



## THE “TRUMP LOOPHOLE”: KEY FACTS ABOUT TRUMP’S FAKE “SMALL” BUSINESS TAX CUT

President Trump’s so-called “small” business tax cut, which would lower the business tax rate from 39.6% to 15%, is a fake because it will primarily benefit Wall Street hedge fund managers, big law firms, and real estate developers like Trump. The new 15% tax rate would benefit pass-through businesses, which include sole proprietorships, partnerships, limited liability corporations (LLC’s) and S corporations. These businesses pay no federal income taxes as a business, unlike typically larger businesses known as C corporations. Instead, their profits and losses pass through to their owners, who pay their business taxes on their personal tax returns at individual tax rates, which range from 10% to 39.6%. Pass-throughs are the most common form of business, making up about [95% of all business tax returns](#).<sup>1</sup>

**Trump’s plan to slash the top tax rate that business owners pay from 39.6% to 15% will lose [\\$1.4 trillion to \\$2 trillion](#) over 10 years, according to the Tax Policy Center (TPC).**<sup>2</sup>

- Up to [30% of the revenue loss will be due to tax avoidance](#) and cheating.<sup>3</sup> High-income individuals will shift from being employees for tax purposes to being a business, so their salaries or wages can be reclassified as pass-through income subject to the low 15% tax rate.
- House Speaker Paul Ryan’s proposal to slash the business tax rate from 39.6% to 25% will [lose \\$660 billion](#) over 10 years.<sup>4</sup>

**Trump’s business tax cut will overwhelmingly benefit the wealthy—hedge fund managers; rich lawyers, doctors and dentists; and real estate developers like Trump.**

According to the Tax Policy Center:

- Just [6.6% of all business owners](#) will get Trump’s business tax cut.<sup>5</sup>
- The top 1% will get three-quarters (77%) of this tax break—an average tax cut of [\\$76,000](#) each year.<sup>6</sup> That’s because the [top 1% gets more than half](#) of all pass-through income (52.3%).<sup>7</sup>
- [Less than 2%](#) of business owners pay the top rate of 39.6%.<sup>8</sup>
- Just [4.7% of households](#) in the middle of the income distribution would get a tax cut, averaging \$370; 3.9% of households in the middle would pay \$750 more in taxes.<sup>9</sup>
- A large share of pass-through income flows to Wall Street. In 2011, [70% of partnership income](#) went to the financial industry and related holding companies.<sup>10</sup>

**This business tax break is known as the “Trump Loophole” because the president will benefit enormously from it, as he generates most of his income from pass-through businesses.**

- The Trump Organization, from which President Trump generates his income, is made up of more than [500 pass-through entities](#), according to his lawyers.<sup>11</sup> It is not a small business. It was the [48<sup>th</sup> largest U.S. private company](#) in 2016, with 22,450 employees and \$9.5 million in revenues.<sup>12</sup>
- With a net worth of at least [\\$3.5 billion](#), Trump ranks #156 on the Forbes list of the 400 richest Americans.<sup>13</sup> The 400 richest households, which receive an average of \$37 million in net income from S corporations and partnerships, would each get an estimated tax cut of [\\$9 million](#) from the Trump Loophole.<sup>14</sup>
- If the Trump Loophole becomes law, the president will pay the same 15% tax rate that a small business owner making \$60,000 a year on Main Street would pay, as shown in the table. A married couple making \$150,000 a year as a pass-through business could cut their tax rate from 25% to 15%. This begs the larger question about tax fairness: Why should a couple making more than \$76,000 a year and classifying their earnings as business income be able to pay a 15% tax rate, as proposed by Trump, whereas another couple making the same amount in wages or salaries would pay a 25% tax rate?

Income Tax Rate	Income Threshold for Individual Taxpayers	Income Threshold for Married Taxpayers Filing Jointly
39.6%	Over \$418,400	Over \$470,700
25%	\$37,951 - \$91,900	\$75,901 - \$153,100
15%	\$9,326 - \$37,950	\$18,651 - \$75,900

Source: IRS data from [Forbes](#)<sup>15</sup>

**Trump’s \$2 trillion business tax cut benefitting the wealthy is equivalent to the \$1.9 trillion cut to Medicaid and other health care services proposed in Trump’s budget.**

- Trump’s 2018 budget would [cut \\$1.9 trillion from Medicaid](#) and other health services over the next 10 years, by repealing the Affordable Care Act (ACA) and making even deeper cuts to Medicaid.<sup>16</sup>
- [19 million people](#) would lose Medicaid coverage under ACA repeal.<sup>17</sup> Trump’s additional cuts would put many more patients at risk.
- Medicaid provides health care to [69 million](#) children, adults, seniors and people with disabilities.<sup>18</sup> It covers [nearly two-thirds](#) of nursing home residents.<sup>19</sup>

**Endnotes**

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<sup>1</sup> Tax Policy Center (TPC), “Tax Reform and Small Business,” (April 15, 2015), p. 4. <http://www.taxpolicycenter.org/sites/default/files/alfresco/publication-pdfs/2000190-tax-reform-and-small-business.pdf>

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<sup>2</sup> TPC, “The Implications of What We Know and Don’t Know About President Trump’s Tax Plan” (July 12, 2017), Table 2.

[http://www.taxpolicycenter.org/sites/default/files/publication/142616/implications\\_of\\_what\\_we\\_know\\_and\\_don\\_t\\_know\\_about\\_president\\_trumps\\_plan\\_1.pdf](http://www.taxpolicycenter.org/sites/default/files/publication/142616/implications_of_what_we_know_and_don_t_know_about_president_trumps_plan_1.pdf).

<sup>3</sup> TPC, T17-0162 - Revenue Effect of Options for Taxing Pass-Through Income at Preferential Rates, Baseline: Current Law with Individual AMT Repealed and 12/25/33 Percent Individual Income Tax Rate Structure, 2018-27 (May 15, 2017). <http://www.taxpolicycenter.org/model-estimates/options-taxing-pass-through-income-prefential-rates-may-2017/t17-0162-revenue-effect>

<sup>4</sup> TPC, “Options to Reduce the Taxation of Pass-through Income” (May 15, 2017), p. 6. <http://www.taxpolicycenter.org/sites/default/files/publication/141541/options-to-reduce-the-taxation-of-pass-through-income.pdf>

<sup>5</sup> *Ibid.*

<sup>6</sup> *Ibid.*

<sup>7</sup> TPC, T17-0080 - Sources of Flow-Through Business Income by Expanded Cash Income Percentile; Current Law, 2017 (March 20, 2017). <http://www.taxpolicycenter.org/model-estimates/distribution-business-income-march-2017/t17-0080-sources-flow-through-business>

<sup>8</sup> TPC, T17-0078 - Sources of Flow-Through Business Income by Statutory Marginal Tax Rate; Current Law, 2017 (March 20, 2017). <http://www.taxpolicycenter.org/model-estimates/distribution-business-income-march-2017/t17-0078-sources-flow-through-business>

<sup>9</sup> TPC, T17-0164 - Distributional Effect of a 15-Percent Top Rate on a Broad Definition of Pass-Through Income, Baseline: Current Law with AMT Repealed and 12/25/33 Rate Structure, by Expanded Cash Income Percentile, 2018 (May 15, 2017). <http://www.taxpolicycenter.org/model-estimates/options-taxing-pass-through-income-prefential-rates-may-2017/t17-0164-distributional>

<sup>10</sup> Department of the Treasury, Office of Tax Analysis Working Paper 104, “Business in the United States: Who Owns It and How Much Tax Do They Pay?” (Oct. 2015), Fig. 4, p. 34. <https://www.treasury.gov/resource-center/tax-policy/tax-analysis/Documents/WP-104.pdf>

<sup>11</sup> Sheri A. Dillon and William F. Nelson, Morgan, Lewis & Bockius LLP, “Re: Status of U.S. federal income tax returns” (March 7, 2016). <http://americansfortaxfairness.org/wp-content/uploads/Trump-tax-attorney-letter.pdf>

<sup>12</sup> CNN Money, “Trump Organization is now America’s 48th largest private company” (Dec. 15, 2016). <http://money.cnn.com/2016/12/15/investing/trump-organization-48th-largest-private-company/>

<sup>13</sup> Forbes, Profile: Donald Trump (accessed July 31, 2017). <https://www.forbes.com/profile/donald-trump/>

<sup>14</sup> Center on Budget and Policy Priorities (CBPP), “Trump Tax Plan’s Pass-Through Tax Break Would Provide Massive Windfall to the Wealthy” (May 22, 2017), p. 10. <https://www.cbpp.org/research/federal-tax/will-new-trump-tax-plan-include-pass-through-tax-break-for-wealthiest>

<sup>15</sup> Forbes, “IRS Announces 2017 Tax Rates, Standard Deductions, Exemption Amounts And More” (Oct. 25, 2016). <https://www.forbes.com/sites/kellyphillipsrb/2016/10/25/irs-announces-2017-tax-rates-standard-deductions-exemption-amounts-and-more/#15a214865701>

<sup>16</sup> CBPP, “Trump Budget Gets Three-Fifths of Its Cuts From Programs for Low- and Moderate-Income People” (May 30, 2017), p. 2. <https://www.cbpp.org/research/federal-budget/trump-budget-gets-three-fifths-of-its-cuts-from-programs-for-low-and>

<sup>17</sup> CBO, “Cost Estimate: Obamacare Repeal Reconciliation Act of 2017” (July 19, 2017), p. 10. <https://www.cbo.gov/system/files/115th-congress-2017-2018/costestimate/52939-hr1628amendment.pdf>

<sup>18</sup> Medicaid.gov, “May 2017 Medicaid and CHIP Enrollment Data Highlights.” <https://www.medicaid.gov/medicaid/program-information/medicaid-and-chip-enrollment-data/report-highlights/index.html>

<sup>19</sup> Kaiser Family Foundation, “Medicaid’s Role in Nursing Home Care” (June 20, 2017). <http://www.kff.org/infographic/medicaids-role-in-nursing-home-care/>