

Student's Name

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Course

Date

New Tax Reform

The end of 2017 was marked by an event that will affect the world economy shortly. It is tax reform adopted by the US Congress and signed by President Donald Trump on December 22 of last year. The purpose of this study is to analyze Trump's tax reform, as well as a comparison of this reform with the theory of optimal taxation.

Trump himself, as the initiator of the most significant change since the time of President Reagan in the US taxation system, called his offspring the historical exemption of Americans from taxes and an excellent gift for Christmas. It is the elimination of the extraterritorial or double taxation principle of American firms abroad. Now these companies will pay taxes to the US Treasury only from their income in the US, and foreign incomes are not taxed (Floyd, n.pag.).

It is tax amnesty for repatriated capital. Money earned abroad can be returned to the United States at a reduced tax rate of 8% (non-cash funds) to 15% (cash). According to experts, large American companies keep offshore money to the tune of \$3.1 trillion. So the innovation can help to return this capital back to America. So, for example, Apple can win \$47 billion (Floyd, n.pag.).

Also, it is the reduction of corporate profit tax from 35% to 21%, while the average profit rate in the world is 23%. According to some forecasts, this can lead to the transfer of capital and production in the US from countries where this rate is significantly higher. Tax deductions for capital expenditures have also been introduced (Floyd, n.pag.).

The income tax is reduced for seven groups of individuals. Citizens with average incomes (from 9.5 thousand dollars to 38 thousand dollars a year) will receive the most significant discount: 12-15%. The maximum tax rate (about 37%) will apply to individuals who receive more than half a million dollars annually. For the poorest, there is no provision for relief. The number of payers of the 40% inheritance tax has been reduced twice. The number of exemptions from the alternative minimum tax has been increased (tax for firms that pay income tax at a level below the minimum legal level provided by law) (Floyd).

Also, the reform eliminates the critical principle of health care reform (Obamacare), adopted during the cadence of the previous US President Barack Obama, and provides free medical insurance for poor Americans on the principle of "the rich pay for the poor" (Floyd).

According to Trump's plan, the launch of the tax reform will help accelerate the growth of the US economy from the current 2-3% per year to 4-6%. The White House is confident: the shortage of tax revenues to the budget will be more than offset by an increase of 2.5 trillion dollars for ten years (WSJ, n.pag.). According to the estimates of the majority of experts, the additional annual growth of the economy for this should be at least 0.4%, while in the Joint Committee on Taxation it is believed that the US GDP growth in the next ten years will be only 0.8% (*Investors*).

On the other hand, for ordinary Americans, positive shifts may become visible already in the coming year. The Analytical Center Tax Policy, which as an independent source of information refers to the majority of the media in the United States, estimated that as early as 2018, eight Americans out of ten will pay fewer taxes, and only 5% of US residents will pay more. This minority mainly consists of well-off people who receive more than 100 thousand dollars a year. In general, the opportunity to feel "improvement" in your purse can significantly increase the chances of success for the Republican party in the midterm

elections and personally Donald Trump during the presidential race in 2020 (TaxPolicyCenter).

Business representatives have already reacted to the adoption of the new taxation system. Almost immediately after the signing of the law, some American companies, such as American Airlines, Bank of America, and Walmart, announced their readiness to pay part of their savings due to the reform of their employees. At the same time, the last of the companies promised to increase the pay and give employees additional bonuses. In January, Walt Disney and Verizon joined the above-listed corporations.

It is believed that the primary beneficiaries of the innovation in the US will be the pharmaceutical, oil and gas, aircraft, and engineering companies, as well as retailers—simply put, all large corporations whose activities are somehow connected with making a profit from operations abroad.

It is evident that a global change in the tax system in a country that has one of the largest economies in the world can not but affect the overall world situation.

Some experts led by the rector of the Munich IFO Institute Clemens Füst believe that the reform could start tax cuts in European countries, where the tax load has been increasing so far. If the EU does not take countermeasures, it can lead to the fact that the US will begin to draw goods, investments, and jobs (*Finance Senate*).

Theory of Optimal Taxation and Trump's Reform

It is based on how many centuries there is a state, how many centuries there are taxes, how much the state is looking for principles, and the ways of optimal taxation. It is about how to organize a collection of taxes in such a way that taxpayers pay taxes, and the treasury receives more and more income. In modern society, there are several concepts of optimal taxation. People should pay taxes proportionally to the benefits they receive from the state.

Those who have significantly benefited pay taxes necessary to finance the creation of this benefit. However, the general application of this concept is associated with specific difficulties: it is almost impossible to determine precisely what personal benefit and to what extent each taxpayer receives from the state's expenditures on national defense, free health care, and education. Also, following this concept, it is necessary to tax the poor and unemployed to finance the payment of benefits, which in itself makes no sense (Durlauf 735).

According to another concept, legal entities and individuals must pay taxes in direct proportion to the amount of income received. However, when implementing this concept in practice, particular problems arise — primarily because there is no strictly scientific approach to measuring the ability of a person to pay taxes. It is also known that at a high rate of income tax (above 50%), the business activity of firms and the population as a whole sharply decreases, which American economists, headed by Professor A. Laffer, tried to prove theoretically (Gwartney 250).

The logic of Trump and Republicans is simple: the more money businessmen and corporations leave for themselves, the more workers will be paid, the more jobs will appear and, in the end, the more benefits this will bring to the economy and the state. It is called the trickle down effect. However, these actions have a downside: if we reduce the tax burden, but the expenditure is left at the same level, the deficit of the federal budget will increase.

Another problem with the Trump plan is that it does not guarantee either the growth of wages of ordinary workers or the appearance of new jobs. Most of the saved money settles in the pockets of top management — that is, the wealthiest Americans, who become richer with tax breaks.

According to the data of the Ministry of Finance of the USA, today those companies that use "through taxation" give their employees only 1/3 of their income after paying taxes,

while top management manages the remaining 2/3. It turns out that Trump's tax reform is good news mainly for rich American people. According to the *Analytical Center Tax Policy Center*, the most benefits from the presidential initiative will be acquired by precisely 1% of the wealthiest citizens of America — those who receive \$700 thousand a year and more. They will account for up to 90% of the total amount that the budget will not receive (Rushe).

However, ordinary Americans can benefit in the first place, especially those who pay more than 15% in income taxes. They will have the opportunity to register as a legal entity, and not to pay personal income taxes, which can reach up to 35%, and corporate income taxes at a rate of 15%. For example, an average American journalist today pays income taxes of 25%. But after registering as a legal entity, he or she, while continuing to work, will be able to give 10% less to the treasury.

Finally, Trump himself will benefit from the tax reform. Now he, presumably, will transfer 24-25% of the income to the budget (how many taxes the president pays at the moment nobody knows — he still refuses to make his tax returns public), and in case the tax reform takes place, he will pay 15%.

To conclude, Trump adheres to the theory of optimal taxation in that now citizens with average incomes (from 9.5 thousand dollars to 38 thousand dollars a year) will receive the most significant discount: 12-15%. The maximum tax rate (about 37%) will apply to individuals who receive more than half a million dollars annually. However, the downside is that for the poorest, there is no provision for relief. However, still, if we analyze the reform and the theory of optimal taxation, then one of the essential aspects of the tax reform of Donald Trump was the provision of significant preferences to US companies — at the expense of foreign competitors. It can seriously affect the interests of European business and even provoke a trade war between the US and the EU. This reform is contrary to the

principles of the WTO, and it is destroying the foundations of global trade that developed decades after the end of World War II.

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