

# ECONOMICS OF TRUMP'S TAX PLAN: CASE STUDY OF REPEALING SALT DEDUCTION

# Why Is Tax Policy Important?



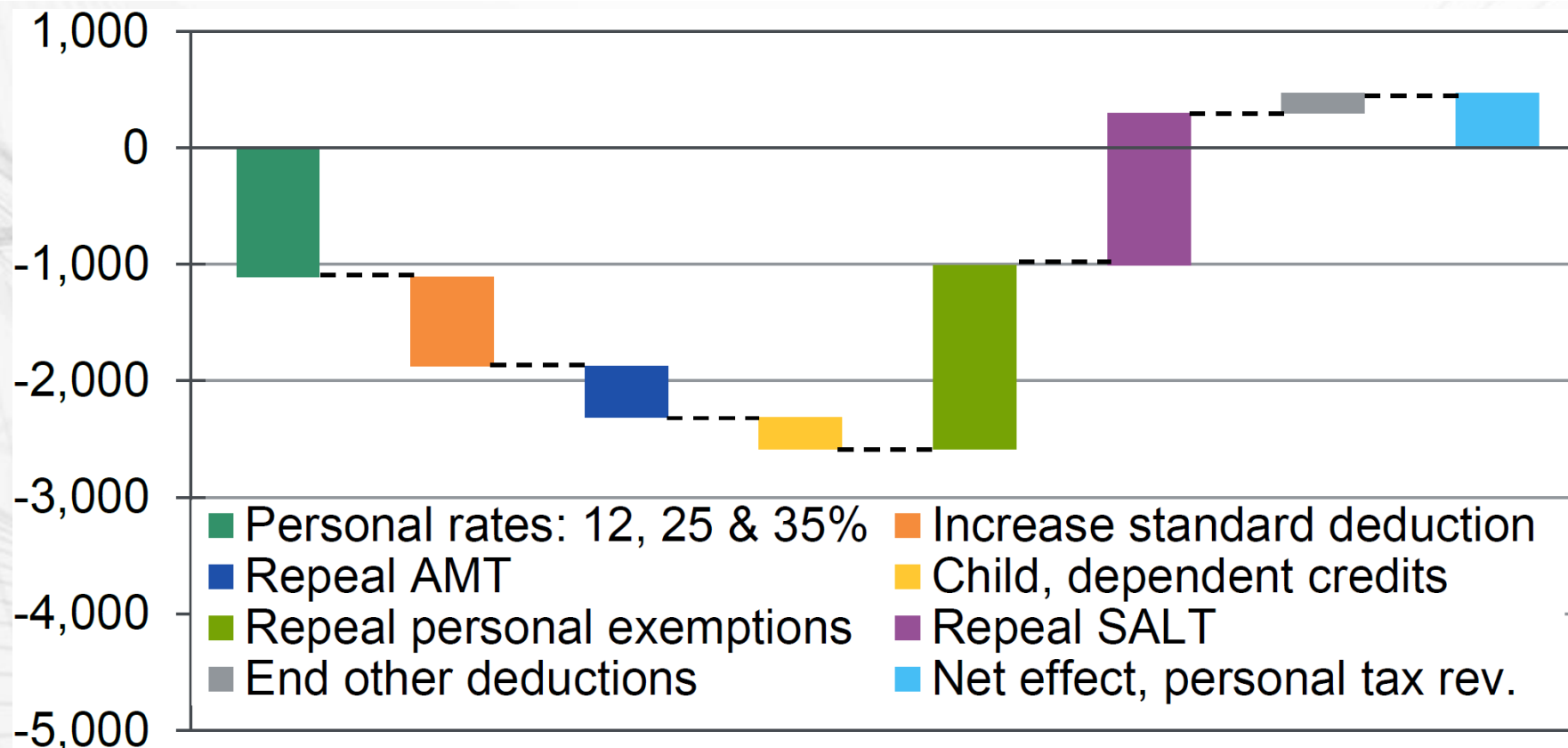
- Demand-Side
  - ▣ After-tax income → spending
  - ▣ Ripple effects on GDP and jobs
- Supply-Side
  - ▣ How much to work
  - ▣ How much to invest
  - ▣ State level: Where to live / locate a business
  - ▣ [Janet Yellen at National Economists Club: “supply-side” Capital Formation and Labor Force Participation to increase GDP Growth Potential]
- Fiscal: impacts on national **and** state budgets

# Tax Reform Proposal



- Corporate
  - ▣ Lower corporate tax rate to 20%
  - ▣ Repatriate profits
  
- Personal
  - ▣ Lower and simplify marginal tax rates
  - ▣ Increase standard deduction
  - ▣ Eliminate many itemized deductions
    - Includes state & local tax (SALT) deduction

# Static Breakdown



Source: Tax Policy Center

# REMI Analysis

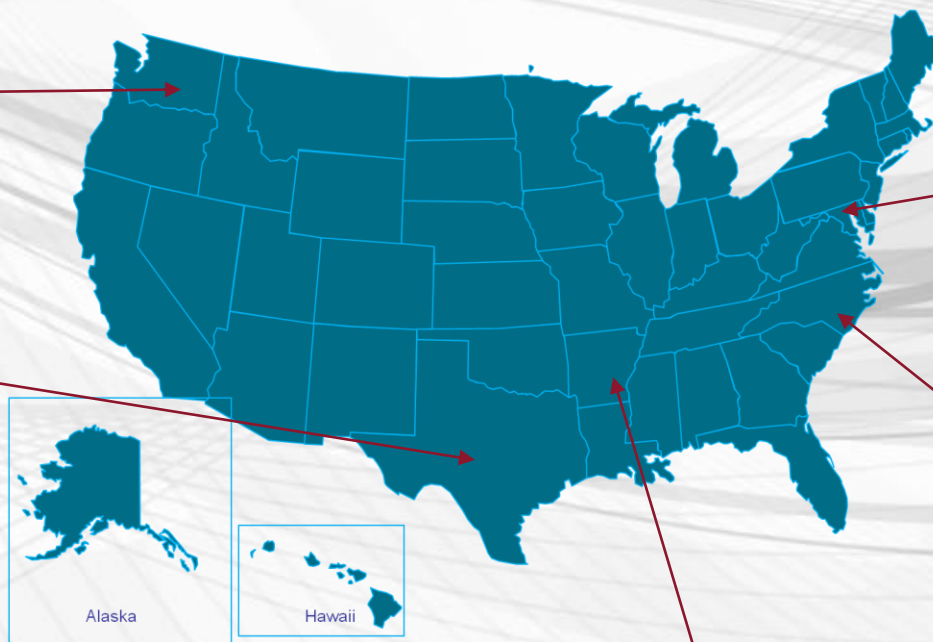


**REMI's PI+ and Tax-PI are the industry standards for regional macroeconomic, demographic and dynamic fiscal analysis of public policy and economic development projects.**

## **Washington:**

Aerospace tax credit analysis

**Texas:** Statutory impact analysis requirement for appropriations legislation



## **Maryland:**

Corporate tax rate reduction analysis

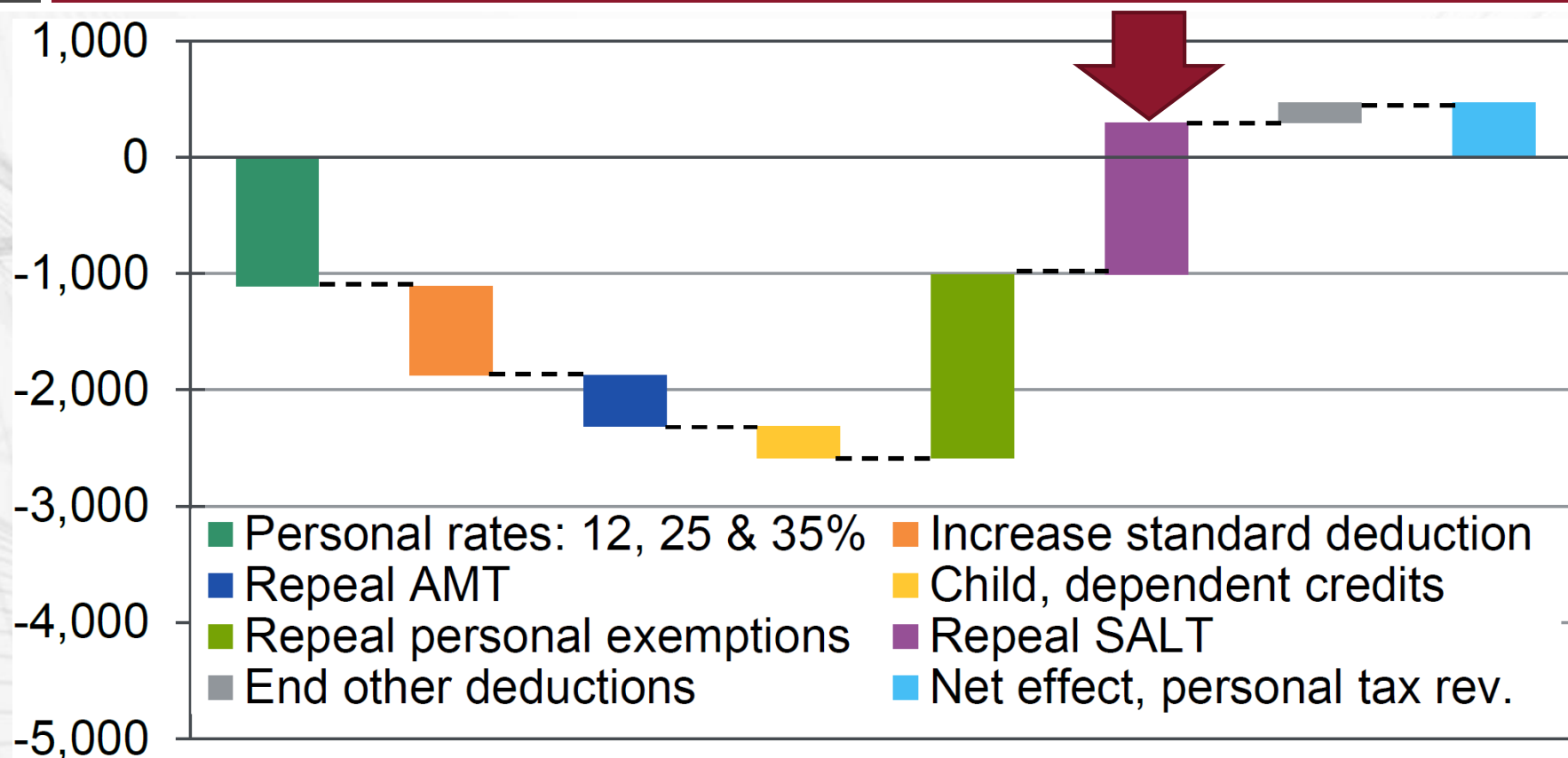
## **North Carolina:**

Medicaid expansion analysis

**Arkansas:** Big River Steel manufacturing facility analysis

*what does **REMI** say? <sup>sm</sup>*

# SALT Deduction



Sources: Tax Policy Center, Moody's Analytics

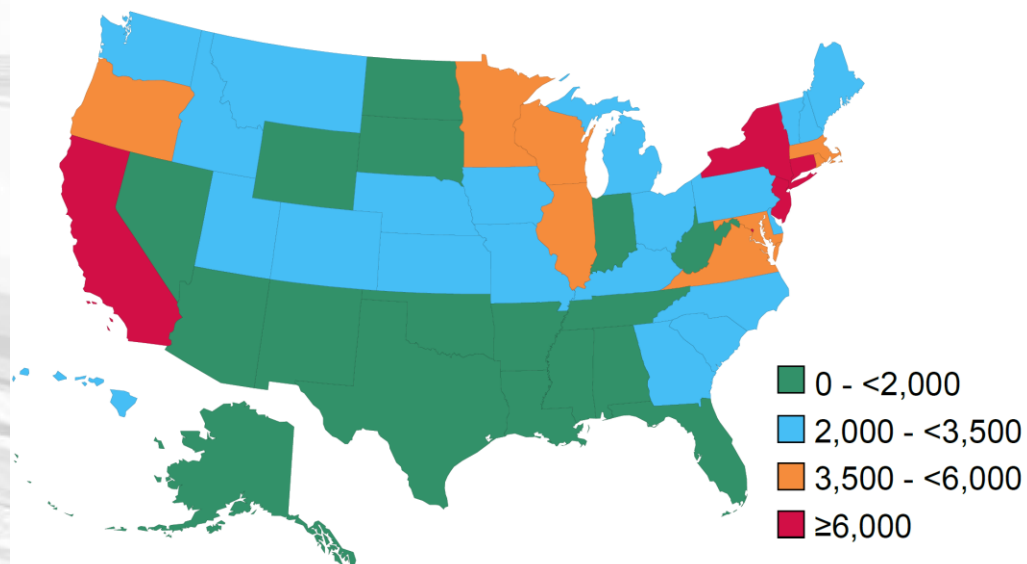
what does **REMI** say? <sup>sm</sup>

# Background



- Nearly 44 million Americans filed SALT deductions in 2014
- Different states make different contributions
  - ▣ California and New York filed nearly 30% of total SALT deductions in 2014
  - ▣ The states in green filed 12%

SALT per tax return, \$, 2015



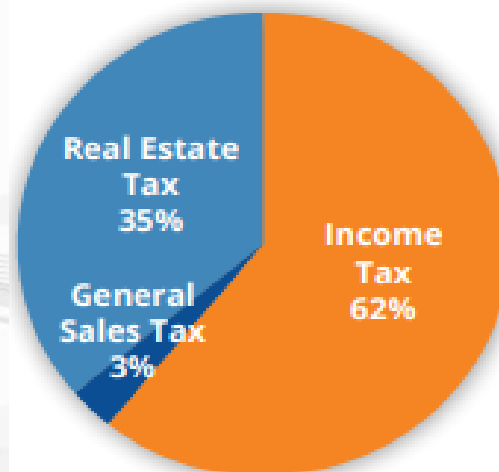
Sources: IRS, Moody's Analytics

U.S. average = \$3,600

# Background



- The SALT deduction is composed of three parts
  - ▣ Personal income tax
  - ▣ Real estate tax
  - ▣ Sales tax



Source: IRS SOI Tax Stats (2015)

- Mix of taxes varies from state to state

Tax	# of States That Collect
State Income Tax	41
Local Income Tax	12
State Sales Tax	45
Local Sales Tax	38
Property Tax	50

Sources: Urban-Brookings Tax Policy Center (2016), Tax Foundation Fiscal Fact No. 461 (2015)

## Simplified tax reform scenario

- Remove SALT deductions
  - ▣ Use 2014 IRS data
  
- Budget-neutral: offset with income tax decrease
  - ▣ Split among states by share of income

# Analysis Outline

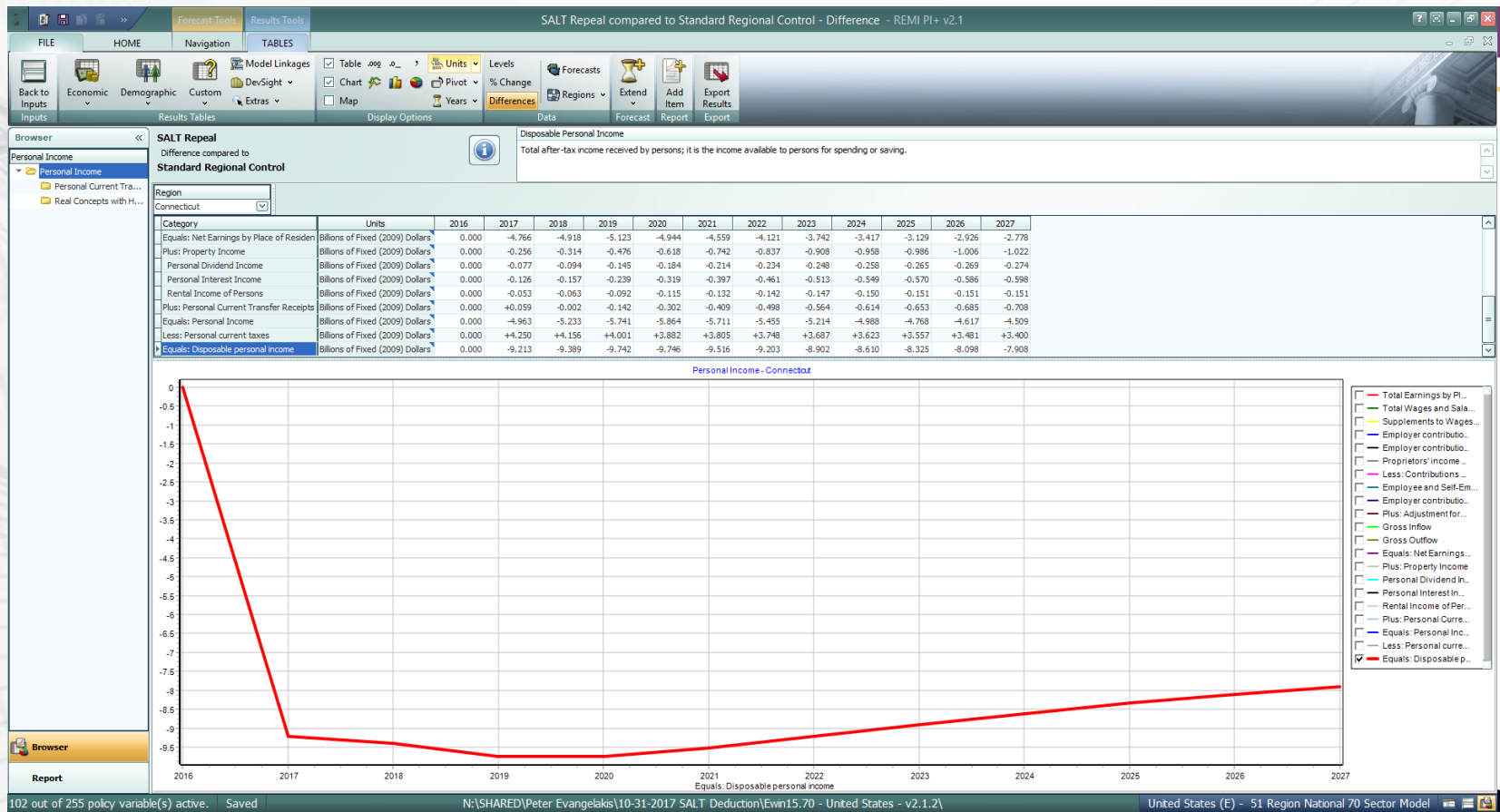


- State-level economic impacts
- Migratory responses
- Fiscal impacts

# State-Level Impacts



- Net increase in personal taxes in CT lowers after-tax income

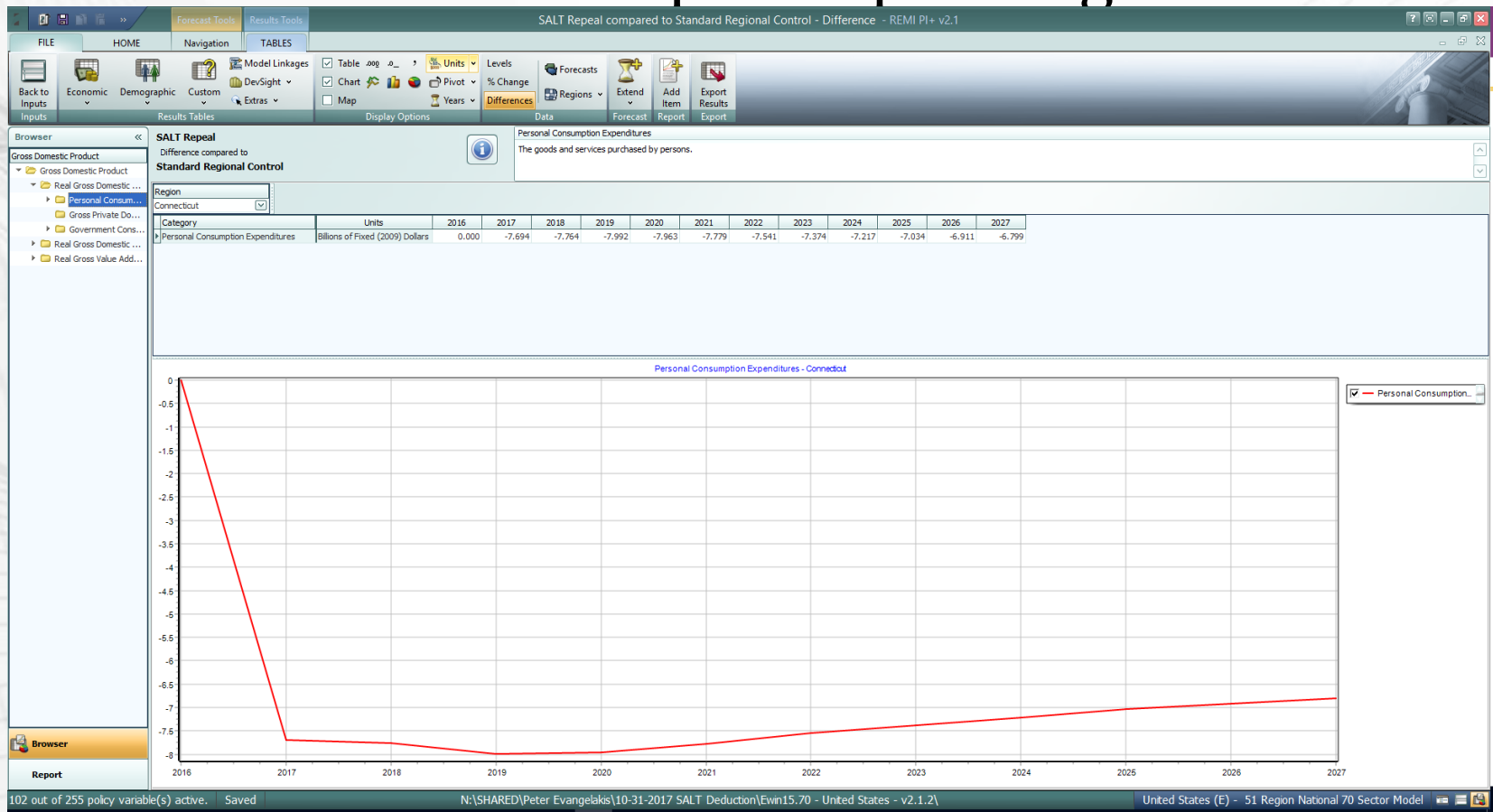


what does REMI say? <sup>sm</sup>

# State-Level Impacts



## □ This lowers consumption spending

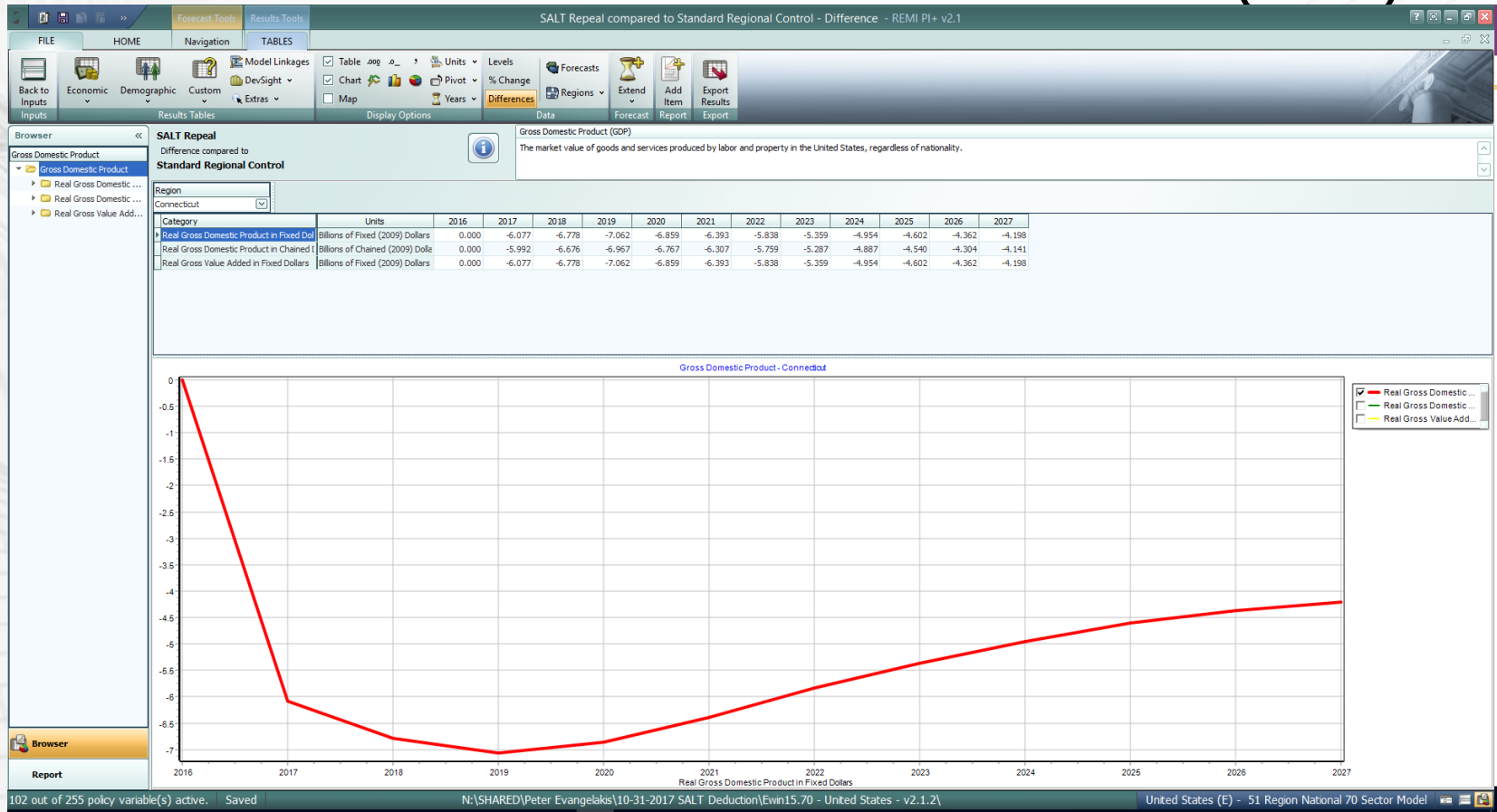


what does REMI say? <sup>sm</sup>

# State-Level Impacts



## □ ...which decreases Gross State Product (GSP)

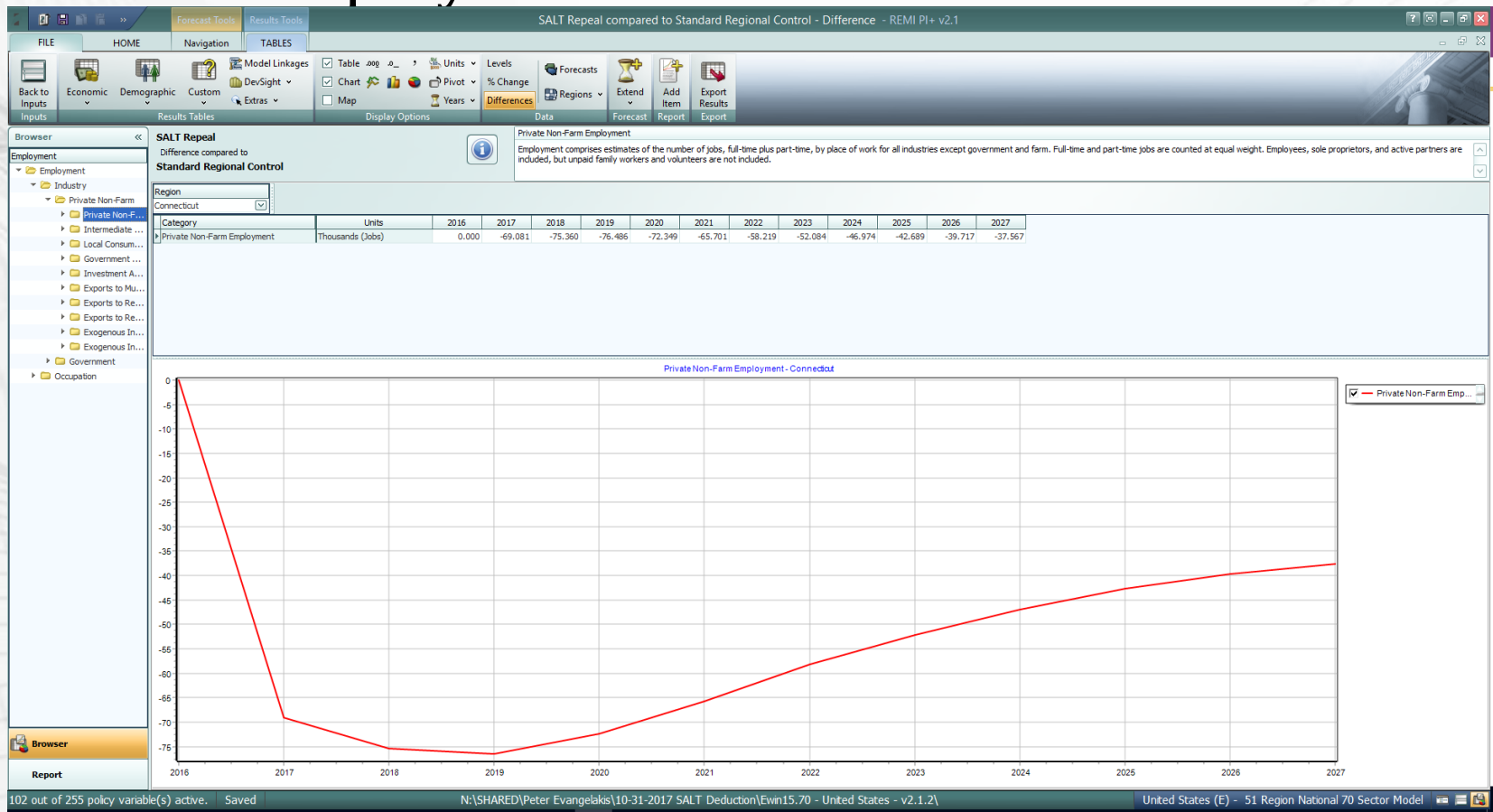


what does REMI say? <sup>sm</sup>

# State-Level Impacts



## □ ...and employment in the state

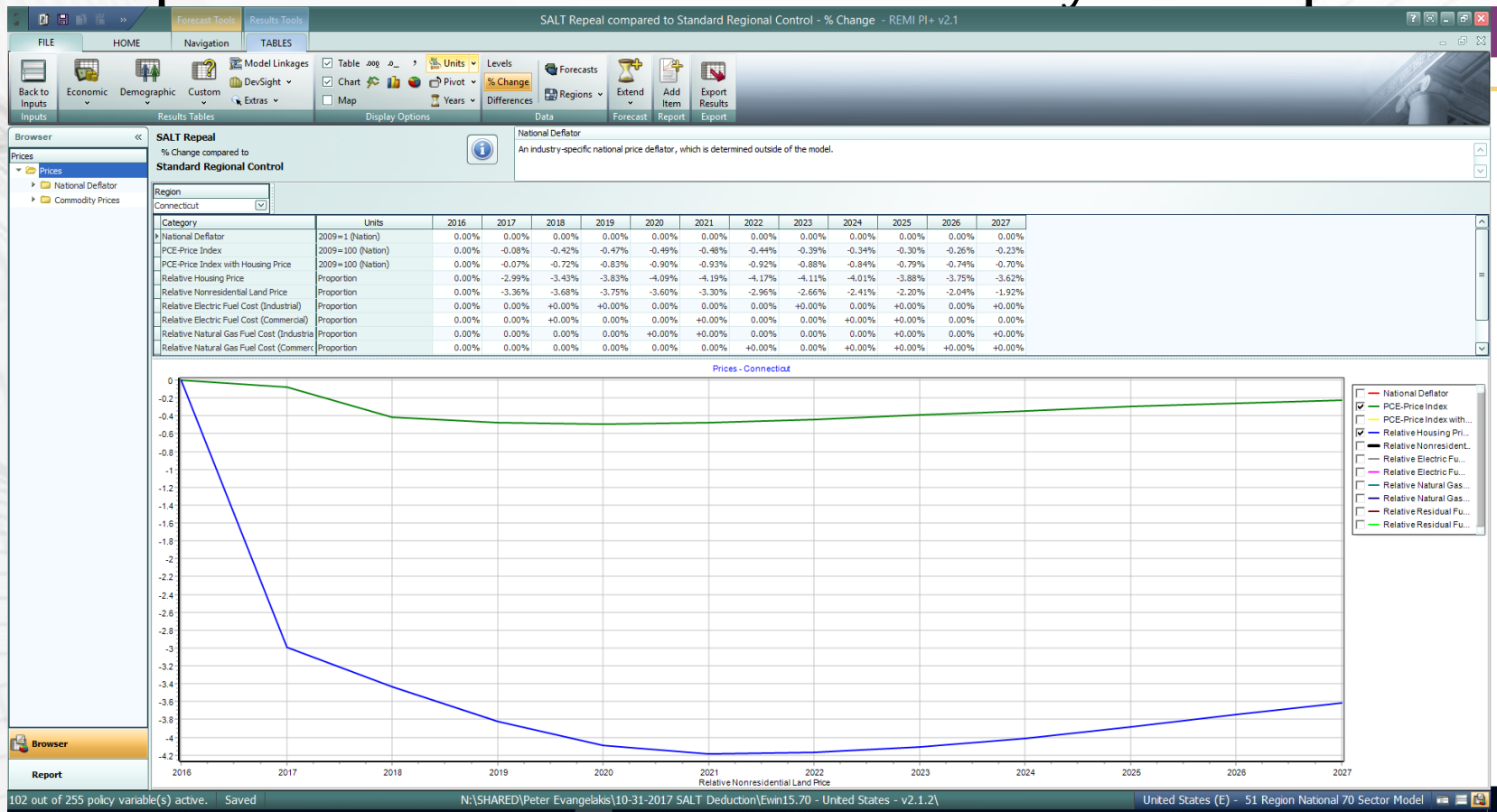


what does REMI say? <sup>sm</sup>

# State-Level Impacts



## □ Impacts ameliorated somewhat by lower prices

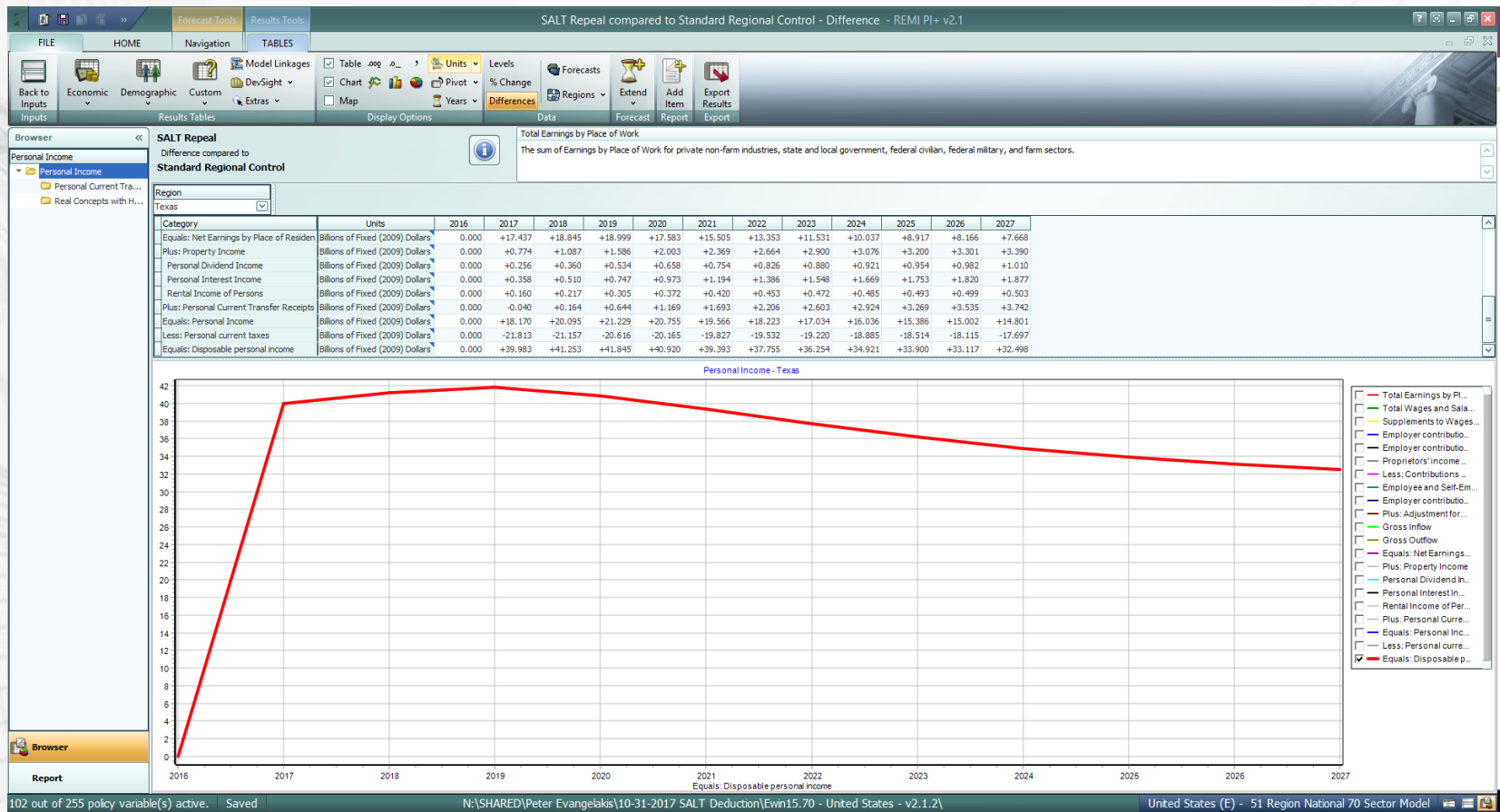


what does REMI say? <sup>sm</sup>

# State-Level Impacts



## □ Contrast with increase in TX after-tax income

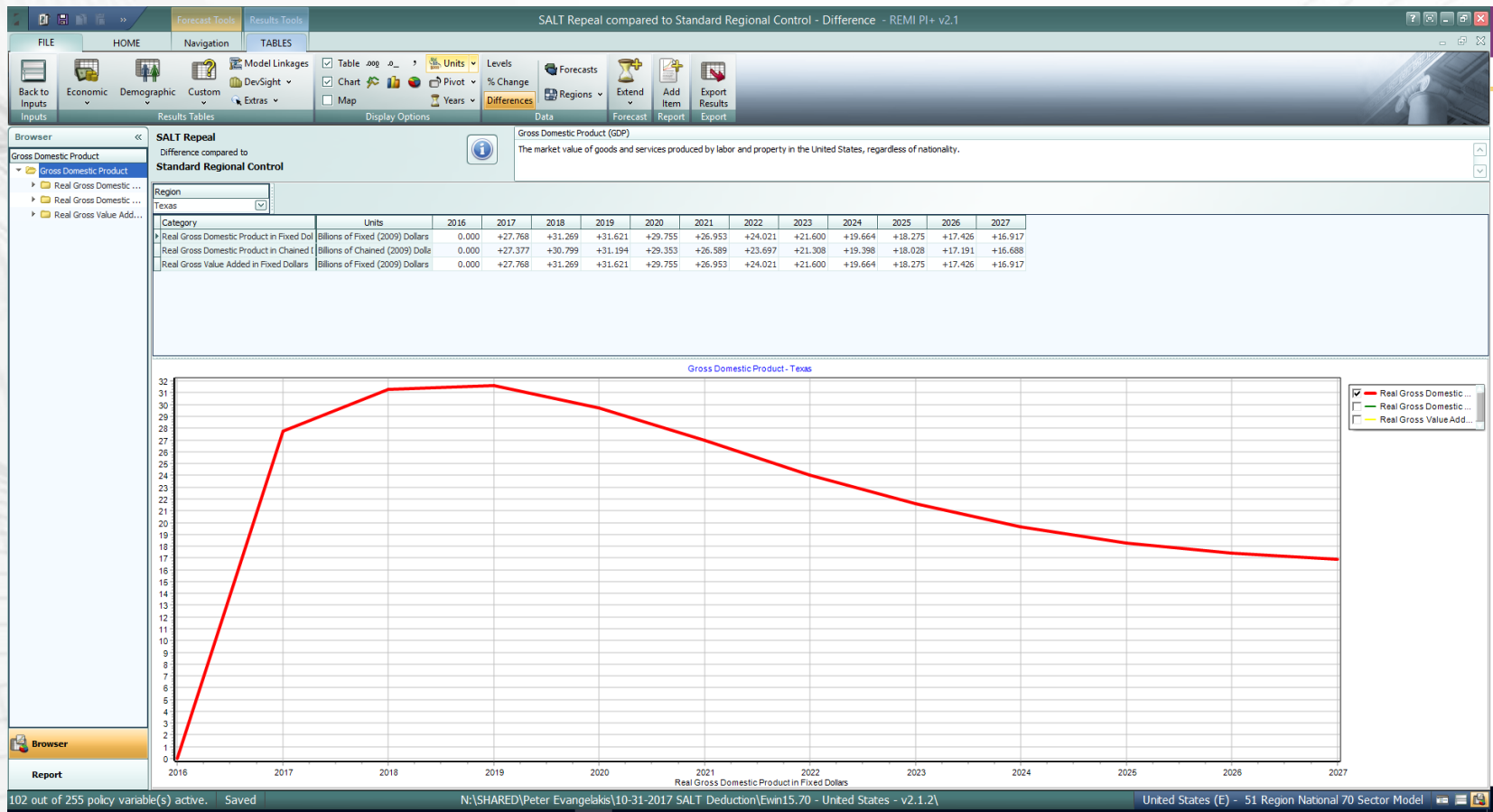


what does REMI say? <sup>sm</sup>

# State-Level Impacts



## □ Increase in TX GSP

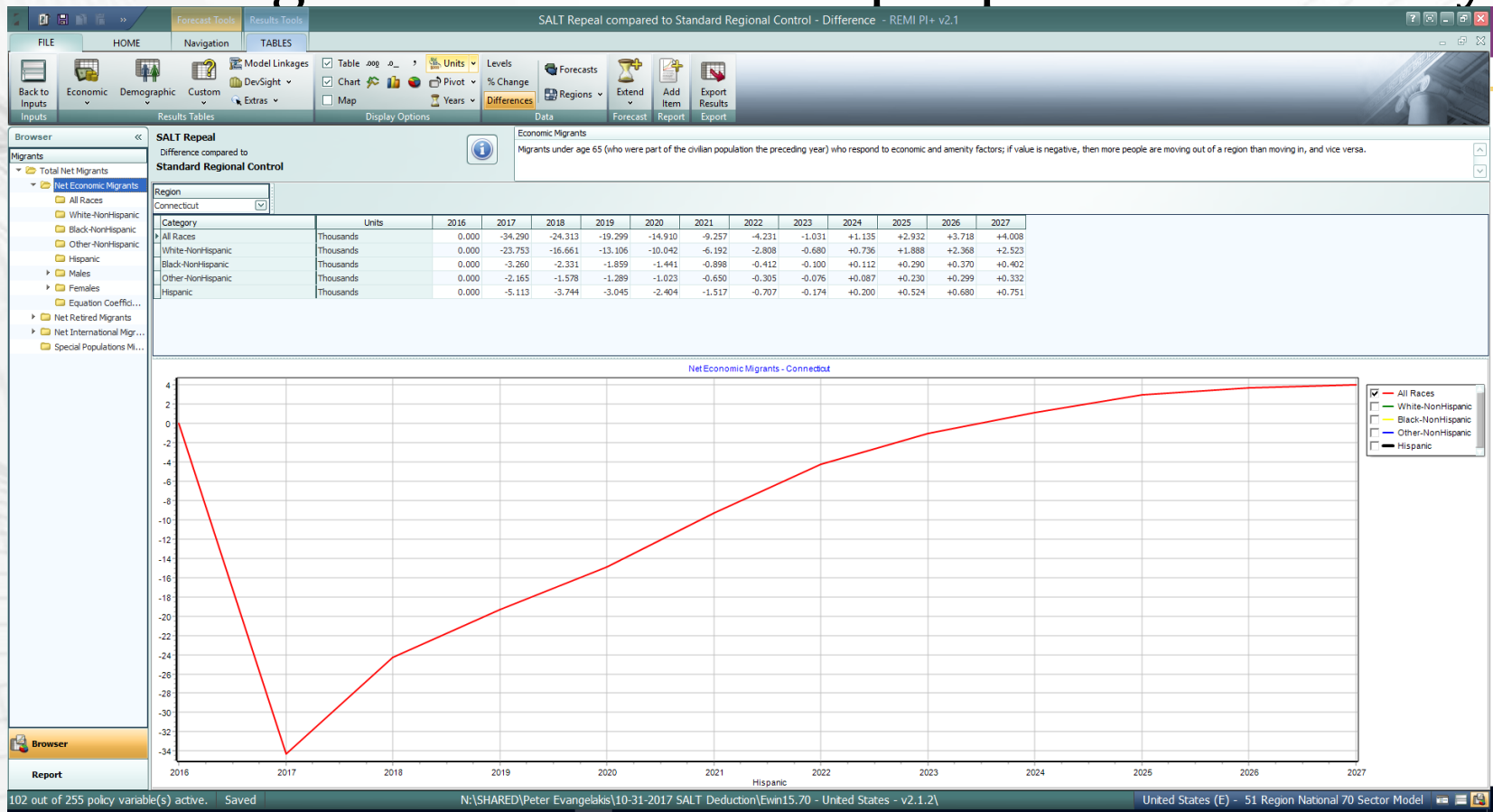


what does REMI say? <sup>sm</sup>

# Migratory Responses



## □ CT's high taxes incentivize people to move away

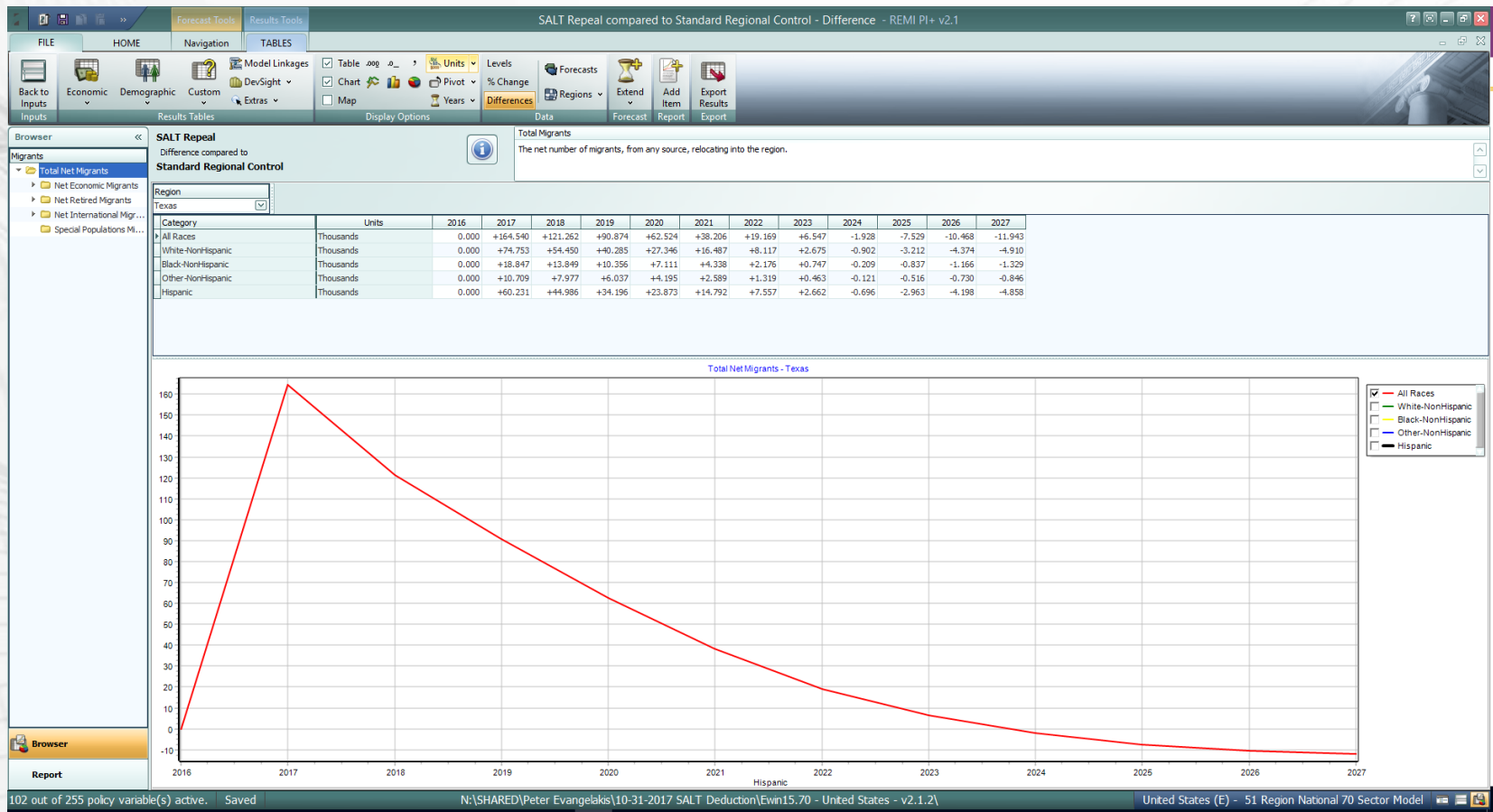


what does REMI say? <sup>sm</sup>

# Migratory Responses



## □ ...to low-tax states like TX

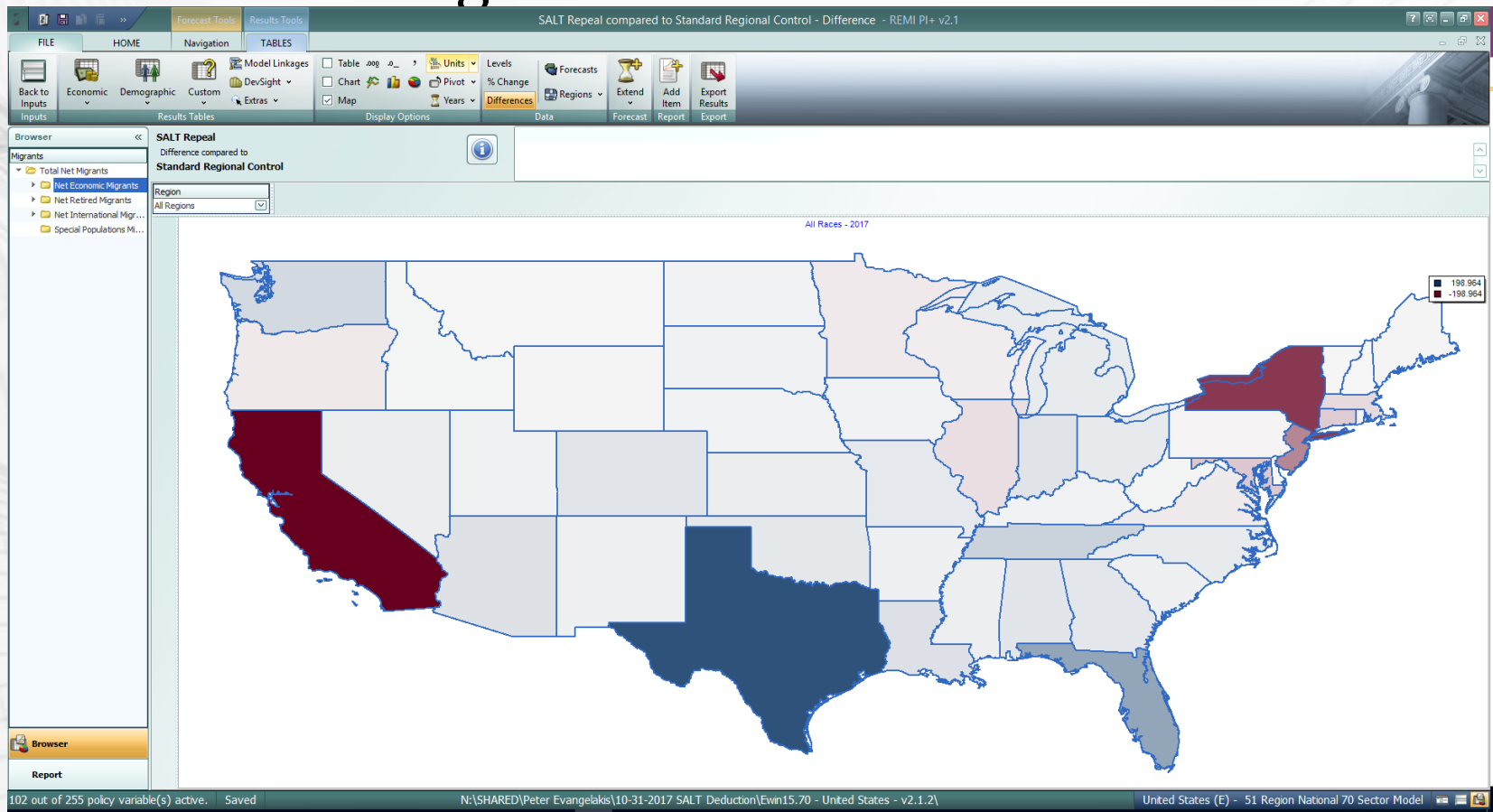


what does REMI say? <sup>sm</sup>

# Migratory Responses



## □ Economic migration across U.S.



what does **REMI** say? <sup>sm</sup>

# Fiscal Impacts



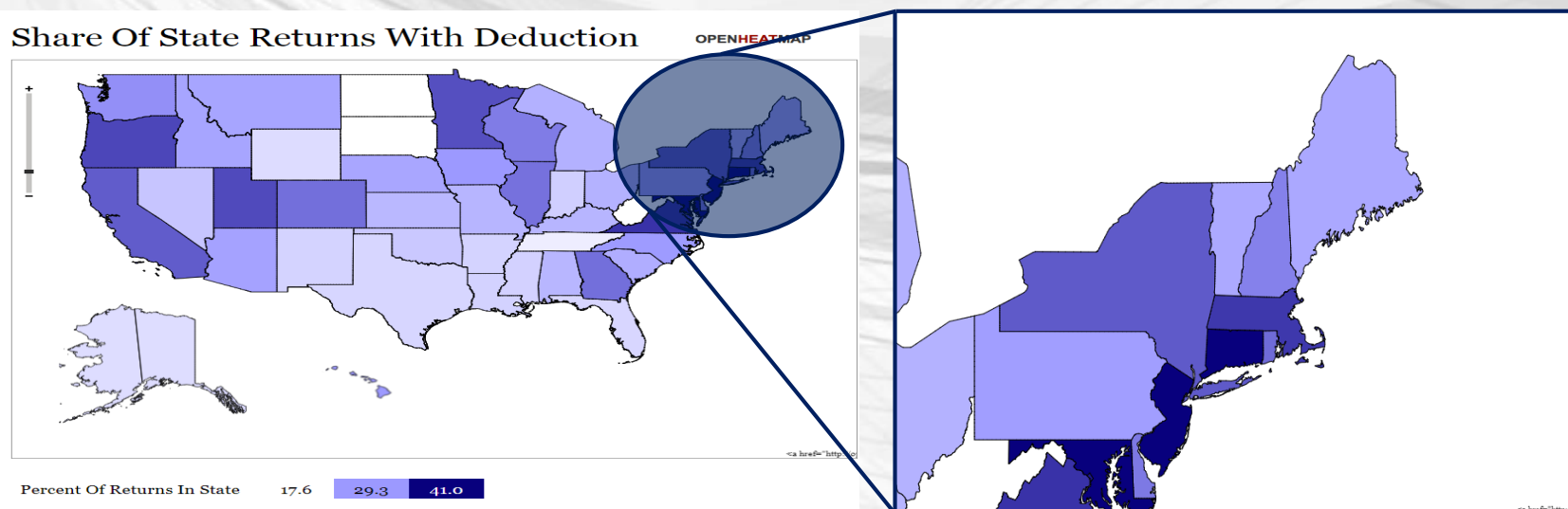
- Driven by state economic impacts and migration
- Zoom in on CT fiscal impacts
- Use Tax-PI
  - ▣ Account for migration patterns from U.S. model
  - ▣ Calibrate the state budget using historical data

# State level: Connecticut



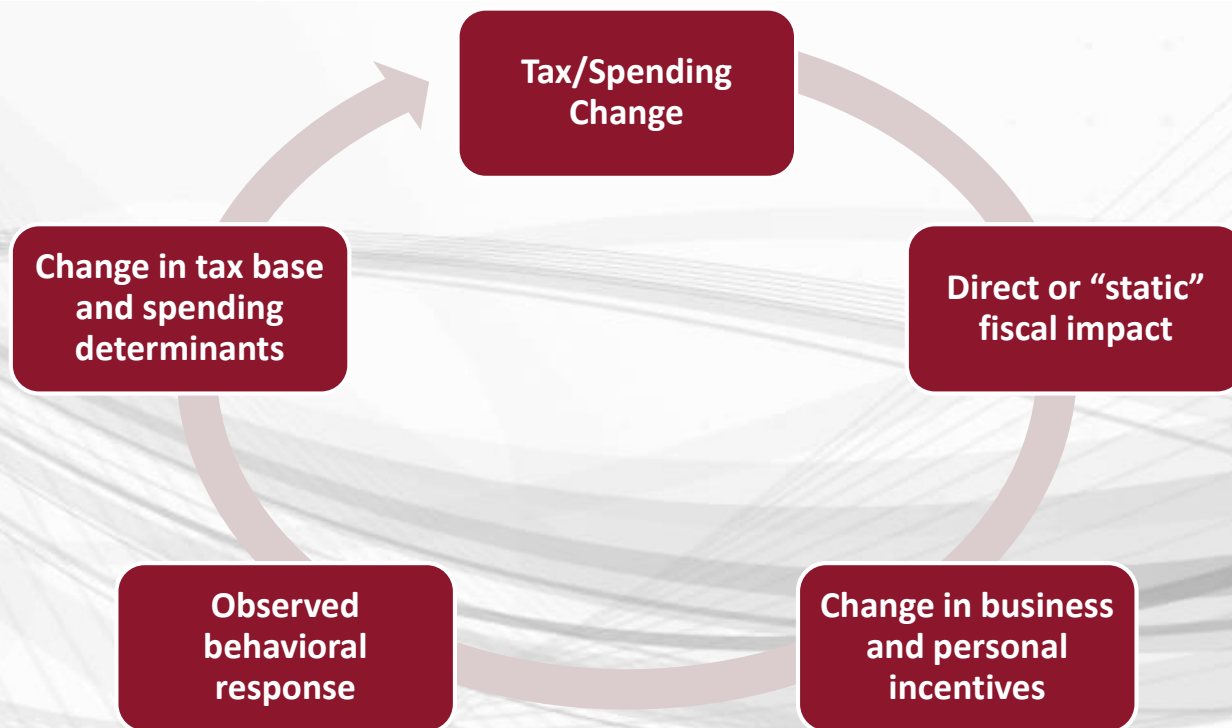
## □ Background

- ▣ State income tax ranges from 3-6.99%
- ▣ Combined state and local sales tax: 6.35%
- ▣ Property tax: 1.63%
- ▣ CT has 2nd highest proportion of people filing SALT deduction



what does **REMI** say? <sup>sm</sup>

# Tax-PI Analytical Approach

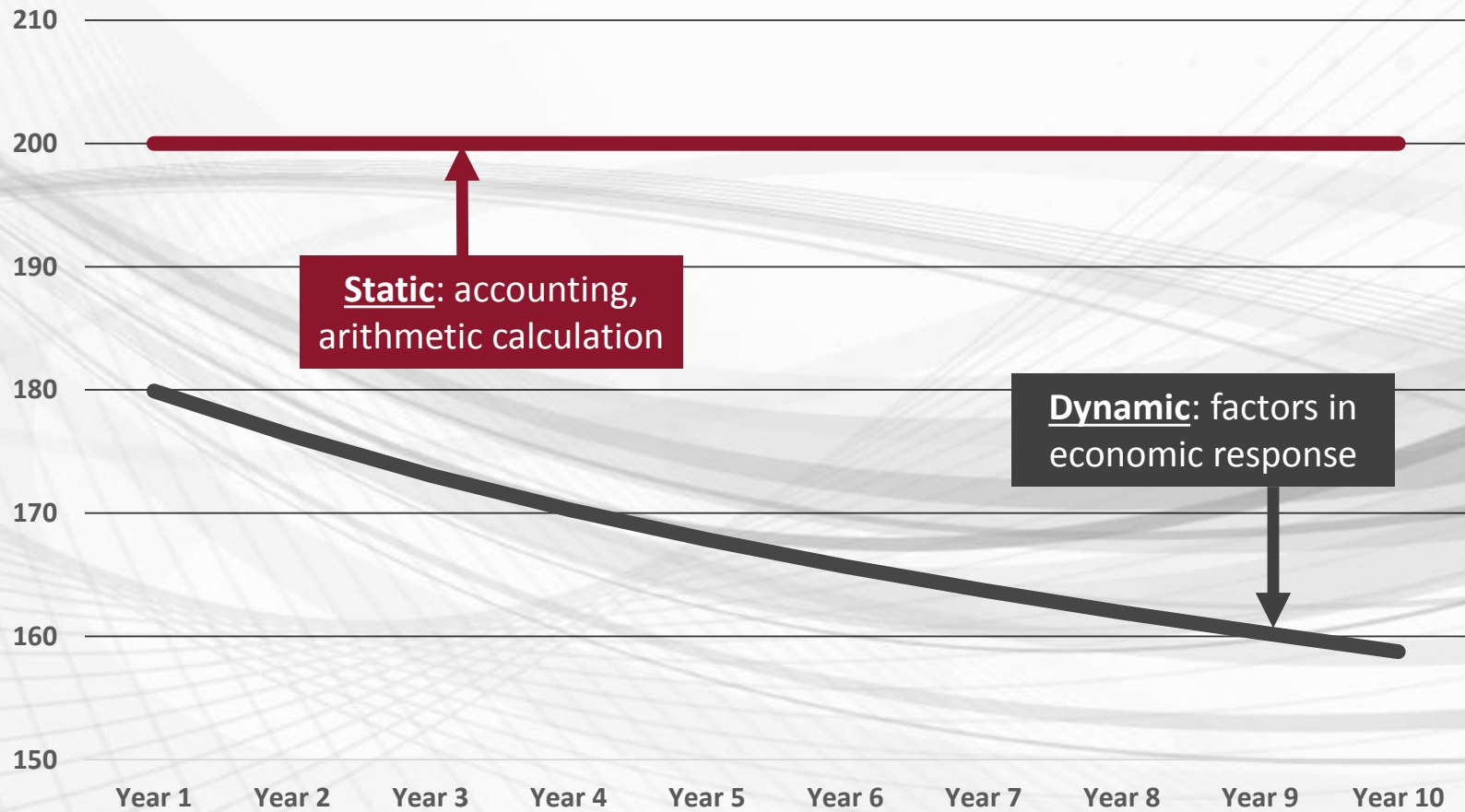


*"Conventional analysis of proposed legislation...does not incorporate effects on the economy...trying to account for such effects may increase the likelihood of producing an accurate answer."*

**Keith Hall**, Director, Congressional Budget Office

*what does **REMI** say? <sup>sm</sup>*

# Dynamic vs. Static Example: Raise Corporate Tax by \$200M



what does **REMI** say? <sup>sm</sup>

# State level: Connecticut



## □ Calibrating the budget

**Budget Calibration - SALT Deduction**

**Options**

Start of Fiscal Year:  Units:

Expenditures Determined By: ☐ Revenues ☒ Demand

**Revenues**

Display Years:  to

Revenue Name	FY2014	FY2015	FY2016	FY2017
Personal Income Taxes	9456142	9748600	9834400	10357200
Sales & Use Tax	4123470	4251000	4121065	4084665
Corporation Tax	608481	627300	902200	910700
Public Service Tax	298760	308000	308000	316500
Inheritance & Estate Tax	172078	177400	173400	174700
Insurance Companies Tax	230084	237200	243800	24600
Cigarettes Tax	326599	336700	361200	363300
Real Estate Conveyance Tax	188859	194700	194700	200800
Oil Companies Tax	0	0	0	0
Alcoholic Beverages Tax	59364	61200	61700	62100
Admissions & Dues Tax	37539	38700	38300	39600
Health Provider Tax	465503	479900	676900	683900
Misc. Tax	20273	20900	20800	21300
Other Revenues	1108904	1143200	1174313	1183475
Special Transportation Fund (S	1381335.29	1424057	1468100	1596900
Mashantucket Pequot and Mo	58147.62	59946	61800	61800
Regional Market Operating Fur	1034.99	1067	1100	1100
Banking Fund	28227	29100	30000	30200

**Budget Data**

Enter actual or forecasted budget data. The budget will be projected forward using the last year of entered data and an indicator that is selected from the model results.

**Revenue Details**

**Real Estate Conveyance Tax**

Economic Indicator:

☐ Time Series ☒ Include All

Details	Units	All Years
Residential	Percent	100
Non-residential	Percent	0

what does REMI say? <sup>sm</sup>

# State level: Connecticut

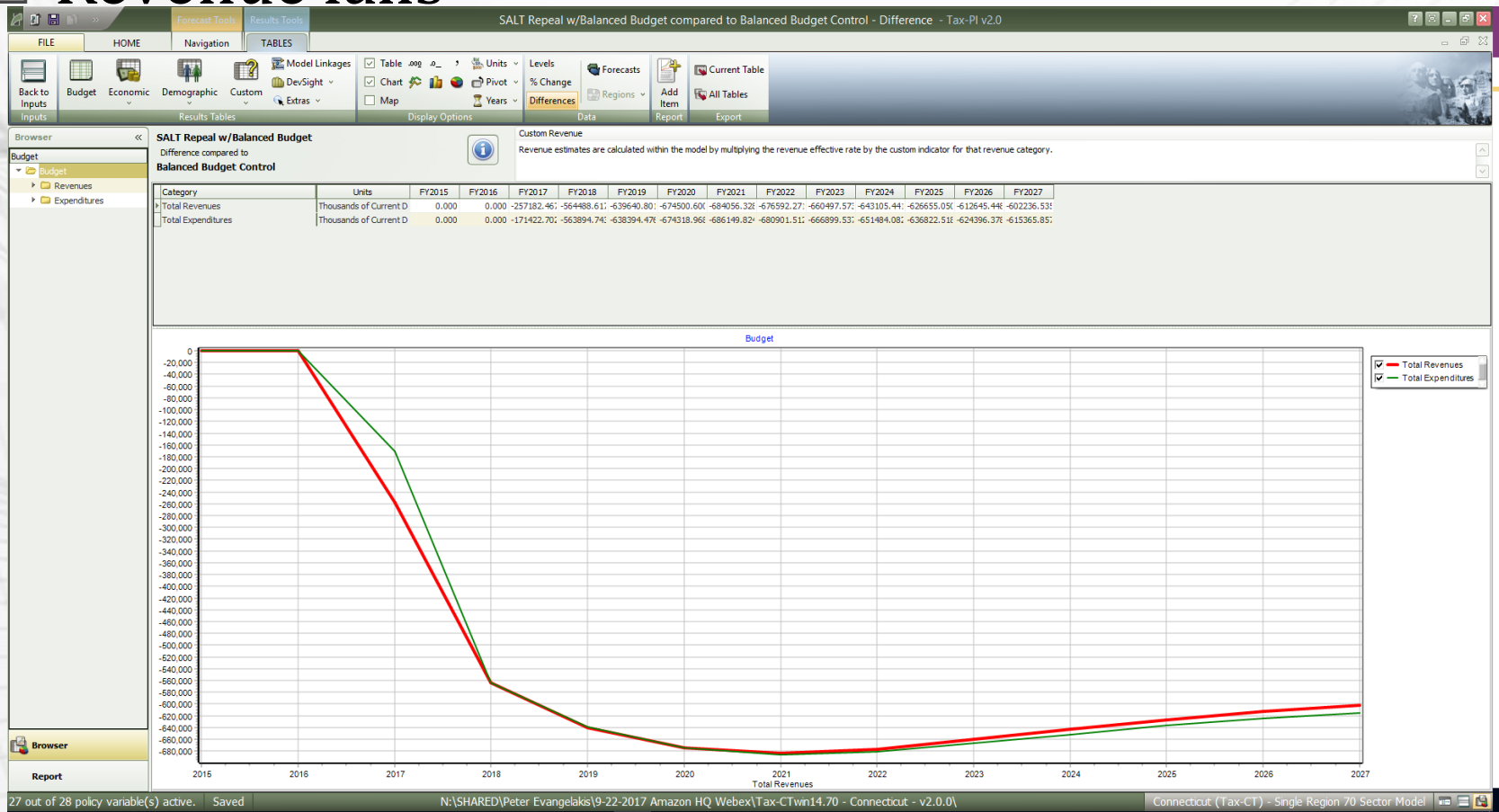


- Tax base falls due to:
  - ▣ Decreased production
  - ▣ Decreased employment
  - ▣ Lower prices (help citizens, hurt budget)
  - ▣ Out-migration

# State level: Connecticut



## □ Revenue falls

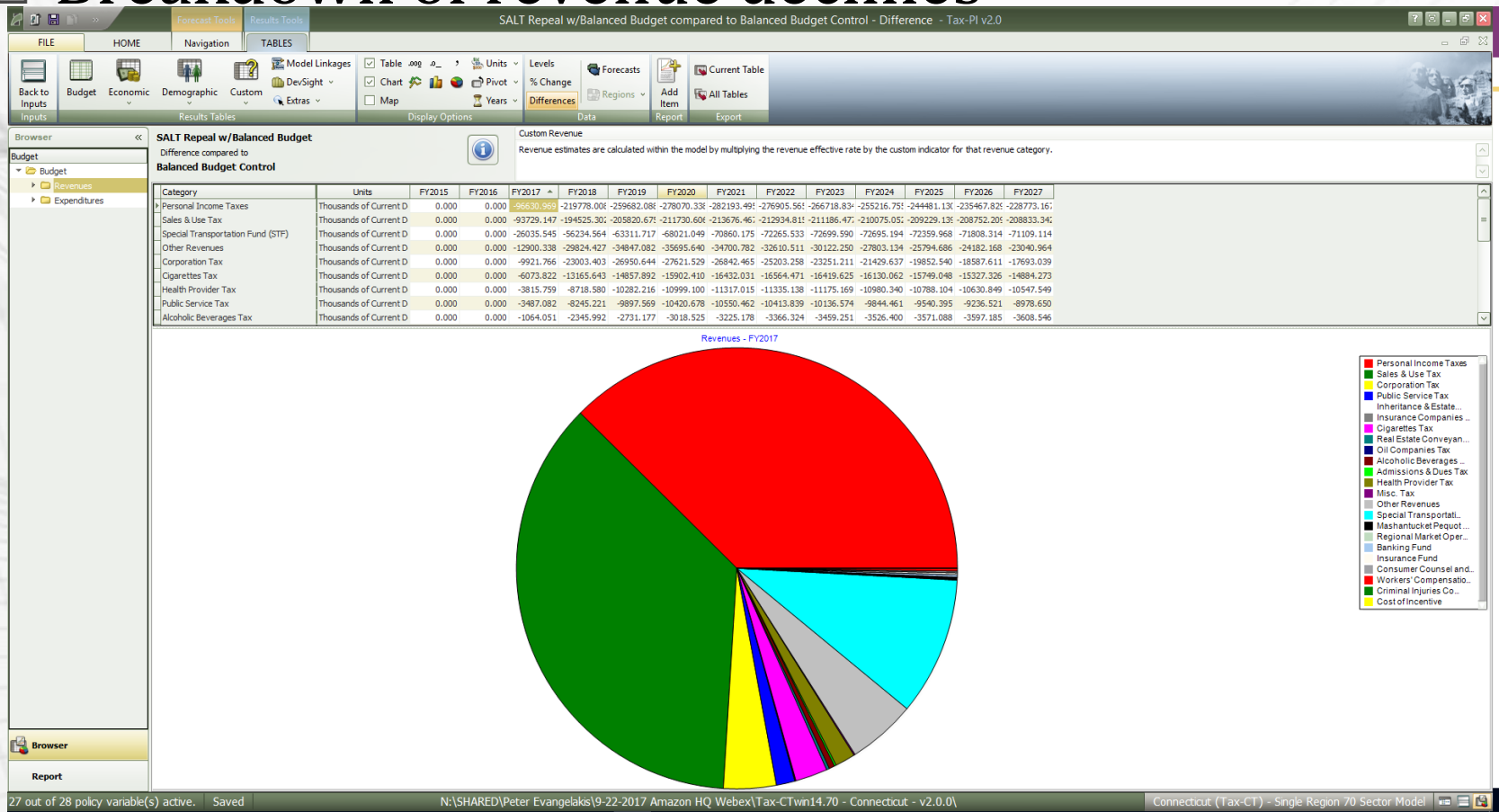


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# State level: Connecticut

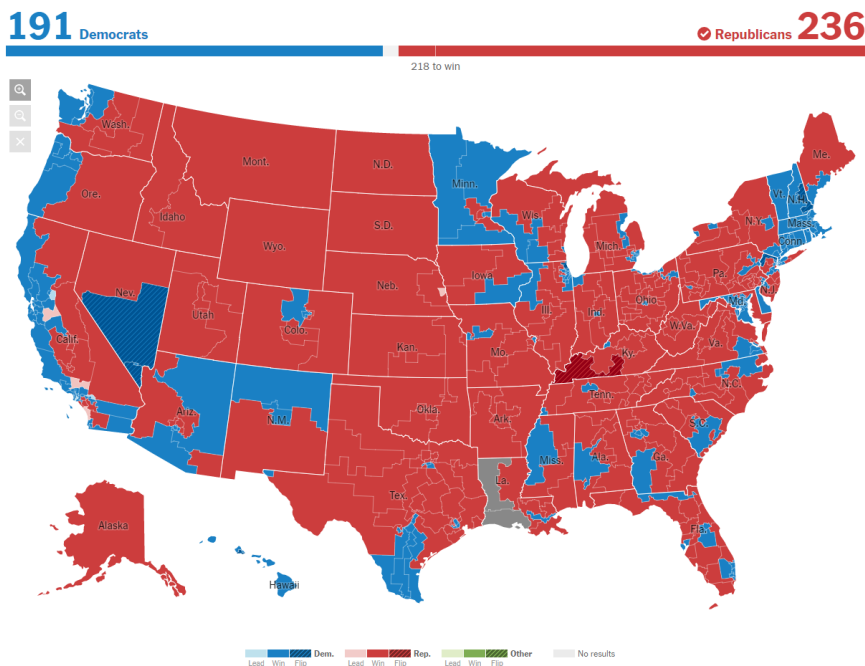


## □ Breakdown of revenue declines



what does REMI say? <sup>sm</sup>

# Political Realities



## How to Get to 218

2016 U.S. House Results (New York Times graphic)

- Political considerations for passing legislation:
  - ▣ Broad geographic coalition required
  - ▣ State and/or district level macroeconomic rationale essential
- “The current plan only makes it possible to cut taxes for other states by using New York and California as the piggybank.”
  - N.Y. Gov. Andrew Cuomo
- SALT repeal already modified to cover property tax only, not income or sales taxes

what does **REMI** say? <sup>sm</sup>

# Conclusion



- SALT deduction one of largest federal tax expenditures
- Differences in state tax rates create winners and losers
- Dynamic modeling with REMI PI+ and Tax-PI estimates national economic and state fiscal impacts
  - ▣ Economic migration from high-tax states to low-tax states
  - ▣ Revenue and employment loss in high-tax states
- How do high-tax states respond?
  - ▣ Preempt legislation
  - ▣ Lower taxes
  - ▣ Non-tax incentives