Guam Tax Commission

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Estimated Impacts of the Trump Tax Plan

During the election, candidate Donald J. Trump unveiled two tax plans. The initial tax plan had more sweeping changes to U.S. Federal Income Taxes and would have greatly reduced federal revenue. The more recent plan also significantly reduces federal revenue, but the revenue losses have been reduced, somewhat.

Due to the linkage between the Guam Territorial Income Tax and the Federal Income Tax, if the Federal Income Tax is changed in the way suggested by the plan, the Government of Guam will lose Guam Territorial Income Tax revenue. According to an analysis by the Tax Policy Center, using the Urban-Brookings Tax Policy Center Microsimulation Model, revenue from the average household in 2017 will decrease by approximately $2,940. If there are about 43,000 households, that could translate to about $126.4 million, on a static basis, in lost revenue for fiscal year 2017. Compared to an estimate of FY 2017 revenue,[1] this could translate into a loss of approximately 32% of Guam Territorial Income Tax revenue.

The various revenue-affecting provisions make changes to the Individual Income Tax, the Corporate Income Tax, and the estate and gift taxes.

Individual Income Tax

Based upon the analysis of the Tax Policy Center, the estimated impact of changes in the Individual Income Tax would decrease revenue by about $1,710 per household, which would be a loss of about $73.5 million, accounting for 58% of the revenue loss.

The most significant provisions of the Trump tax plan and their estimated impacts are:

(1) Increasing Standard Deductions from $6,300 to $15,000 for individuals and from $12,600 to $30,000 for joint filers—estimated cost of $44.1 million.
(2) Tax bracket changes—estimated cost of $33.4 million.
(3) Allowing expensing, instead of depreciation, of investment—estimated cost of $26.5 million.
(4) Allowing an elective flat rate of 15% on pass-through income and taxing large pass-throughs the same as dividends—estimated cost of $20.1 million.
(5) Repealing the Alternative Minimum Tax—estimated cost of $8.9 million.
(6) Expanding EITC and creating new deduction for dependent expenses—estimated cost of $3.1 million.
(7) Eliminating Head of Household filing status—estimated revenue gain of $3 million.
(8) Cap itemized deductions at $100,000 for individuals and $200,000 for joint filers—estimated revenue gain of $11 million.

[1] Net income tax revenue for Fiscal Year 2016 plus 3% for additional growth.

(9) Repeal personal exemptions (TPC assumes that all exemptions are repealed)—estimated revenue gain of $49.3 million.

Other additional individual provisions have less significant estimated impacts.

The following is an illustration of the changes of the Individual Income Tax rates under the Trump plan, comparing filers without any dependents who take the standard deductions.

Single Filers				Childless Married Couples Filing Jointly			
Adjusted Gross Income		Current marginal rate (%)	Trump plan marginal rate (%)	Adjusted Gross Income		Current marginal rate (%)	Trump plan marginal rate (%)
Over	But not over			Over	But not over		
0	10,300	0	0	0	20,600	0	0
10,300	19,525	10	0	20,600	39,050	10	0
19,525	29,000	15	0	39,050	58,000	15	0
29,000	47,750	15	10	58,000	95,500	15	10
47,750	54,000	25	10	95,500	108,000	25	10
54,000	101,050	25	20	108,000	171,800	25	20
101,050	154,000	28	20	171,800	251,050	28	20
154,000	199,600	28	25	251,050	308,000	28	20
199,600	421,800	33	25	308,000	432,100	33	25
421,800	423,500	35	25	432,100	485,450	35	25
423,500	and over	39.6	25	485,450	and over	39.6	25

Source: Urban-Brookings Tax Policy Center based upon the revised Trump plan and IRS tax brackets.

Corporate Income Tax

Based upon the analysis of the Tax Policy Center, the estimated impact of changes in the Corporate Income Tax would decrease revenue by about $1,258 per household, which would be a loss of about $54.1 million, accounting for 43% of the revenue loss.

The most significant provisions of the Trump tax plan and their estimated impacts are:

(1) Reduce Corporate Income Tax Rate to 15% and repeal of the Corporate Alternative Minimum Tax—estimated cost of $38 million.
(2) Allowing expensing, instead of depreciation, of investment—estimated cost of $20.5 million.

Other additional corporate provisions have less significant estimated impacts.

Estate and Gift Taxes

Based upon the analysis of the Tax Policy Center, the estimated impact of changes in the estate and gift taxes would increase revenue by about $27 per household, which would be a gain of about $1.2 million, accounting for about -1% of the revenue loss.

Potential Offsets

The revenue estimates are based upon a static analysis and would, thus, tend to overstate the cost of the tax cuts somewhat. The Tax Policy Center presents estimated offsetting increases in revenue due to one or another of two models. One is based upon a basic Keynesian model, the other is a dynamic forecasting model which anticipates increases in revenue based upon improved economic performance.

Model	Additional Revenue	Net Budget Impact of Tax Change
TPC Keynesian model estimates	$19.7 million	-$106.7 million
PWBM overlapping generations model estimates	$15.8 million	-$110.7 million

In addition to the increased Guam Territorial revenues due to macroeconomic effects of either model, there are local taxes which may increase, as well.

Roughly 90% of consumption on Guam is of local goods and services. Thus, we may expect that about $113.8 million of the tax savings to individual taxpayers would be spent on additional goods and services on Guam. This additional spending would have a multiplier effect through several rounds of consumption on Guam. Estimates of Guam's multiplier have ranged from around 1 to 1.89, so depending on the multiplier, the additional first round spending would induce from $113.8 to $215.0 million in consumption. Below is a representation of the potential offsetting impacts of these additional expenditures by assumed multiplier values:

Multiplier	Additional Consumption	Additional Business Privilege Tax Revenue	Net Budget Impact of Tax Change (with Keynesian model estimate)
1.000000	$113,778,000	$4.6 million	-$102.1 million
1.200000	$136,533,600	$5.5 million	-$101.2 million
1.500000	$170,667,000	$6.8 million	-$99.9 million
1.818181	$206,868,998	$8.3 million	-$98.4 million
1.890000	$215,040,420	$8.6 million	-$98.1 million

This is for illustrative purposes and represents only a portion of the potential revenue offsets.

Regardless of the basic model, the additional cost of the proposed Trump tax cut is not fully offset by increased economic activity. The cost in the near term will be approximately $100 million, with variations depending upon how much additional revenue is generated by the basic model plus additional Business Privilege Tax revenue.

Conclusion

This brief paper has considered the potential impacts of the proposed Trump tax cut on Guam's revenue. The paper has assumed that the Tax Policy Center's analysis can be applied to Guam through scaling down the impacts, however, any deviation in terms of demographics or other economic factors could generate somewhat different results. In particular, the impact to changes in the Earned Income Tax Credit and creating the deduction for dependent care could have a larger relative impact for Guam than the United States. Furthermore, the proportional rate differential between the current marginal rates and those proposed are not uniform and, therefore, could be expected to increase or decrease the cost of the tax cuts, depending on the income distribution of Guam's tax base. Additionally, if Guam has a lower proportion of filers who itemize their deductions, the impact of raising the standard deduction could be higher than predicted.

If the U.S. Federal Government were to enact the most recent proposal by President-elect Trump, the cost would be $6.2 trillion over 10 years. Excluding the estate tax change, which would not apply to Guam, a comparable impact would be $2.2 billion for Guam. Given the recent history with increasing deficits without such a change, it seems likely that this would not be affordable for the Government of Guam.

Note

The impacts discussed in this paper include only those contained in the Trump Tax Plan and do not include planned changes to other policies, including the proposed changes affecting the eligibility of individuals and families for the Supplemental Nutritional Assistance Program ('SNAP'). Any modifications to that or other welfare programs may impact revenues available to the Government of Guam, either directly or indirectly.