

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

Presented by Regional Economic Models, Inc.

Why Is Tax Policy Important? REMI



- Demand-Side
 - \blacksquare After-tax income \rightarrow 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

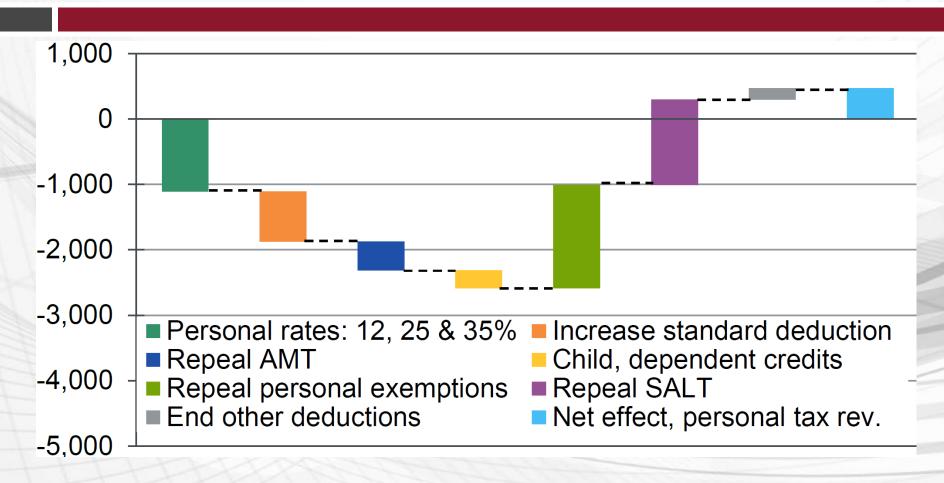
Tax Reform Proposal



- □ 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

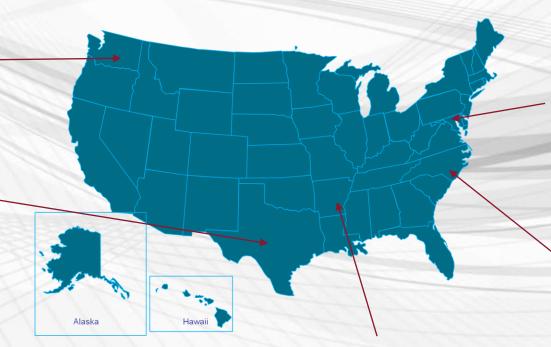


REMI's PI+ and Tax-PI are the industry standards for regional macroeconomic, demographic and dynamic fiscal analysis of public policy and economic development projects.

Washington:

Aerospace tax credit analysis

Texas: Statutory impact analysis requirement for appropriations legislation



Maryland:

Corporate tax rate reduction analysis

North Carolina:

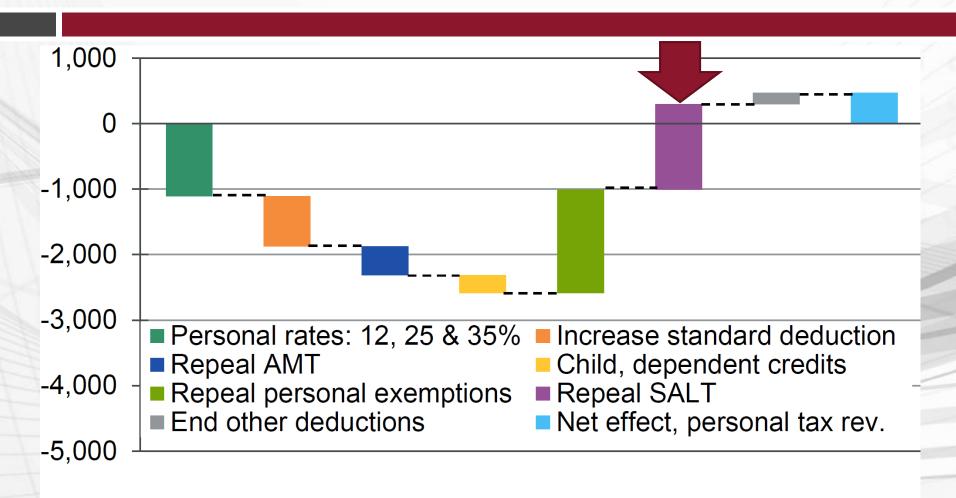
Medicaid expansion analysis

Arkansas: Big River Steel manufacturing facility analysis

what does REMI say? sm

SALT Deduction





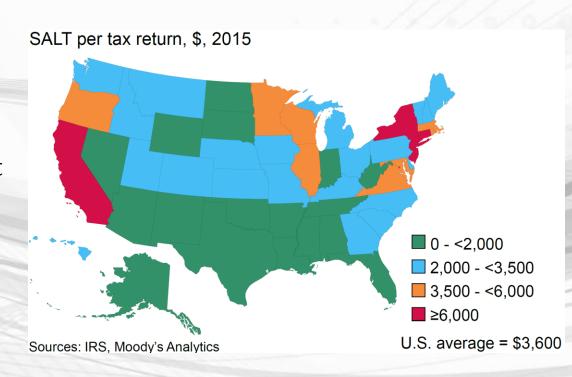
Sources: Tax Policy Center, Moody's Analytics

what does REMI say? sm

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%

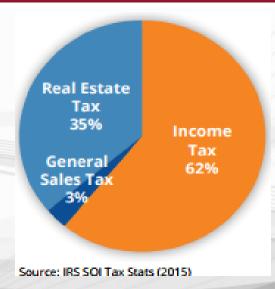


Background



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

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)

Analysis



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

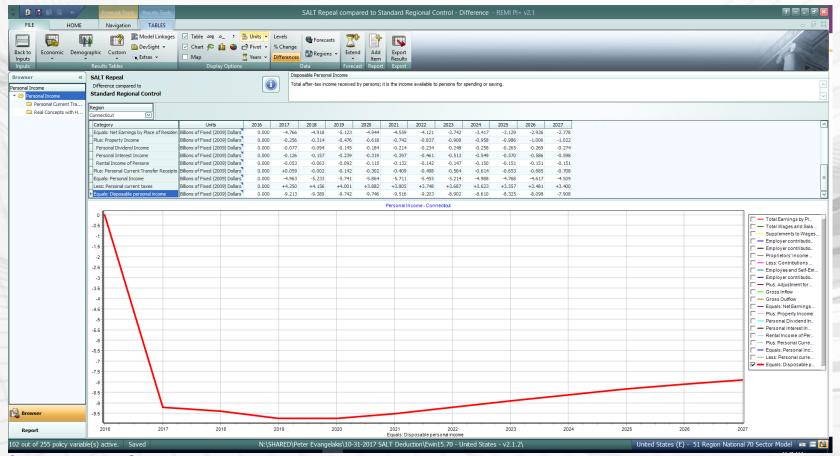


□ State-level economic impacts

- Migratory responses
- □ Fiscal impacts

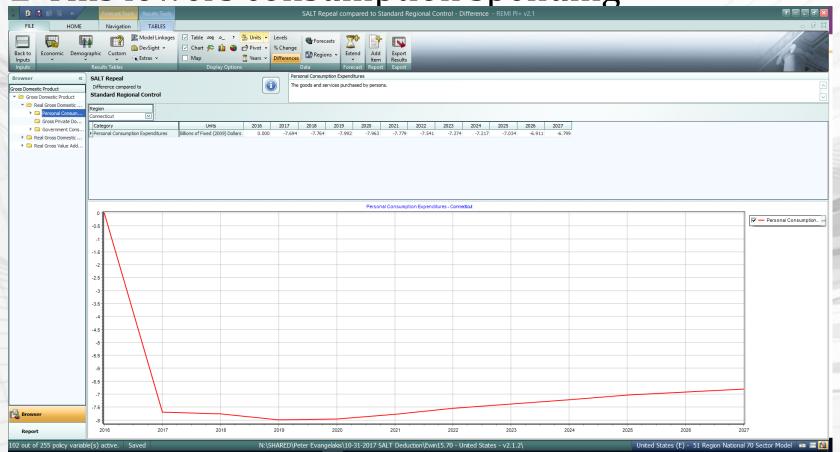


□ Net increase in personal taxes in CT lowers after-tax income



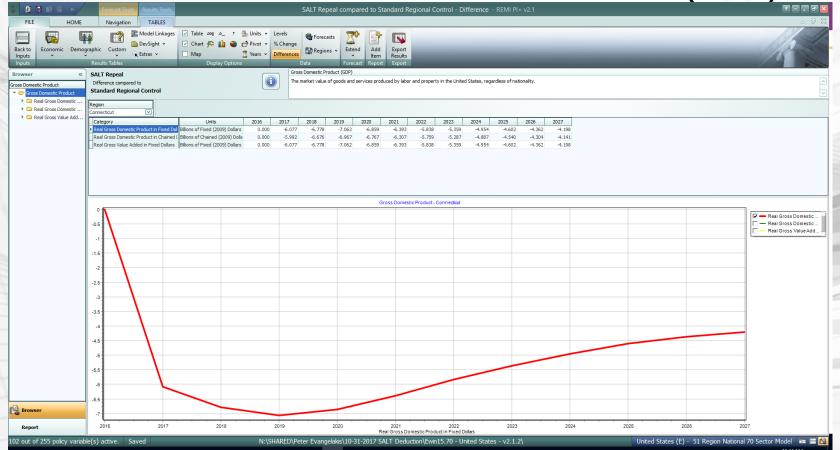


This lowers consumption spending



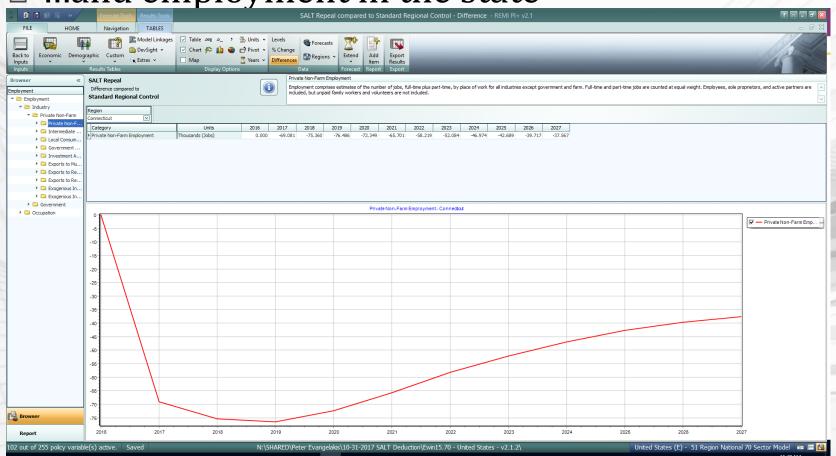


...which decreases Gross State Product (GSP)



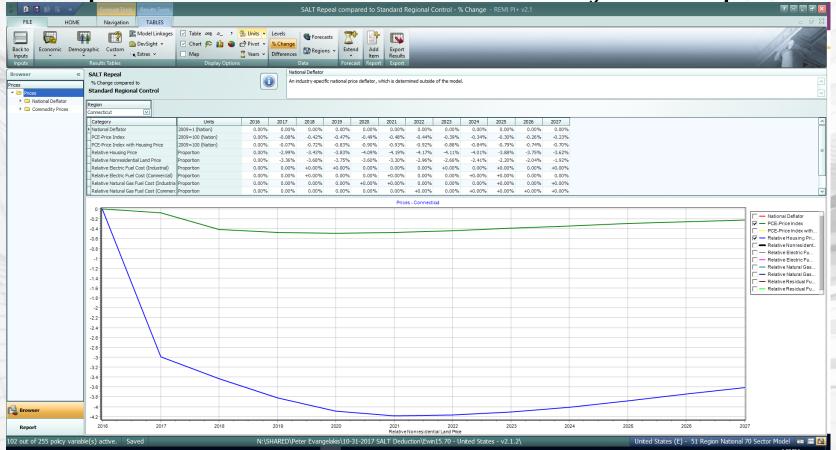


...and employment in the state



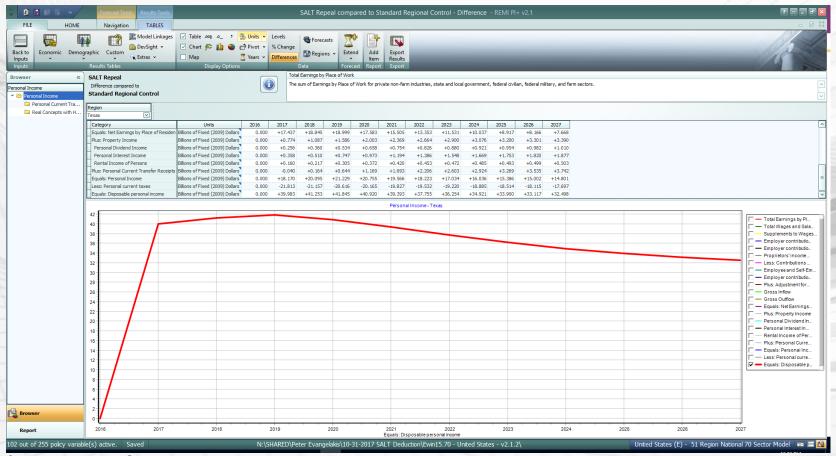


Impacts ameliorated somewhat by lower prices



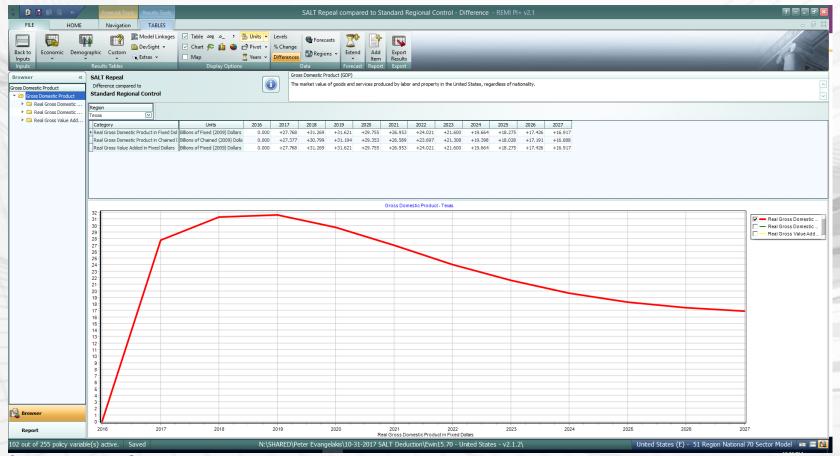


Contrast with increase in TX after-tax income





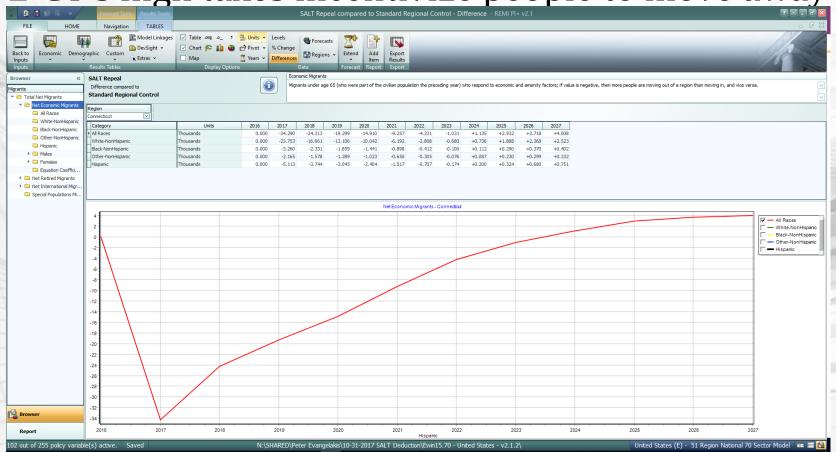
□ Increase in TX GSP



Migratory Responses



CT's high taxes incentivize people to move away



Migratory Responses



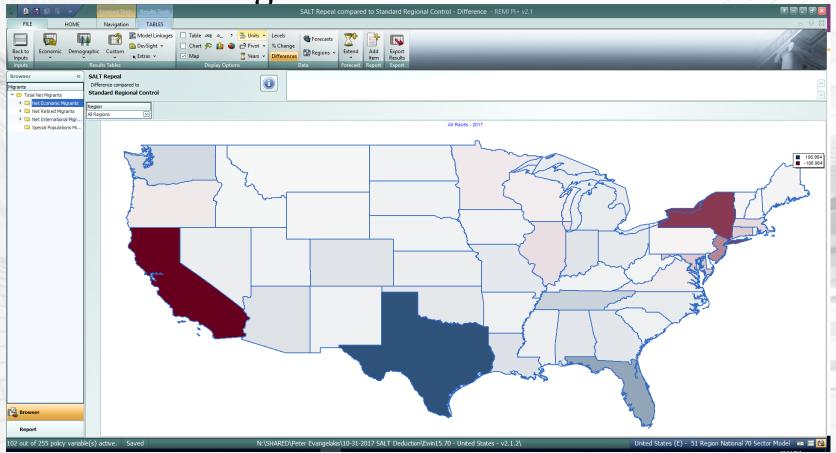
□ ...to low-tax states like TX



Migratory Responses



Economic migration across U.S.



Fiscal Impacts



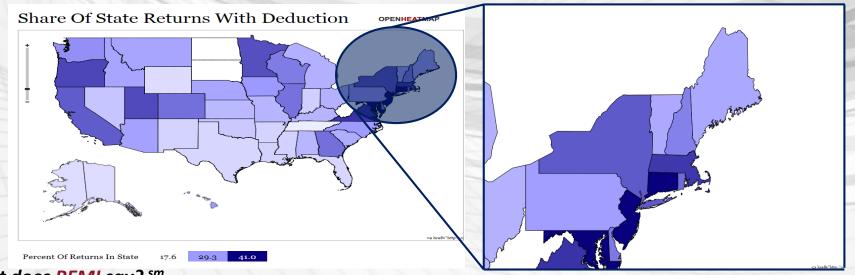
□ Driven by state economic impacts and migration

□ Zoom in on CT fiscal impacts

- □ Use Tax-PI
 - Account for migration patterns from U.S. model
 - Calibrate the state budget using historical data



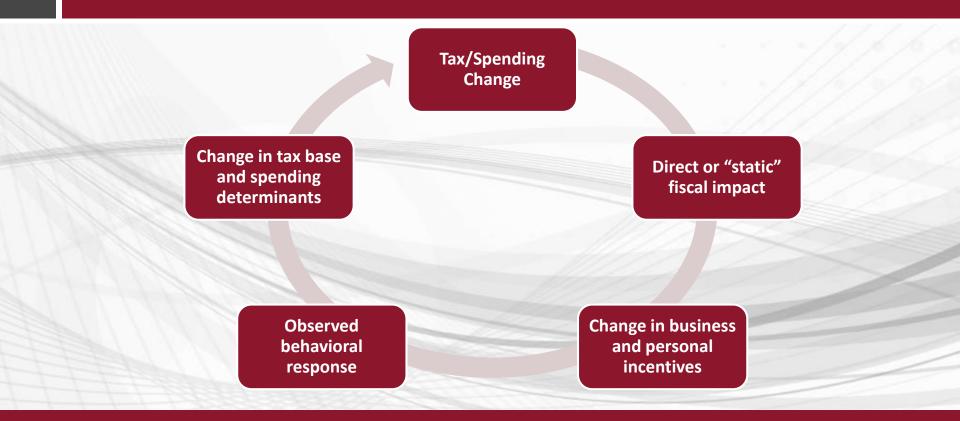
- Background
 - State income tax ranges from 3-6.99%
 - Combined state and local sales tax: 6.35%
 - Property tax: 1.63%
 - CT has 2nd highest proportion of people filing SALT deduction



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Tax-PI Analytical Approach REMI



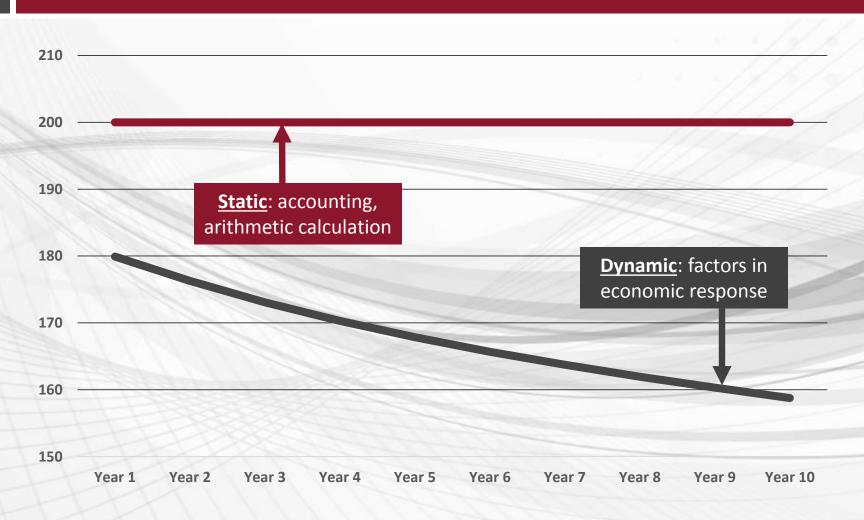


"Conventional analysis of proposed legislation...does not incorporate effects on the economy... trying to account for such effects may increase the likelihood of producing an accurate answer."

Keith Hall, Director, Congressional Budget Office

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







OK

Cancel

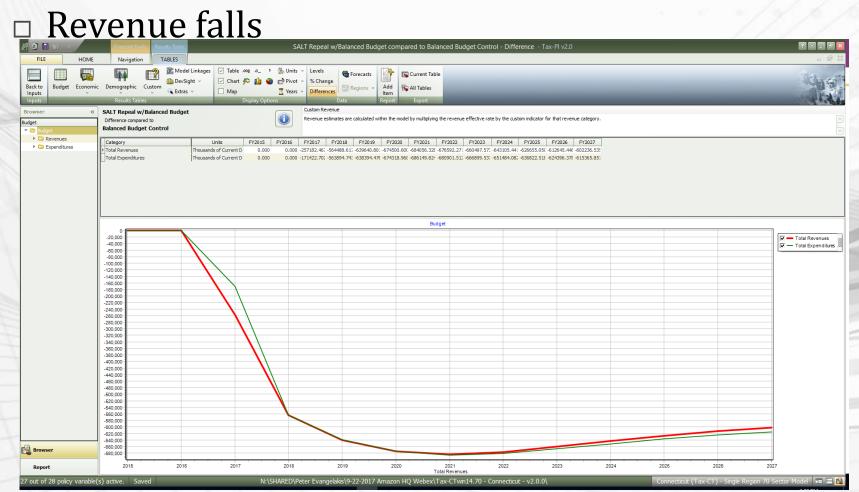
Calibrating the budget **Budget Calibration - SALT Deduction** Budget Data Options Expenditures Determined By Enter actual or forecasted budget data. The budget will be projected forward using Start of Fiscal Year Units Demand Revenues the last year of entered data and an indicator that is selected from the model results. July Nominal \$ (000s) Settings... Settings... Revenues Display Years Indicator | Policy Variable | Rate Info < 2014 ▶ < 2030 ▶ **Revenue Details** Real Estate Conveyance Tax Expenditures Revenues Economic Indicator Revenue Name FY2014 FY2015 FY2016 FY2017 Regional Actual Capital Stock Personal Income Taxes 10357200 9456142 9748600 9834400 Sales & Use Tax 4123470 4251000 4121065 4084665 Time Series ✓ Include All Corporation Tax 608481 627300 902200 910700 Details Units All Years Public Service Tax 298760 308000 308000 316500 ▶ Residential 100 Inheritance & Estate Tax 172078 177400 173400 174700 Percent 237200 243800 24600 Non-residential Percent lo. Insurance Companies Tax 230084 Cigarettes Tax 326599 336700 361200 363300 Real Estate Conveyance Tax 188859 194700 194700 200800 Oil Companies Tax 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 1183475 1143200 1174313 Special Transportation Fund (S 1381335.29 1424057 1468100 1596900 Mashantucket Peguot and Moh 58147.62 59946 61800 61800 Regional Market Operating Fur 1034.99 1067 1100 1100 Banking Fund 28227 29100 30000 30200 >

Add Revenue



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







Breakdown of revenue declines HOME Navigation TABLES Model Linkages ☑ Table ೂ0 ೂ_ → 5 Units ∨ Levels DevSight ✓ Chart

Pivot

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Output

Description

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Output

Description

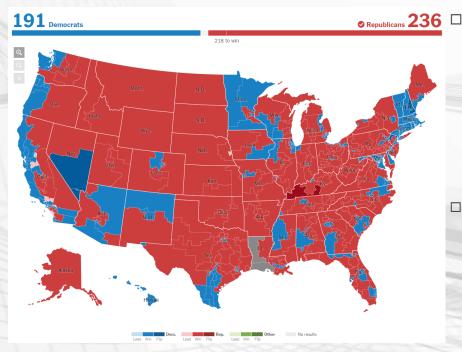
Output

Description

Descriptio % Change Back to Budget Economic Demographic Custom Add 🔀 Years 🔻 Custom Revenue « SALT Repeal w/Balanced Budget Difference compared to Revenue estimates are calculated within the model by multiplying the revenue effective rate by the custom indicator for that revenue category Budget Balanced Budget Control Budget Category FY2015 FY2016 FY2017 * FY2018 FY2019 FY2020 FY2021 FY2022 FY2023 FY2024 FY2025 FY2026 FY2027 Units ▶ ☐ Expenditures Personal Income Taxes Thousands of Current D 0.000 0.000 -96630 959 -219778 005 -259682 085 -278070 335 -282193 495 -276905 565 -266718 835 -255216 755 -244481 137 -235467 825 -228773 163 Sales & Use Tax Thousands of Current D 0.000 0.000 -93729.147 -194525.30; -205820.67; -211730.60; -213676.46; -212934.81; -211186.47; -210075.05; -209229.13; -208752.20; -208833.34; Special Transportation Fund (STF) Thousands of Current D 0.000 -26035.545 -56234.564 -63311.717 -68021.049 -70860.175 -72265.533 -72699.590 -72695.194 -72359.968 -71808.314 -71109.114 Other Revenues Thousands of Current D 0.000 0.000 -12900.338 -29824.427 -34847.082 -35695.640 -34700.782 -32610.511 -30122.250 -27803.134 -25794.686 -24182.168 -23040.964 Corporation Tax Thousands of Current D 0.000 0.000 -9921.766 -23003.403 -26950.644 -27621.529 -26842.465 -25203.258 -23251.211 -21429.637 -19852.540 -18587.611 -17693.039 Cigarettes Tax Thousands of Current D 0.000 0.000 - 6073.822 - 13165.643 - 14857.892 - 15902.410 - 16432.031 - 16564.471 - 16419.625 - 16130.062 - 15749.048 - 15327.326 - 14884.273 - 15749.048Health Provider Tax Thousands of Current D 0.000 -3815.759 -8718.580 -10282.216 -10999.100 -11317.015 -11335.138 -11175.169 -10980.340 -10788.104 -10630.849 -10547.549 Public Service Tax Thousands of Current D 0.000 0.000 -3487.082 -8245.221 -9897.569 -10420.678 -10550.462 -10413.839 -10136.574 -9844.461 -9540.395 -9236.521 -8978.650 Alcoholic Beverages Tax Thousands of Current D 0.000 -1064.051 -2345.992 -2731.177 -3018.525 -3225.178 -3366.324 -3459.251 -3526.400 -3571.088 -3597.185 -3608.546 Revenues - FY2017 Personal Income Taxes Sales & Use Tax Corporation Tax Public Service Tax Inheritance & Estate Insurance Companies Cigarettes Tax Real Estate Conveyan Oil Companies Tax Alcoholic Beverages Admissions & Dues Tax Health Provider Tax Misc. Tax Other Revenues Special Transportati. Mashantucket Pequot...
Regional Market Oper... Banking Fund Insurance Fund Consumer Counsel and...
Workers' Compensatio... Criminal Injuries Co... Cost of Incentive Browser 27 out of 28 policy variable(s) active. Saved N:\SHARED\Peter Evangelakis\9-22-2017 Amazon HQ Webex\Tax-CTwin14.70 - Connecticut - v2.0.0\ Connecticut (Tax-CT) - Single Region 70 Sector Model 🔚 🚍 🖺

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

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