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Trump's Proposed Tax Reform and the Impact on Economic Growth

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A lot has been said by political pundits and economic experts since the release of President Trump's tax reform plan. The "plan" was outlined in [a one-page list](#) of bullet points, subtitled "The Biggest Individual and Business Tax Cut in American History."

In the absence of details, and precise analysis, here is what we do know.

The cornerstone of the plan is a significant reduction of the current corporate tax rate. This departs very little from what then candidate Trump was espousing on the campaign trail.

President Trump is not known to be big on details; he tends to speak from a very broad view. However, we know that he's an aggressive businessman when it comes to taxes. Like all successful businessmen, he does whatever is legally permissible to minimize his tax obligations. Many of the points in the document are consistent with President Trump's desire to reduce the tax burden, not only on corporations, but on the general public.

Generally, the key to accomplishing this involves being able to generate additional revenue to offset the proposed tax cuts.

Cutting Corporate Taxes

The United States currently has the highest corporate tax rate in the world, 35%. President Trump's plan wants to cut that to 15%. However, 15% may not be feasible. The decreased rate may actually wind up being closer to 21 or 22%. Even a cut like that could have a significant impact on economic growth.

Certain current economic indicators may indicate strength in the economy. For example, the stock market has been doing well over the past few years. And yet, despite gains in the market, GDP has remained sluggish. In fact, the Commerce department's just released figures show that for 2017, the economy barely grew, expanding at an annual rate of only 0.7 percent.

Notwithstanding sluggish GDP growth, many corporations reporting increased earnings are holding on to significant levels of cash. They are neither creating jobs nor putting out new, innovative products because of the high corporate tax rate. CEOs have not had widespread confidence in the policies coming out of Washington prior to the Trump administration. A lot of the companies that could have expanded, hired new employees or developed new products have instead remained on the sidelines waiting for a better understanding of what is happening with the federal government.

By lowering taxes, a lot of these corporations will increase spending and develop new products and services that will create more jobs and improve the economy. This is not a new idea; in fact, this goes back all the way to 1974, when economist Arthur Laffer drew a curve on the back of a cocktail napkin to illustrate how cutting taxes could spur the economy. That napkin now hangs in the National Museum of American History, and the "Laffer Curve" has, in many ways, changed the course of contemporary economics.

Lowering the corporate tax rate will no doubt provide more available cash flow to corporate stakeholders both large and small. How they choose to deploy that revenue remains to be seen; however, it is reasonable to assume it will be in adding jobs and expansion in terms of new product lines, mergers and acquisitions etc.

The cut should also help small business stakeholders who should now be able to put money aside for retirement/savings, put money aside for their children's education, perhaps finally be able to afford health insurance for their employees, or to set up a 401k Plan for their employees.

In addition, a lower corporate tax rate will mean less desire by these corporations to shelter taxes, and provide less of an incentive for them to generate profits overseas, which could also bring jobs back to the states. More jobs could make up for the short fall in tax revenue with increased payroll taxes, more income taxes, more sales taxes as people spend more on goods and services, and of course more people working means less that needs to be paid out in welfare and unemployment benefits.

Of course, what remains to be seen is how the proposed plan translates into actual policies. As a whole, the CPA profession has always been in favor of simplifying the tax code. If nothing else, this one-page plan is simple and straight forward.

It is clear that tax reform is needed in order for the economy to improve. However, the changes need to be prudent. They will require a great deal of analysis, and must be implemented correctly. We expect that the Trump Administration will draw on the resources of the accounting community to help successfully achieve its tax reform goals.