itemized deductions resulted in a loss of overall tax deductions. The overall loss of deductions resulted in a total tax due of $459.The difference between the $459 tax due for 2019 and the previous tax due prior to TCJA of $316 results in a Trump Tax Penalty for 2019 of $143.

TABLE 5
FOR TAXABLE YEAR 2021
OLDER MARRIED COUPLE ON SOCIAL SECURITY AND MODEST PENSION

FORMITEMS	TOTALS	FROM FORM 1040
Taxable interest	$66	$66
Taxable State Return	$0	$0
Social Security payments	$41,868	$7.803
Pension	$25,121	$25,121
Sub totals	$67,055	$32.990
Medical		$0
Taxes		$0
Home Mortgage Interest		$0
Cash Contributions		$600
Non-Cash Contributions		$0
Sub Total income		$32,390
Personal Exemptions		$0
Standard Deductions		$27,800
Taxable income		$4,590
Total Tax due		$459
Total itemized deductions		$22,276
Personal Exemptions		$8,100
Standard Deductions		0
Total Deductions		$30,376

Tables 6 and 7 show the results of four years of the Trump Tax Penalty on an older married couple on social Security and a modest pension. Table 6 shows the penalty is hundreds of dollars each year and Table 7 shows the total penalty over the four years is $937.

TABLE 6
TRUMP TAX PENALTY BY TAX YEAR
OLDER MARRIED COUPLE ON SOCIAL SECURITY AND MODEST PENSION

TAX YEAR	TAX BEFORE TCJA	TAX AFTER TCJA	TRUMP TAX PENALTY
2018	$316	$639	$323
2019	$316	$599	$283
2020	$316	$504	$188
2021	$316	$459	$143

TABLE 7
TRUMP TAX PENALTY IN TOTAL 2018 THRU 2021
OLDER MARRIED COUPLE ON SOCIAL SECURITY AND MODEST PENSION

YEAR	TRUMP TAX PENALTY
2018	$323
2019	$283
2020	$188
2021	$143
2018 THRU 2021 TOTAL TRUMP TAX PENALTY	$937

SUMMARY

TCJA provided significant tax savings to wealthy individuals. According to Laurence Kotlikoff, "What share of the tax cuts went to the rich and the poor? The richest 1 percent received 9.3 percent of the total tax cuts, the top 5 percent got 26.5 percent, the top quintile received 52.2 percent and the bottom quintile got 3.3 percent. (Kotlikoff, 2019, July 23).

Then we view the results of TCJA from the standpoint of an older married couple on Social Security and a modest pension. The evidence demonstrates clearly TCJA resulted in a tax increase for the couple because of TCJA. This increase is the Trump Tax Penalty. For this couple, the Trump Tax Penalty for the years 2018 thru 2021 is $937.

The results shown here are for an actual return, an actual penalty. Bottom line, the older couple on Social Security and a modest pension lost all their personal exemptions and all their itemized deductions. And at the same time, the increase in the standard deduction did not at all make up for the deductions lost due to the loss of personal exemptions and itemized deductions. Less deductions lead to more taxes owed, thus is the nature of the Trump Tax Penalty.

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