

## NOTA DE PROSPECTIVA Nº 48/2018

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**SUBJECT: TRUMP'S TAX REFORM PLAN AND ITS IMPACT IN THE US AND EUROPE<sup>1</sup>**

**Panel:** International economy

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The "Tax Cuts and Jobs Act" was signed by President Donald Trump on December 22nd, marking the first achievement of his promises during the election campaign. Both Trump and the Republican leaders in Congress needed this advance on the eve of the 2018 elections after failing to pass any legislative initiative since January 2016. Meanwhile, as it is a tradition, the Democratic Party has opposed the reform - which may determine the possibility of regaining control of Congress in 2018 - by criticizing the tax increase for the lower and middle classes, as well as the increase in the national debt as a result. In this context, the author of the document will analyze in-depth the different aspects, from its foundations, content to its impact in the coming years:

Premises: - The high Tax of Companies of the USA makes that the American multinationals have their benefits abroad; - The US tax system is very complicated; - A tax cut will increase the pace of GDP growth and create jobs; - Republicans defend the so-called "drip economies", although the plan will cut more for the rich and companies and increase public debt.

Content: The tax reform consists of the taxation of companies and people. The taxation of companies includes: 1- Reduction of Corporate Tax from 35% to 21%; 2- Companies may reduce their acquisition of new machinery for five years; 3- Changes in the reductions for "Pass Throughs" and changes in rates for very small family businesses; 4- Elimination of the "Corporate Alternative Minimum Tax"; 5- Tax reductions for the energy sector; and 6 - Tax to repatriate the \$ 2 million in benefits of US companies abroad. Taxation on people includes: 1- The 7 tranches of the income tax for individuals and families are maintained, but with decreases in rates, and will increase in the threshold for the maximum rate. These deductions will cease to apply in 2025; 2- Increase in the threshold for not paying Inheritance Tax; 3- It will be possible to continue to deduct contributions and charitable aid when the income tax is paid; 4- The tax relief is limited by the payment of taxes to the states and municipalities; 5- The rebate by child has doubled from \$ 1000 to \$ 2000; 6- It eliminates the obligation of individuals to buy a

health insurance policy in 2019; and 7- The tax rebate of \$ 7500 is maintained for the purchase of an electric vehicle.

Impact: Social effects: - Possible increase in inequalities and poverty; - Transfers from the upper middle class to states with lower taxes; - Increase in medical policies and about 13 million Americans will lose their coverage, as a result of the elimination of Obamacare's individual mandate. Other impacts: 1- It would exempt US companies from paying taxes on most of their future profits abroad; 2- Pretends to move towards a federal tax system, which will harm foreign multinationals with subsidiaries in the US and US companies with fiscal domicile outside the country; 3- Fix a one-off exception rate to encourage companies to repatriate more capital; 4- The Finance ministers of the five major EU countries complain about the reform because the US can breach the international rules of the WTO; 5- According to critical experts, there will be no greater productive investment in the US but only increase in the dividends of the shareholders of the American multinationals; 6- Non-US companies may decide to move to the US; and 7- Other developed and emerging countries may reduce their Corporate Tax if the reform causes massive repatriation of assets of US companies, which can damage the objective of progressive fiscal harmonization at European level of the EU.

The Prospective Notes are brief analyzes that warn about social, political or economic changes, which are having place beneath the surface of events; changes susceptible to affect the external action of Spain and / or the European Union.



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