Re: How to Fix the Wealth Disparity Gap caused by Trump Administration Tax Plan
To: Gene Sperling, Assistant to the President for Economic Policy, Director of National Economic Council
From: George T. Johnson, Undergraduate B.S Economics & Public Policy, University of Houston

The Problem

The Trump administrations has proposed and began implementing a plan to eliminate federal income tax and raise tariffs. This would have significant effects on the United States (U.S.) economy. Since the republicans hold 53 seats in the current senate, I believe it is necessary to prepare possible policy alternates if this comes to fruition.

My concern comes from my studies as a student. My study conducted following studies of previous economists, Hellman (2022), Steindel (2001), Cornforth (2024), Goss and Chang (2018), and Kogan (2018). These studies that I utilized as a foundation demonstrate that tax and tariff levels significantly impact individuals economic standing. Data models I produced seem to suggest that these policies will drastically increase the wealth disparity, making the poor poorer.

To mitigate the impact, policymakers must reallocate funding from existing programs to make up for the 50% gap this will leave in the budget. This will provide a smoother transition into the economic age while maintaining support for social security, Medicare, and national defense.

Changes in Wealth Disparity

To assess the impact of the proposed tax plan, I implemented a model incorporating new tariff plans as well.

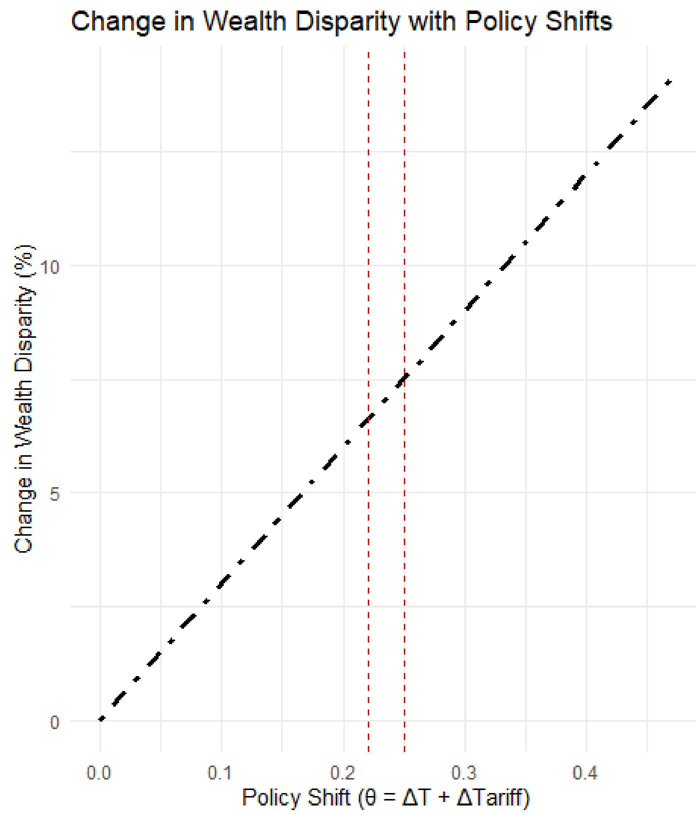
$$\Delta G = (\alpha_y + \alpha_{RR}) * (\Delta T + \Delta T_{tariff}) * G_{current}$$

- **Variables**
    - G represents Wealth Disparity
    - α_y (0.4) and α_{RR}(0.1) are elasticity parameters
    - ΔT(0.22) is the original tax rate
    - ΔT_{tariff} (0.25) accounts for new tariffs
    - $G_{current}$ is the current level of wealth disparity (60%)

The data here is sourced from the U.S Treasury, IRS, and Tax foundation. From this equation I was able to model the equation using a mix of MATLAB and R to cross reference my results. In both cases I was given the same graph. The graph has two key elements.

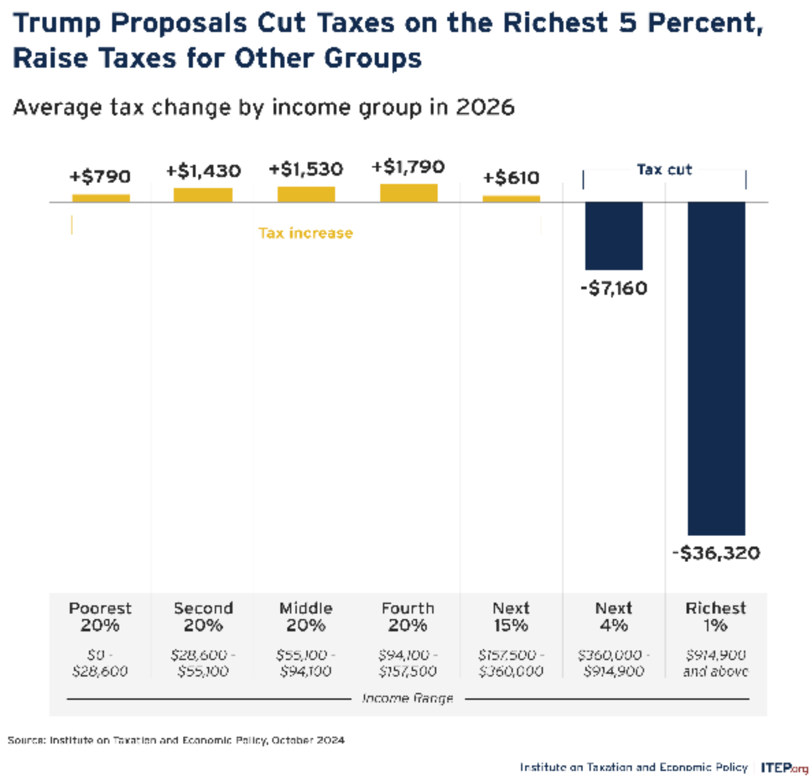
1. Black dashed line
    a. Shows the trend of an increase in wealth disparity as the tariffs increase and income tax disappears
    b. The positive slope suggest that the policy change here may exacerbate the wealth disparity.

2. Red vertical lines at (0.22 and 0.25)
    a. First red line at 0.22: This marks the original average income tax at current.
    b. Second red line at 0.25: This shows the increase in tariffs
    c. These lines highlight policy thresholds, showing the analysis of these key changes in tax and tariffs.



- **Interpretation**
    - As policy shifts increase (higher tariffs and possibly other forms of tax) wealth disparity will rise
    - Suggest that these policy adjustments disproportionately affect different economic groups and increasing inequality.
    - Red lines help visualize how much wealth disparity changes at the fully adjusted points.

This graph shows evidence that wealth disparity will increase with the cutting or slicing of income tax. I however am not the only one who has studied this trend. Studies as recent as January 2025, have shown that most of the burden will be held by the lower income population.



This graph is directly sourced from the institute of taxation and economic policy (ITEP). ITEP's study shows that only the top 5% of earners will be benefiting this tax cut that Donald Trump is proposing. This further supports my research

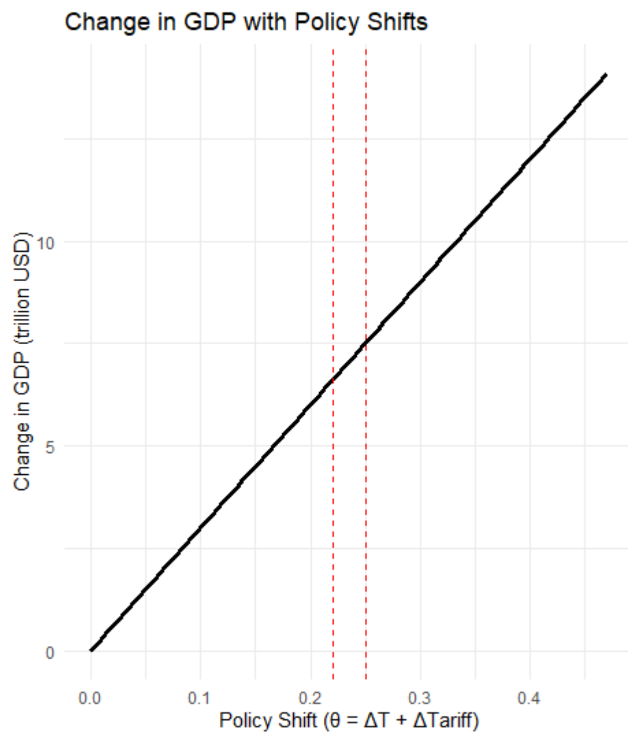
Other Economic Effects

1. **Loss of government revenue** – Income tax roughly provides 50% of federal revenue. No income tax means deficits will rise, weakening public services such as education, healthcare, and infrastructure. Gross and Chang (2018) highlight income tax as the most stable revenue source unlike volatile corporate and sales taxes.
2. **Increased burden on low-income citizens** – States without income tax (Washington) have extremely high sales tax to make up for the loss of revenue. In this state there is a strong notice of wealth disparity with Seattle having one of the highest homeless populations per capita (Hellman, 2022).
3. **Effects on GDP** – Higher tariffs and tax shifts will alter GDP. To visualize this I utilize another equation

$$\Delta GDP = \beta_C + \beta_I + \beta_G) * \left(\Delta T + \Delta T_{tariff}\right) * GDP_{current}$$

- **Variables**
    - β_C = 0.6817 (Consumption)
    - β_I = 0.207 (Investment)
    - $\beta_G = 0.207\ (Government\ Spending)$

- ΔT_{tariff} (0.25) accounts for new tariffs
- ΔT(0.22) is the original tax rate
- $GDP_{current}$ (2023 GDP) since fiscal (FY) 2024 isn't over yet.



This graph shows that GDP has the potential in the long term to rise to $29.12 trillion. The benefits will, however, accrue to the wealthiest of earners exacerbating inequality. Imports will be lower under this new plan; however, the problem arises where the U.S. has globalized so much, we now lack infrastructure to produce domestically currently. In the long run, however, this may be beneficial in the long run.

Policy Recommendations

1. **Introduce Progressive Consumption Taxes** – Value added taxes or (VAT) taxation set at 15%, this would replace most of the income tax revenue and can ensure fair contributions across income levels. Another option to this could be wealth-based taxation (property tax), this high tax would apply to the top 5% of earners.
2. **Expand Social Safety Programs** – Strengthen existing support networks to cushion the impact on vulnerable populations. This will be done by utilizing a VAT system at 15% that will allow for funding to remain the same without income tax.
3. **Implement Targeted Tariff Reforms** – Avoid tariffs that disproportionately harm low-income groups by tariffing high income goods: diamonds, luxury furniture, exotic cars, private jets, yachts, high end electronics, designer, etc.
4. **Reduce Government Spending** – Reduce wasteful spending abandoned military equipment, redundant government programs using the list from Government Accountability Office (GAO), and subsidies for large wealthy corporations.