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AMERICAN COMPASS

POLICY

No Tax Cut Is Free

Paths to Responsible Tax Reform

February 2025

For nearly 250 years, America lived within its means, entering the new millennium with public debt below one-third of GDP and a budget surplus. That fiscal discipline has collapsed over the past quarter-century, with deficits growing under both parties—and through multiple crises—reaching a projected $1.7 trillion this year despite strong economic conditions.

True fiscal conservatism requires not just restraining spending but paying for necessary expenditures. While the *Tax Cuts and Jobs Act of 2017* (TCJA) included important reforms worth preserving, such as immediate capital expensing and an expanded Child Tax Credit, its extension must be paid for through some combination of spending cuts and revenue increases. This collection focuses on the latter, highlighting eight opportunities to raise substantial revenue while advancing conservative priorities: implementing new trade policies, reforming preferential treatment of corporations and investment managers, and eliminating costly subsidies for progressive priorities. By combining targeted TCJA extensions with spending discipline and these revenue measures, conservatives can craft tax reform that reduces inflation, promotes growth, and demonstrates America's capacity for fiscal responsibility.

NEW TRADE POLICY FOR A NEW ECONOMIC ORDER

1. Implement a Market Access Charge
Reducing the fiscal deficit while reducing the trade deficit

2. Implement a 10% Global Tariff
Reducing the fiscal deficit while reducing the trade deficit

3. Rescind China's Permanent Normal Trade Relations Status
Ending our reliance on China and protecting the U.S. economy

4. Reform the De Minimis Exception
Ending China's trade giveaway while protecting Americans

FAIR TREATMENT OF CORPORATIONS AND INVESTMENT MANAGERS

5. Increase the Corporate Rate to 25%
Raising revenue while maintaining U.S. competitiveness

6. Eliminate the Carried Interest Deduction
Treating investment managers like everyone else

ELIMINATING PROGRESSIVE SUBSIDIES

7. Repeal the Electric Vehicle Tax Credits
Eliminating "green" distortions to American vehicle and energy markets

8. Expand the University Endowment Tax
Distinguishing between universities and hedge funds

IMPLEMENT A MARKET ACCESS CHARGE

AMERICAN COMPASS

Promoting U.S. exports and reducing the trade deficit

ESTIMATED REVENUE $2 TRILLION*

SUMMARY

Since the United States entered the World Trade Organization agreements in 1994, the U.S. trade deficit has risen from $70 billion in 1993 to over $900 billion in 2024. This proposal would impose a straightforward market access charge on incoming foreign capital flows starting at a rate of 50 basis points. If America continues to run a trade deficit, the charge will increase by 50 basis points the following year (or every six months) until a trade balance or surplus is reached. The charge would then decrease the year after a surplus is achieved.

Cumulative trade deficits have driven down America's net foreign asset position—U.S. foreign liabilities versus foreign assets—to negative $23 trillion. At the same time, the U.S. has seen a 10% decline in industrial output (excluding inflated gains from computer processing improvements) and a 35% decline in production manufacturing jobs since 2000. A market access charge would make the foreign purchase of U.S. financial assets more expensive, making the purchase of American exports relatively more attractive. This approach would simultaneously promote U.S. production and industrial strength, serve as a source of revenue, and counteract forces driving the trade deficit.

THE CASE FOR IMPLEMENTING A MARKET ACCESS CHARGE

The U.S. trade deficit is the result of importing far more than we export. Instead of trading goods produced abroad for ones made in America, other nations often prefer to trade their products for our assets, including corporate equity, real estate, and Treasury debt. The trade deficit is driven higher by the unfair trade practices by U.S. trading partners, U.S. leaders' historic failure to respond, and the failure of the dollar to adjust against foreign currencies in response to trade imbalances.

Some argue that trade deficits are balanced by foreign investment of dollars back into the United States, but this confuses simple acquisition of American assets with productive investment that expands U.S. industrial capacity. Over 95% of foreign direct investment falls into the former category. Large imbalances in these investments drive up the value of the dollar, making U.S. exports relatively more expensive and imports relatively cheaper. A market access charge would help balance world demand for U.S. assets and goods to ensure surges of foreign "investment" don't continue to drive up trade deficits at the expense of U.S. jobs and industries. This charge would also be paid directly by foreign investors.

The Coalition for a Prosperous America has proposed a market access charge on foreign purchases of dollar-denominated American financial assets. Sens. Tammy Baldwin (D-WI) and Josh Hawley (R-MO) have formalized this proposal in their *Competitive Dollar for Jobs and Prosperity Act*.

*2025–2034. This score is based on an assumption of $50–60 trillion in annual capital inflows taxed at a constant rate of 50 basis points over ten years ($250–300 billion x 10), and adjusted downward to reflect an expected decline in capital inflows as a result of the new charge. An alternative score prepared by John R. Hansen, Ph.D., to support introduction of the Baldwin-Hawley bill estimates an average revenue of $460 billion per year for the five years after the market access charge is implemented. Policymakers should request a formal score of this proposal from the Congressional Budget Office.

IMPLEMENT A 10% GLOBAL TARIFF

AMERICAN COMPASS

Reducing the fiscal deficit while reducing the trade deficit

ESTIMATED REVENUE $2.1 TRILLION*

SUMMARY

Since the United States entered the World Trade Organization agreements in 1994, the U.S. trade deficit has risen from $70 billion in 1993 to over $900 billion in 2024. This proposal would impose a straightforward uniform tariff on all imports starting at 10%. If America continues to run a trade deficit in a given year, the tariff will increase by five percentage points the following year until a trade balance or surplus is reached. Conversely, the tariff would decrease the year after any in which a surplus is achieved.

Cumulative trade deficits have driven down America's net foreign asset position—U.S. foreign liabilities versus foreign assets—to negative $23 trillion. At the same time, the U.S. has seen a 10% decline in industrial output (excluding inflated gains from computer processing improvements) and a 35% decline in production manufacturing jobs since 2000. As policymakers re-embrace America's long tradition of using tariffs to promote domestic production and industrial strength, they also should recognize tariffs' benefits as a source of revenue and a tool for addressing the U.S. trade deficit, which lowers GDP and grows U.S. debt.

THE CASE FOR A GLOBAL TARIFF

The U.S. trade deficit is the result of importing far more than we export. Instead of trading goods for goods, the United States pays for our imports by selling off our assets, including corporate equity, real estate, and Treasury debt. The trade deficit is driven higher by the unfair trade practices of U.S. trading partners, U.S. leaders' historic failure to respond, and an insatiable global demand for the U.S. dollar, which prevents it from adjusting against foreign currencies in response to trade imbalances.

Targeted tariffs are a useful tool for confronting unfair trade practices in particular countries, but a universal tariff, or similarly broad policy, is likely needed to promote domestic reindustrialization. For instance, when the United States put tariffs on $300 billion of Chinese goods under Section 301 of the *Trade Act of 1974* in 2018, imports from China fell precipitously and in proportion to the timing and level of tariffs on particular categories of goods. But production mostly shifted from China to other countries, not back to the United States, meaningfully reducing U.S. dependence on an adversary but not the U.S. trade deficit with the world.

Congress should implement a 10% global tariff that rises and falls with the U.S. trade deficit, as recommended by President Trump and former U.S. Trade Representative Robert Lighthizer. One such proposal is the *BUILT USA Act*, sponsored by Rep. Jared Golden (D-ME).

*2025–2034. This estimate from the Congressional Budget Office accounts for changes in imports and customs user fees, as well as "the budgetary effects of changes in economic output, employment, capital stock, and other macroeconomic variables."

RESCIND CHINA'S PNTR STATUS

Ending our reliance on China and protecting the U.S. economy

ESTIMATED REVENUE $300–500 BILLION*

SUMMARY

At the turn of the 21st century, Congress granted China Permanent Normal Trade Relations (PNTR) status. This designation, previously subject to annual renewal, provided permanent access to the U.S. market and enabled China's ascension to the World Trade Organization (WTO). It also imposed tariff rates on goods from China at the favorable levels prescribed in Column 1 of the U.S. Harmonized Tariff Schedule (HTS). Rescinding China's PNTR status and establishing a new HTS column imposing high tariffs on its imports would generate substantial revenue, drive supply chains out of China, and restore the principle of reciprocity in U.S. trading relationships.

THE CASE FOR RESCINDING PERMANENT NORMAL TRADE RELATIONS

Underpinning the decision to give China PNTR status was a false belief that China would open its economy, embrace democracy, and abide by the market principles it committed to when it signed the WTO agreements. There would be a peace dividend: a less aggressive China and a more stable world. Policymakers also promised welcoming China into the global trading system would be a win-win for workers and producers in the United States. None of that was true.

Instead, granting PNTR status to China gave manufacturers certainty to offshore production, leading to stagnant industrial production and a rapid decline in U.S. manufacturing employment. China exploited its access to the U.S. market while aggressively protecting its own, using industrial policy to systematically attract industries vital to economic growth and national security. This policy error, among the most foolish ever made by a great power, has eroded our industrial base, led to chronic bilateral trade deficits, and transferred wealth to our greatest adversary, which it has used to finance its military expansion.

Policymakers have signaled interest in changing course. The bipartisan House Select Committee on the Chinese Communist Party has recommended rescinding PNTR with China, as has the U.S.-China Economic and Security Review Commission. In January 2025, lawmakers introduced bipartisan, bicameral legislation that would revoke China's PNTR status, construct a new HTS column specific to China, and impose tariff rates of 100% on strategic goods. President Trump has also signaled an interest in doing so, including the recommendation in the 2024 Republican Party's platform and instructing agencies to review the issue as part of his Day One memorandum on an America First Trade Policy.

Congress should rescind China's PNTR status, increase base tariff rates on goods from China, and implement prohibitive tariff rates on strategic goods.

*2025–2034. American Compass's "Disfavored Nation" provides details on what a proposal along these lines might look like and estimates it could raise about $50 billion annually. Calculations based on Congressional Budget Office modeling suggest a comparable revenue effect.

REFORM THE DE MINIMIS EXEMPTION

AMERICAN COMPASS

Ending China's trade giveaway while protecting Americans

ESTIMATED REVENUE $23.5 BILLION*

SUMMARY

The de minimis rule exempts imported goods from customs duties and taxes if they fall below a certain value. The original purpose was to reduce administrative burdens associated with imports when the amount of revenue to be collected is minimal.

In 1938, Congress set the threshold for the de minimis exemption at a retail value of $1, or about $22 in 2025 dollars. In 2015, Congress increased the threshold to $800, the highest in the world and far higher than thresholds set by key U.S. trading partners. Canada has a de minimis threshold of around $110, Mexico of around $50, and China under $7.

The higher threshold, the proliferation of e-commerce, and tariff evasion strategies developed by countries like China have led to an exponential growth in the number of de minimis shipments entering the United States. In the past decade, de minimis shipments have risen tenfold, from about 139 million a year to over 1.4 billion, with a total retail value worth more than $50 billion.

THE CASE FOR REFORMING THE DE MINIMIS EXCEPTION

The deluge of de minimis shipments entering the United States constitutes a de facto trade concession to all our trading partners—a giveaway for which we get nothing in return, and which distorts incentives in our domestic market. The misguided de minimis regime undercuts efforts to prevent the import of illicit drugs like fentanyl and goods produced with forced labor, erodes the effectiveness of trade remedies against China, contributes to the nation's unsustainable trade deficit, and reduces federal revenue.

Consequently, reforming the de minimis exemption has become the subject of considerable congressional attention. The Biden administration took action to close the trade loophole, and President Trump has instructed agencies to "assess the loss of tariff revenues and the risks from importing counterfeit products and contraband drugs." Greater scrutiny of de minimis treatment for China was among the key actions taken by the Trump administration in its first month.

Congress should deny de minimis treatment to all goods from nonmarket or hostile nations like China, and to any goods subject to trade and national security remedies, as prescribed in the *End China's De Minimis Abuse Act*. Congress should further consider limiting the de minimis exemption for all trading partners to a more reasonable value threshold to ensure the government collects revenue on imports entering the U.S. market.

*2024–2034. Using import data from Customs and Border Patrol from 2023, the Congressional Budget Office estimates that enacting the *End China's De Minimis Abuse Act* would increase revenues from customs duties by about $24 billion over the ten-year budget window.

An online version of this brief with links to sources is available at americancompass.org

INCREASE THE CORPORATE RATE TO 25%

AMERICAN COMPASS

Raising revenue while maintaining U.S. competitiveness

ESTIMATED REVENUE $498 BILLION*

SUMMARY

The corporate tax rate is the percentage of profit that corporations must pay in taxes. These mainly "C" corporations are taxed at a separate rate from their employees and shareholders because they are considered separate legal entities.

Prior to the *Tax Cuts and Jobs Act* (TCJA), reducing the corporate tax rate from a top rate of 35%—the highest in the developed world—to 25% was widely considered a "longtime Republican goal" and featured prominently in Republican tax plans, including then-House Budget Chairman Paul Ryan's FY2014 budget plan. TCJA went beyond that goal and reduced the corporate rate to 21%.

THE CASE FOR INCREASING THE CORPORATE RATE

Corporate status allows a firm to contract, borrow, sue, and purchase assets under its own name while those who operate and hold shares in the company enjoy limited liability for the corporation's debts and lawsuits. In theory, this privilege is offered so that corporations can pursue public purposes beyond the capabilities of individuals and voluntary associations. The legal status and limited liability enjoyed by U.S. corporations provide wide societal benefits and encourage risk taking and investment, but they remain a privilege. So is offering a tax rate to corporations lower than that which individuals pay on their own income.

Lowering the corporate rate from the highest amongst OECD countries was sensible and benefitted American competitiveness, but continuing down from 25% to 21% had significantly less marginal benefit. While excessively high corporate tax rates are indeed a barrier to growth, a 25% corporate rate is reasonable and falls in line with the worldwide average weighted by GDP.

Rep. Chip Roy (R-TX) recently recommended increasing the corporate rate from 21% to 25% to help pay for individual and small business tax breaks. Policymakers should consider this change as they seek to pay for other tax cuts.

*2024–2034. This estimate is from American Compass's "Budget Model: First Edition," which is based on the Congressional Budget Office's score of single percentage point increases in the corporate tax rate.

ELIMINATE THE CARRIED INTEREST DEDUCTION

AMERICAN COMPASS

Treating investment managers like everyone else

ESTIMATED REVENUE $63.1 BILLION*

SUMMARY

The “carried interest loophole” refers to the special tax treatment of compensation paid to investment managers. Because actual investors are investing money that has already been taxed, because that investment carries risk, and because tax policy should encourage investment, capital gains are typically taxed at a lower rate (0% before a certain threshold, then 15–20%) than ordinary income (22–37% above a similar threshold). But under current law, investment managers’ income is treated as “capital gains,” even though it is ordinary in every meaningful respect. These managers do not have to put their own capital at stake and they receive the income as compensation for services rendered.

Investment managers should be required to declare all income annually and pay tax on it at ordinary income or self-employment rates. Where fund managers become partners in longer-term investments and where tax on those investments is typically deferred until the investment returns are realized, the tax code should distinguish between the investor’s portion of the investment and the manager’s portion, treat the manager’s portion of the return as “deemed compensation” from the investor, and tax deemed compensation annually as ordinary income rather than as capital gains.

THE CASE FOR ELIMINATING THE CARRIED INTEREST DEDUCTION

In a free economy, those providing the capital for investment put themselves at risk for the sake of potential reward. But those who receive the primary benefit of the carried interest deduction (i.e., investment managers) are deploying other people’s income. Investment managers should not receive lower rates on their income when the actual investor of capital, not the manager, bears the real risk. The carried interest loophole not only distorts the relationship between risk and reward, but also draws more of America’s talent pool toward careers in finance rather than engineering, science, and traditional business management. There is no reason such a career should receive a tax advantage over others.

President Trump has called for closing this loophole both in his 2016 campaign tax reform plan and in a February 2025 statement to GOP House leaders. Recent legislation to end the deduction include the *Ending the Carried Interest Loophole Act*, sponsored by Sen. Ron Wyden (D-OR), and the *Carried Interest Fairness Act*, sponsored by Sen. Tammy Baldwin (D-WI) and Rep. Marie Gluesenkamp Perez (D-WA).

*2024–2033. This score was generated by the Joint Committee on Taxation for Senator Wyden’s *Ending the Carried Interest Loophole Act*.

REPEAL THE ELECTRIC VEHICLE TAX CREDITS

AMERICAN COMPASS

Eliminating "green" distortions to American vehicle and energy markets

ESTIMATED REVENUE $390 BILLION*

SUMMARY

The *Inflation Reduction Act* (IRA) authorized three tax credits that individuals and businesses can claim when purchasing what it classifies as "clean" vehicles, including electric vehicles (EVs) and plug-in hybrids. Individuals who buy a new clean vehicle can receive a credit of $7,500, businesses that buy a new clean vehicle can receive a credit of up to $40,000 (also exploited by individuals through the so-called "leasing loophole"), and individuals who buy a previously owned clean vehicle can receive a $4,000 credit.

THE CASE FOR REPEALING THE ELECTRIC VEHICLE TAX CREDITS

These tax credits are intended to promote a green energy transition, but in reality they put the battery-powered cart before the industrial horse. Spending hundreds of billions of dollars to subsidize the purchase of electric vehicles before domestic EV and battery supply chains, consumer demand, and power grid infrastructure are well established is short-sighted, wasteful, and undermines America's economic interests. In many cases, these credits are directly deepening U.S. dependence on Chinese producers.

Congress should reform the tax code to incentivize investment in the real economy, but it should not favor EVs over other kinds of automobiles, especially when this places American firms and workers at a disadvantage. The United States lacks sufficient consumer demand and charging infrastructure to make a wholesale shift to EVs practical. Meanwhile, subsidizing EV production props up global supply chains heavily reliant on China and other foreign suppliers, effectively funneling taxpayer dollars overseas. Repealing these credits ensures fairness for our domestic auto industry and focuses on building industrial strength without strengthening foreign nations on the taxpayer's dime.

Congress should repeal the IRA's EV credits. Sen. John Barrasso (R-WY) and Rep. Jodey Arrington (R-TX) have introduced the *Eliminate Lavish Incentives To Electric (ELITE) Vehicles Act*, which would repeal all three tax credits authorized in the IRA. President Trump has called for their repeal as well.

*According to the Penn-Wharton Budget Model.

EXPAND THE UNIVERSITY ENDOWMENT TAX

Distinguishing between universities and hedge funds

ESTIMATED REVENUE $99.4 BILLION*

SUMMARY

The Internal Revenue Code exempts specified nonprofit organizations from paying federal income tax. The government confers this preferential tax treatment to support organizations that advance the public good. The 501(c)(3) designation includes universities and their endowments, to which individuals and entities can contribute with tax-deductible contributions, and which can then grow tax-free in perpetuity.

The Tax Cut and Jobs Act (TCJA) imposed a 1.4% excise tax on net investment income for private colleges and universities with at least 500 students and with endowments valued at more than $500,000 per student. In 2023, this endowment tax raised about $380 million from 56 institutions of higher education.

Congress should expand the endowment tax to cover universities with endowments greater than $250,000 per student and increase the rate to match the corporate tax rate. Revenue collected can be redeployed towards purposes that advance the public good.

THE CASE FOR EXPANDING THE UNIVERSITY ENDOWMENT TAX

The valuations of many university endowments have soared, accumulating enormous wealth far beyond what is used to support their educational mission. Growing endowments have been matched by growing tuition costs, student debt burdens, and administrative bloat. This disaggregation between public good and private profit has effectively transformed many universities into hedge funds that teach classes and conduct research on the side. Increasing the tax rate and expanding its application creates a strong incentive for universities to use their endowments to fund their core educational missions rather than to amass financial empires that insulate them from accountability.

The House Republican Budget Committee pay-for menu includes an endowment tax increase, and there have been several congressional proposals along these lines. For instance, Rep. Troy Nehls (R-TX)'s *Endowment Tax Fairness Act* would increase the endowment tax rate to 21% and raise between $38.5 billion and $112.3 billion over 10 years depending on investment return rates, according to the Tax Foundation.

*2025–2034. This assumes expanding the endowment tax to cover universities with endowments greater than $250,000 per student, increasing the tax rate to 21%, and an endowment growth rate of 7.75%.