

President Trump's 2nd term programme (Lecture B1469 – 18.39 minutes)

The return of Donald Trump in January 2025 to the White House promises a radical programme of tax and tariff measures. This is reinforced by the fact that the Republicans have control, albeit narrowly, of the House of Representatives and the Senate as well as enjoying a decisive majority in the Supreme Court.

What can we learn from the first Trump presidency in terms of what may happen in the second one when looking at taxation and economic policy? The first Trump administration passed a number of radical changes in terms of tax policy. The Trump administration reduced the Corporation Tax from 28% to 21%. It also reduced the rate of federal income tax although this was partially financed by reduction of allowances notably the deduction for state taxes paid. Generally, it was Democrat controlled states that had higher state taxes and by reducing the State tax deduction, President Trump was therefore targeting tax rises on his Democrat opponents.

There were also some substantial tax rises in terms of tariffs on China and other countries accused of unfair trading. Here, unlike the state tax deduction, the policy generally attracted bi-partisan support. President Biden did not reverse the tariffs and indeed increased some of the protectionist measures. The Inflation Reduction Act is a good example of funds being used for a protectionist agenda which encourage the movement of American manufacturing back into the United States after having been offshore for many decades.

The efficacy of these policies is still debated strongly. In particular, the tariffs which supported the steel industry, which is based in important swing states such as Pennsylvania, may have protected the industry but probably contributed to job losses in the car industry which had to absorb higher costs for essential raw materials in car making.

President Trump has made it clear that he views tariffs as an essential economic and political tool. He indicated that he would sign Executive Orders imposing a 25% tariff on Mexico which was anticipated. But, more surprisingly, he wants to impose a 25% tariff on Canada; citing lax border controls as the reason for these new tariffs.

He is therefore using tariffs as a political weapon to pressurise Canada and Mexico to tighten up border security.

He has also indicated that he will impose a 10% tariff on China which is less than the 60% that he discussed during the election campaign, but it remains to be seen whether this will be increased.

The new Treasury Secretary in the Trump administration, Scott Bessent, has stated.

“President Trump speaks like a New York City real estate developer, and that is the opening gambit. It is a maximalist negotiating position.”

The purpose of tariff plans is not just to raise revenues or rebalance trade but to extract negotiating concessions.

He wrote on the Fox News website straight after the election:

“Tariffs are a useful tool for achieving foreign policy objectives, whether it is getting allies to spend more on their own defence, opening foreign markets to US exports, securing cooperation on ending illegal immigration and interdicting fentanyl trafficking, or deterring military aggression.”

To maximise the effectiveness of any negotiating strategy, Trump would not impose high tariffs immediately. Instead, he would gradually phase them in over a two-year or even three-year period, thereby steadily intensifying economic pressure.

“I have spoken to President Trump, spoken to his team, and I think everyone is on board with a kind of forward guidance or phased-in tariff,” Bessent said.

So, 10 per cent on China may be only an opening ploy.

The domestic tax cuts which were originally passed in 2017 were on a temporary basis and were due to expire in 2025. The Trump administration unsurprisingly would want to retain these tax cuts and sees tariffs as a way of funding domestic tax cuts

There are other proposals such as allowing overtime to be tax free and potential substantial reductions in income tax which again were promised to be the result of extra revenues arising from tariffs but also a substantial reduction in the employee numbers and the activities of the federal government.

It remains to be seen whether these cuts come to fruition. In terms of control of Congress, although the majority is relatively small for the Republicans in both houses the political situation is different than in the first Trump term, in that there is a much larger percentage of supporters of the Trump programme than previously in the Republican Party. It is therefore more likely that whilst the Republicans retain a majority in both houses of Congress that radical measures could be enacted.

Normally, a president has about two years to enact radical measures before the midterm elections which normally deprive the president of a majority in one or both houses of Congress. This is particularly the case in the second term of a president, where quite often during the last two years the president is seen as a “lame duck” with a decreasing amount of power and influence. Donald Trump has defied political gravity before and so one cannot be sure that this will come to pass in 2026.

The speed of which appointments have been made to federal positions and the announcements that have been made indicate that there is a programme which has been planned and is going to be implemented at speed. This is in contrast to a somewhat less organised programme at the start of the first Trump presidency.

The effect on the world economy is uncertain but a tariff war would undoubtedly reduce world GDP and would provoke retaliation from most of the countries which are targeted for tariffs.

In terms of tax cooperation, the Republicans are notably less keen on Pillar One and Pillar Two of the OECD programme for tax cooperation. Pillar Two which effectively imposes a 15% minimum corporate tax rate has attracted considerable negative comments from Republicans in the House of Representatives. It remains to be seen whether the Trump administration will proceed with these proposals and the effect if they pull out.

The difficulty with them for Pillar Two is that if the US does not impose the 15% minimum tax rate, other countries will effectively take that money.

If Pillar One fails, the question would be whether the US would threaten tariffs on any country which, for example, imposed the Digital Services Tax (DST). The DST, in the eyes of the US government, taxes US multinationals unfairly.

The problem is that the tariff weapon is one that can only be used once or twice rather than over a long period for policy decisions and therefore the more it is used, the less effective it becomes.

Donald Trump was recognised in his first term as being a transactional president who would do deals on a bilateral basis with some of his opponents such as the leader of North Korea. He prefers bilateral deals to deals with multilateral organisations such as the European Union. This would lead potentially to reduced coherence on the international stage where countries do individual deals rather than through the multilateral organisations that they are members of.

Companies will need to keep a close watch on the impact of US tariffs and other decisions that could affect both their customer base and their supply chain. As usual it would be better, in the first instance, for companies to collate information rather than taking hasty and premature actions.

Contributed by Jeremy Mindell