

*The Ninth IMF-Japan High-Level Tax Conference
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Assessment of Trump's Tax Reform Plan

Dr. Shigeki Morinobu

Research Director

Tokyo Foundation for Policy Research

Corporate Tax Reform

- Reduction of the corporate tax rate (from 35% to 20%) combined with the shift of current worldwide taxation to territorial taxation could prompt US multinationals to alter their practice of retaining their profit in low-tax countries and tax havens.
- The shift to territorial taxation is expected to trigger a big repatriation of foreign reserve funds, estimated to be around 1.7 trillion dollars. So the real issue is whether these funds will be used for the US economy. If they are used to buy back shares or to advance M&As, the effect of Trump's tax reform will have little impact on the real economy.
- On the other hand, it might accelerate further tax competition. Such signs are already evident in countries like France.
- The destination-based cash-flow tax (DBCFT) was bypassed in the tax plan. To ensure efficiency, such a tax must be implemented simultaneously on a worldwide basis.

Income Tax Reform

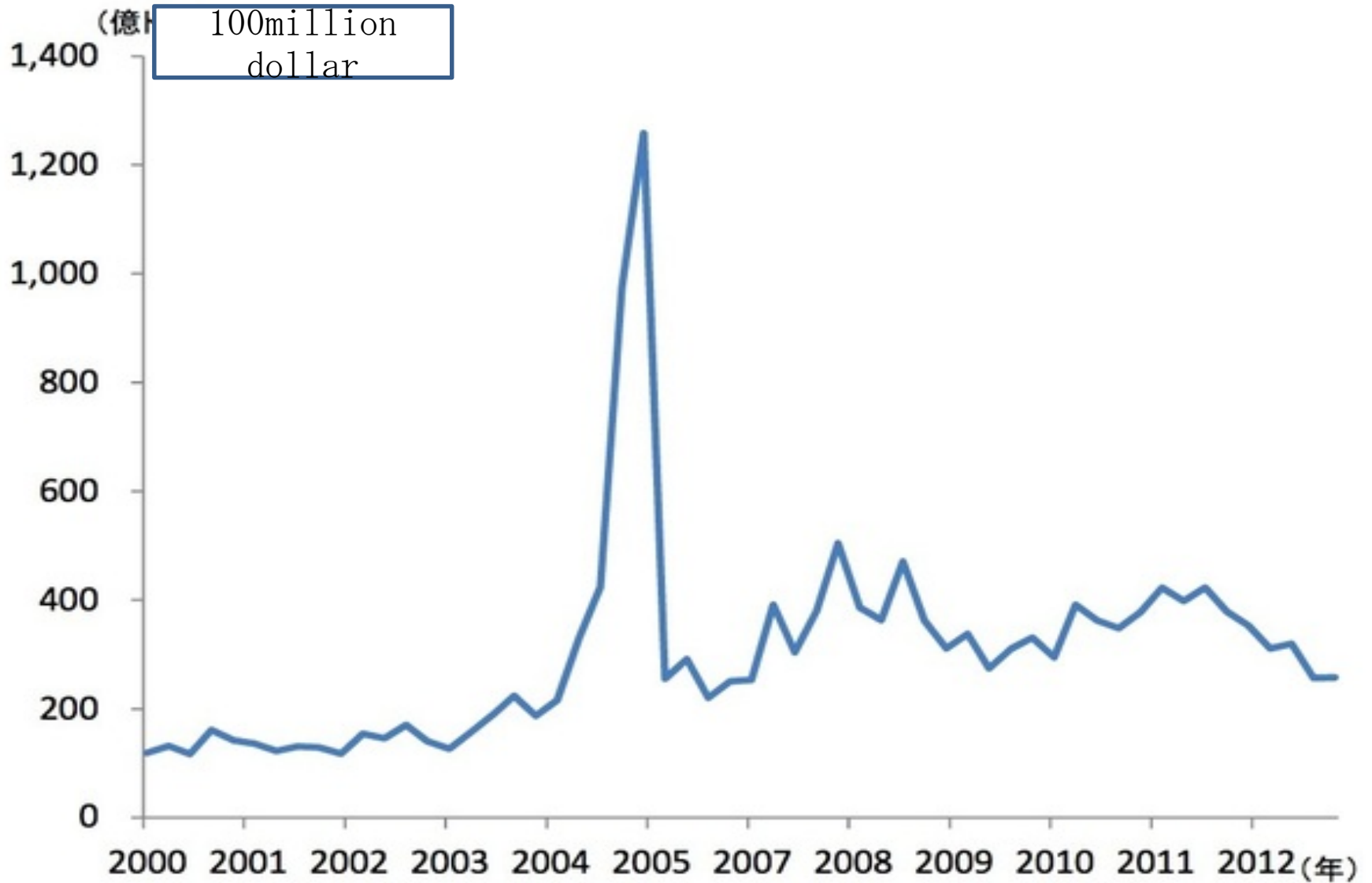
- The distributional problem (inequality issue) in the US is extraordinarily huge. The Trump tax reform, combined with expanded use of artificial intelligence, might exacerbate such inequality, bringing benefits primarily to the wealthy class.
- Cuts in the inheritance tax will also lead to wider asset gaps.
- Less consideration is given to the middle class, which forms the core of healthy public opinion.
- The plan for income tax reform, seen from the Japanese perspective, is rather problematic.

Impact on Macro Economy

- Revenue estimates by dynamic scoring is reminiscent of Reagan's first-term tax reform.
- Trump's reform will have an economic expansionary effect. Mixed with infrastructure investment, it could cause the US economy to overheat, leading to inflation and further interest rate hikes.
- A bigger fiscal deficit will also trigger higher US interest rates, which will negatively affect the Asian and global economy.

Overall, Trump's tax reform plan has many issues, and we need to remain vigilant about its impact on the economy.

Repatriation



Dynamic scoring under Reagan's I

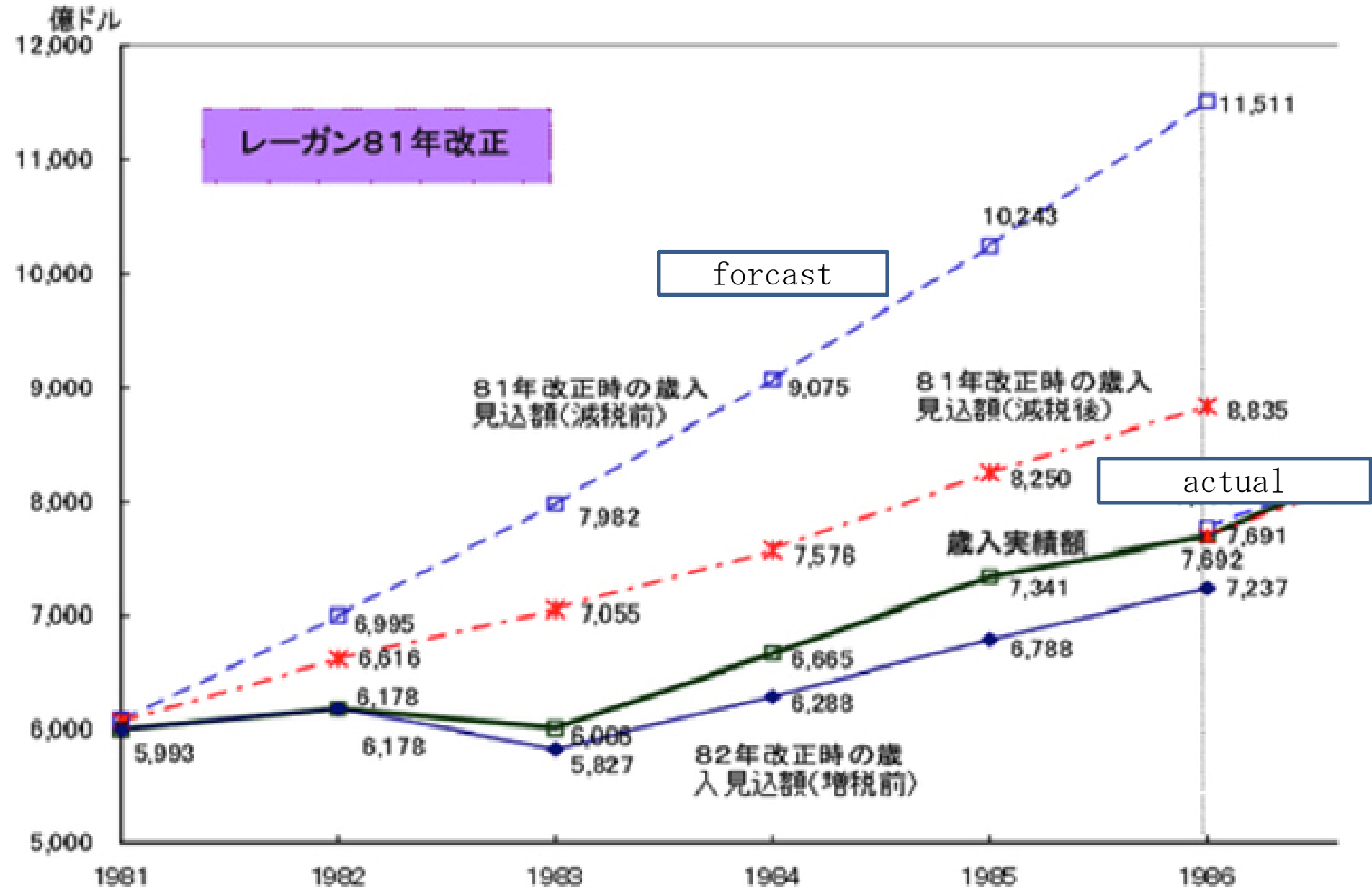
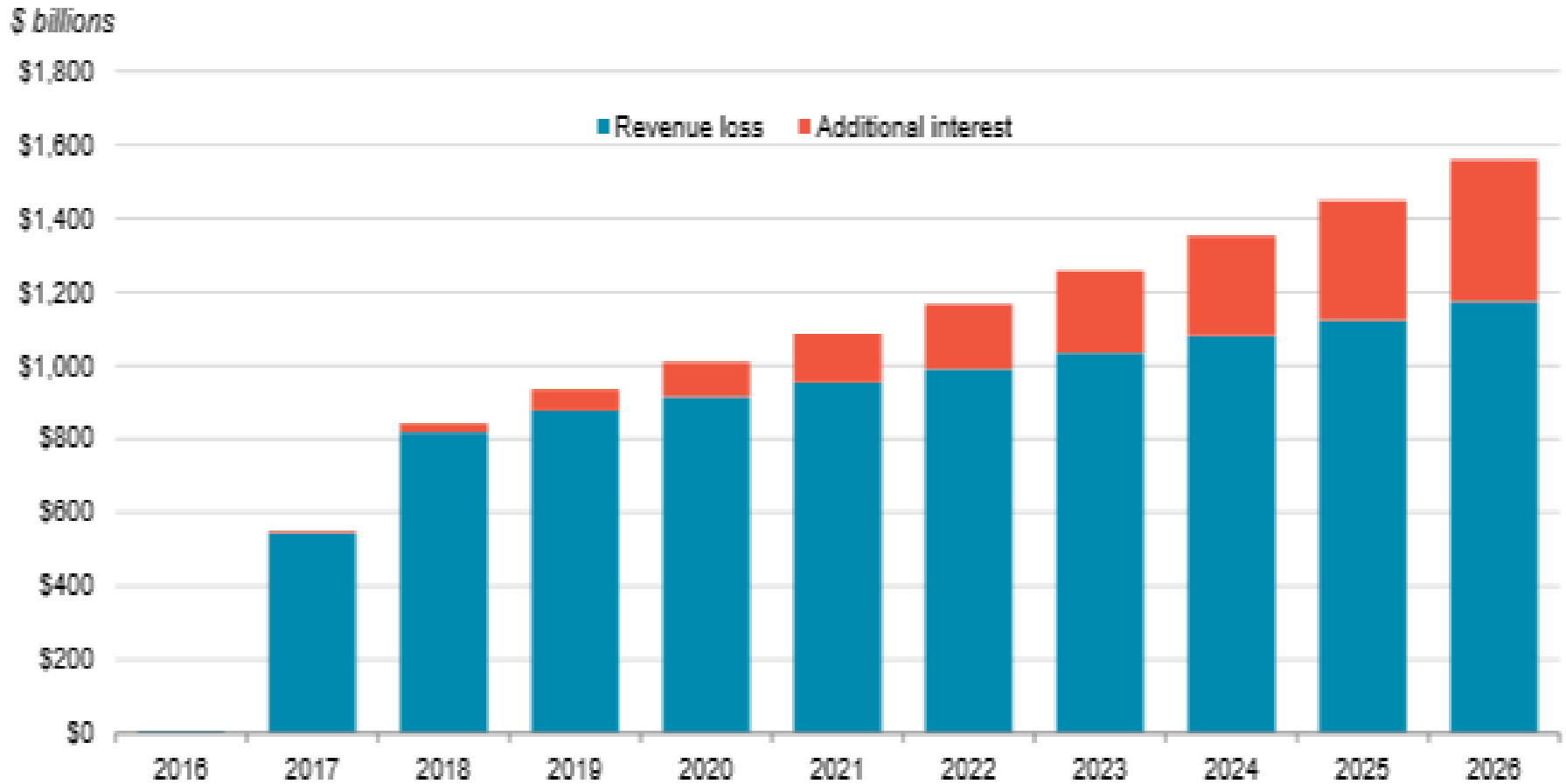


FIGURE 1
Effects on the Debt
FY 2016–26



Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0515-3A); Congressional Budget Office (2015a, 2015b).