



An Analysis of Joe Biden's Tax Proposals, October 2020 Update

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October 2020

Key Points

- Using the Tax-Calculator (3.0.0) microsimulation model, we estimate that Joe Biden's proposals would raise federal revenue by \$2.8 trillion over the next decade (2021–30).
- The majority of new federal revenue would come from businesses and corporations (\$1.9 trillion). The remaining revenue would come from individual income and payroll tax increases (\$616.8 billion) and an increase in estate and gift taxes (\$276.4 billion).
- In 2021, Biden's proposals would increase taxes, on average, for the top 5 percent of households and reduce taxes on households in the bottom 95 percent. In 2030, Biden's proposals would increase taxes, on average, for households at every income level, but tax increases would primarily fall on the top 1 percent of income earners.
- Using the open-source OG-USA (0.6.2) model, we estimate that Biden's proposals would reduce gross domestic product (GDP) by 0.16 percent over the next decade, slightly increase GDP the second decade (0.19 percent), and result in a small reduction in GDP in the long run (0.18 percent).

Joe Biden, the Democratic candidate for president, has proposed several individual income, payroll, estate, and business tax increases aimed at financing new government programs and tax credits. (A full list of proposals can be found in Appendix B.)

His proposals would repeal major provisions of the 2017 Tax Cuts and Jobs Act (TCJA) that reduced taxes for high-income households. Statutory tax rates and brackets would revert to pre-TCJA levels for taxpayers with taxable income over \$400,000. He would also phase out Section 199A for high-income households and reinstate the Pease limitation on itemized deductions.

Biden would repeal the \$10,000 cap on the state and local tax (SALT) deduction but limit the tax benefit of all itemized deductions to 28 percent. Further, he would tax capital gains and dividends as ordinary income for taxpayers who report \$1 million or more and tax capital gains at death, subject to certain exclusions.

His proposals would enact or expand several tax credits. He would extend the earned income tax credit (EITC) for childless filers to individuals over age 65 and reinstate the tax credit for residential energy efficiency. He would reintroduce and expand the first-time homebuyer credit. In addition, he would increase the tax incentive for retirement saving for middle- and low-income households.

Biden's proposals would raise payroll taxes for high-income earners. He would raise the Old Age, Survivors, and Disability Insurance (OASDI) payroll tax of 12.4 percent by applying it to earnings over \$400,000.

Biden would expand the estate and gift tax by reverting the rate and exemption to 2009 levels.

Biden's proposals would raise business income taxes by both increasing the corporate tax rate and broadening the business tax base. Under his proposals, the

corporate income tax rate would rise from 21 percent to 28 percent. His proposals would also reform the way foreign profits of US multinational corporations are taxed by reducing the deduction for global intangible low-taxed income (GILTI) to 25 percent, repealing the 10 percent qualified business asset investment (QBAI) exemption, and applying GILTI on a country-by-country basis. He would also enact a 15 percent minimum tax on larger corporations' book profits.

His proposals would raise taxes on several specific industries. He would eliminate the deduction for direct-to-consumer drug advertising, limit deductions for fossil fuel companies and the real estate industry, and introduce a financial risk fee. He would also restore, enact, and expand a number of green energy, housing, and manufacturing tax credits.

Biden's proposals include several provisions aimed at discouraging companies from "offshoring" production. He would enact a 10 percent surtax on the foreign profits of US firms that import goods and services into the United States, eliminate deductions for "offshoring" expenses, and enact a 10 percent tax credit for "onshoring" expenses.

Lastly, Biden has proposed two temporary tax policies to address the COVID-19 recession. He would temporarily expand the child tax credit from \$2,000 to \$3,000, make the credit fully refundable, and provide an additional \$600 credit for young children. He would also repeal the temporary suspension of the excess loss limitation passed as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act.

Conventional Revenue Estimate

Biden's tax proposals would raise federal revenue by \$2.8 trillion between 2021 and 2030.

About a quarter of the new tax revenue would come from individual income and payroll tax increases (\$616.8 billion). The largest source of new revenue from individual income and payroll taxes would be from applying the OASDI payroll tax of 12.4 percent to earnings over \$400,000 (\$723.2 billion). His proposals would raise another \$298.1 billion from taxing capital gains at death and raising the top tax rate to 39.6 percent. His proposals to roll back lower tax rates from the 2017 tax act and Section 199A pass-through deduction for high-income households would raise about \$222 billion over 10 years.

Biden's proposal to repeal the \$10,000 cap on the SALT deduction and reinstate the Pease limitation on itemized deductions would reduce revenue by \$310 billion. This would be partially offset by the introduction of the 28 percent itemized deduction limitation (\$263 billion).

Much of the additional income tax revenue from Biden's proposals would be offset by new and expanded tax credits. Reinstating the first-time homebuyer credit would reduce revenue by \$241.7 billion over the next decade. Introducing a caregivers credit would reduce revenue by an additional \$99.3 billion. A one-year expansion of the child tax credit would cost \$107.7 billion.

Most of the new revenue in Biden's tax plan would come from increased business taxes (\$1.9 trillion). The largest source of new business revenue and the largest source of new revenue in the entire plan is the proposal to raise the corporate tax rate from 21 percent to 28 percent (\$1 trillion between 2021 and 2030). Biden's proposals would raise \$457 billion from raising the minimum tax on foreign profits and \$93 billion by enacting a 15 percent minimum tax on book profits. An additional \$400 billion would come from various tax changes, including provisions that would affect the real estate, finance, and pharmaceutical industries and fossil fuel companies.

Restoring the 2009 estate and gift tax parameters would raise the remaining \$276 billion. (See Table 1.)

Distributional Analysis

Overall, Biden's tax proposals would make the US tax code more progressive. Table 2 shows the average tax change, the share of the total tax change, and the percentage change in after-tax income, by income decile in 2021 and 2030.

In 2021, Biden's tax proposals would increase the tax burden on the top 5 percent of households and reduce the tax burden on the bottom 95 percent of households. The combination of higher income and payroll tax rates on households earning more than \$400,000 and an increase in business taxes would reduce the top 1 percent after-tax income by 14.2 percent. Taxpayers between the 95th and 99th percentile would face a small tax increase (0.4 percent reduction in after-tax income). Other income groups would see an increase in after-tax income of between 0.5 and 11.3 percent. Taxpayers in the bottom 10 percent would see the largest increase in after-tax income in

Table 1. Detailed Revenue Impact of Biden Tax Proposals (\$ Billions)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2021–30
Restore pre-TCJA rates and brackets above \$400,000 of income	13.7	14.7	15.5	16.6	17.6	0.0	0.0	0.0	0.0	0.0	78.1
Restore limitation on itemized deductions above \$400,000 of income (Pease limitation) and repeal SALT deduction limitation	–55.5	–57.9	–61.3	–65.3	–70.1	0.0	0.0	0.0	0.0	0.0	–310.0
Phase out Section 199A deduction for taxpayers above \$400,000	23.8	26.5	28.5	31.3	34.1	0.0	0.0	0.0	0.0	0.0	144.3
Tax capital gains and dividends at ordinary income rates above \$1 million of income and tax at death	0.3	15.1	31.5	34.0	35.9	32.6	34.3	36.2	38.2	40.1	298.1
Extend the EITC to childless workers age 65 and older	–0.6	–0.6	–0.6	–0.6	–0.6	–0.6	–0.6	–0.7	–0.7	–0.7	–6.2
Provide a credit for caregivers of dependent relatives with long-term care needs	–7.3	–7.6	–8.1	–8.6	–9.1	–10.7	–11.0	–11.7	–12.4	–12.9	–99.3
Expand the child and dependent care credit	–6.7	–6.9	–7.2	–7.6	–7.9	–7.9	–8.7	–9.2	–9.7	–10.2	–82.0
Temporarily expand the child tax credit	–107.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	–107.7
Limit tax benefit of itemized deductions to 28 percent of value	18.7	18.9	18.9	19.3	20.0	31.3	32.6	33.5	34.4	35.5	263.1
Apply 12.4 percent OASDI payroll tax to earnings above \$400,000	50.8	54.9	58.9	63.0	67.7	73.9	79.7	85.6	91.4	97.3	723.2
Establish automatic IRAs and a small business startup credit for offering retirement plans	–1.0	–1.2	–1.4	–1.4	–1.5	–1.6	–1.6	–1.8	–1.8	–1.9	–15.2
Replace IRA/DC pension contribution deductibility with 26 percent refundable credit	0.8	4.0	1.8	3.2	3.1	1.6	1.7	2.6	2.7	2.9	24.4
Exempt forgiven student loans from taxable income	–0.7	–0.7	–0.8	–0.8	–0.9	–1.0	–1.0	–1.1	–1.2	–1.2	–9.3
Reinstate residential energy efficiency tax credit	0.0	–2.2	–2.3	–2.4	–2.6	–2.7	–2.8	–3.0	–3.1	–3.3	–24.4
Reinstate and expand the first-time homebuyer credit	–24.6	–24.4	–24.3	–24.3	–24.3	–24.2	–24.0	–23.9	–23.8	–23.8	–241.7
Reinstate electric vehicle credit	–1.6	–1.5	–1.6	–1.7	–1.9	–2.0	–2.0	–2.1	–2.2	–2.4	–18.8
Total Individual Income and Payroll Taxes	–97.3	31.0	47.5	54.8	59.7	88.8	96.4	104.6	111.8	119.7	616.8
Raise the corporate income tax rate to 28 percent	41.7	74.7	87.5	95.8	103.8	112.7	121.0	124.8	129.2	132.7	1,023.9

Table 1, continued on next page

Table 1. Detailed Revenue Impact of Biden Tax Proposals (\$ Billions) *(Continued)*

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2021–30
Reduce the GILTI deduction to 25 percent, country-by-country minimum tax; repeal QBAI exclusion; and increase penalties for inversions	41.8	42.5	44.5	47.0	49.6	41.8	43.8	46.1	48.7	51.6	457.4
Enact a 10 percent surtax on US-based multinational corporations that import goods and services to the United States	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.7	0.7	0.7	6.0
Remove deductions for offshoring expenses and provide a 10 percent credit for onshoring expenses	–0.01	–0.02	–0.03	–0.03	–0.03	–0.03	–0.03	–0.03	–0.04	–0.04	–0.3
Enact a 15 percent minimum tax on book profits	7.8	8.2	8.5	8.8	9.2	9.5	9.8	10.2	10.6	11.0	93.5
Eliminate the deduction for direct-to-consumer drug advertising	1.2	1.3	1.4	1.4	1.5	1.5	1.6	1.7	1.8	1.8	15.2
Restore the energy investment tax credit	0.0	–0.2	–1.3	–2.6	–3.5	–4.1	–4.5	–4.8	–6.0	–6.2	–33.2
Enact a credit for carbon sequestration	–0.2	–0.4	–0.7	–1.0	–1.3	–1.1	–0.9	–0.8	–0.6	–0.5	–7.7
Establish a manufacturing communities tax credit	0.0	0.0	–0.1	–0.2	–0.2	–0.3	–0.3	–0.4	–0.4	–0.3	–2.2
Modify and make permanent the new markets tax credit and expand the low-income housing tax credit	–0.2	–0.5	–0.8	–1.3	–1.9	–2.5	–3.2	–3.8	–4.3	–4.7	–23.2
Tighten worker classification rules	0.2	0.6	1.1	1.3	1.6	1.6	1.6	1.7	1.7	1.7	13.0
Repeal the temporary suspension of the excess loss limitation passed as part of the CARES Act	61.5	–1.7	–0.8	–0.4	–0.2	–0.1	0.0	0.0	0.0	0.0	58.2
Eliminate tax preferences for fossil fuel companies	1.2	1.2	1.2	1.1	1.1	0.9	0.9	0.9	0.9	1.0	10.5
Eliminate tax preferences for the real estate industry	16.3	17.8	19.1	20.5	22.2	23.2	25.0	26.6	27.6	28.6	226.9
Establish a financial risk fee	3.6	8.9	10.9	11.5	12.2	14.0	14.6	15.3	16.1	16.7	123.9
Total Business Taxes	175.6	152.8	171.1	182.6	194.5	197.7	210.0	218.0	225.8	234.0	1,962.0
Restore the estate and gift tax to 2009 parameters	26.2	27.7	29.1	30.6	31.8	30.8	25.2	23.9	25.0	26.2	276.4
Total Estate and Gift Tax	26.2	27.7	29.1	30.6	31.8	30.8	25.2	23.9	25.0	26.2	276.4
Total	104.4	211.4	247.7	268.0	286.0	317.3	331.6	346.4	362.6	379.8	2,855.2

Note: IRAs stand for individual retirement accounts. DC stands for direct contribution.

Source: Authors' calculations using Tax-Calculator (3.0.0), "Federal Individual Income and Payroll Tax Microsimulation Model," <https://github.com/grantseiter/Biden-Tax-Proposals/tree/master/Tax-Calculator-3.0.0>.

Table 2. Distributional Impact of Biden’s Tax Proposals, 2021 and 2030

Expanded Income Decile	2021			2030		
	Average Tax Change (\$)	Share of Total Change (%)	Percentage Change in After-Tax Income (%)	Average Tax Change (\$)	Share of Total Change (%)	Percentage Change in After-Tax Income (%)
0–10%	–311	–4.8	11.3	23.2	0.1	–0.6
10–20%	–595	–12.5	5.7	24.5	0.1	–0.2
20–30%	–888	–18.7	4.9	30.3	0.2	–0.1
30–40%	–757	–15.9	3.0	36	0.2	–0.1
40–50%	–599	–12.6	1.8	40	0.2	–0.1
50–60%	–474	–10.0	1.1	49.4	0.3	–0.1
60–70%	–392	–8.3	0.7	101.5	0.6	–0.1
70–80%	–446	–9.4	0.6	194	1.1	–0.2
80–90%	–638	–13.4	0.6	259.3	1.4	–0.2
90–95%	–817	–8.6	0.5	932	2.6	–0.5
95–99%	473	4.0	–0.4	6,270	13.8	–2.1
Top 1%	96,565	203.5	–14.2	134,054	74	–12.3
All	475	100.0	–1.9	1,812	100	–2.8

Note: Expanded income is equal to adjusted gross income, plus adjustment, government transfers, and corporate income tax liability.

Source: Authors’ calculations using Tax-Calculator (3.0.0), “Federal Individual Income and Payroll Tax Microsimulation Model,” <https://github.com/grantseiter/Biden-Tax-Proposals/tree/master/Tax-Calculator-3.0.0>.

2021 (11.3 percent). This is primarily due to the large, temporary expansion of the child tax credit.

In 2030, the top 1 percent would continue to face a large tax increase. That group’s after-tax income would fall by 12.3 percent. The bottom 99 percent of taxpayers would also face modest tax increases. Tax filers in the bottom 99 percent would see a reduction in after-tax income of between 0.1 percent and 2.1 percent. The average size of the tax increase ranges from \$23 for the bottom decile (0 percent to 10 percent) to \$6,270 for taxpayers between the 95th and 99th percentile.

The modest tax increases for the bottom 95 percent of tax filers in 2030 are primarily attributable to business tax increases. Table 3 shows the percentage change in after-tax income for each income decile in 2021 and 2030 split between business tax provisions and individual and payroll tax provisions. In both 2021 and 2030, the individual income and payroll tax provisions would

generally reduce taxes for the bottom 99 and 95 percent of taxpayers while increasing the tax burden on the top 1 percent. The business tax provisions would result in across-the-board tax increases but would be small for the bottom 95 percent of taxpayers.

Macroeconomic Analysis

Biden’s tax proposals would increase effective tax rates on high-income households and corporations. The higher effective tax rates would result in a short-run reduction in gross domestic product (GDP) relative to baseline, followed by a medium-run increase in GDP due to a reduction in debt and its reduced drag on investment. But the long-run effect of the Biden plan is a slight reduction in GDP relative to the baseline. The lower output over the first decade would result in slightly less tax revenue than predicted by the conventional

Table 3. Contribution to the Distributional Impact, Individual and Payroll and Business Provisions, 2021 and 2030

Expanded Income Decile	Percentage Change in After-Tax Income					
	2021			2030		
	Individual Income and Payroll Tax	Business Tax	Overall	Individual Income and Payroll Tax	Business Tax	Overall
0–10%	11.6	–0.3	11.3	–0.5	–0.1	–0.6
10–20%	6.1	–0.4	5.7	0.1	–0.3	–0.2
20–30%	5.3	–0.4	4.9	0.2	–0.3	–0.1
30–40%	3.3	–0.3	3.0	0.2	–0.3	–0.1
40–50%	2.2	–0.4	1.8	0.3	–0.4	–0.1
50–60%	1.7	–0.6	1.1	0.5	–0.6	–0.1
60–70%	1.3	–0.6	0.7	0.5	–0.6	–0.1
70–80%	1.2	–0.6	0.6	0.5	–0.7	–0.2
80–90%	1.3	–0.7	0.6	0.5	–0.7	–0.2
90–95%	1.4	–0.9	0.5	0.4	–0.9	–0.5
95–99%	1.2	–1.6	–0.4	–0.5	–1.6	–2.1
Top 1%	–9.1	–5.1	–14.2	–8.0	–4.3	–12.3
All	–0.4	–1.5	–1.9	–1.4	–1.4	–2.8

Note: Expanded income is equal to adjusted gross income, plus adjustment, government transfers, and corporate income tax liability.
Source: Authors' calculations using Tax-Calculator (3.0.0), "Federal Individual Income and Payroll Tax Microsimulation Model,"
<https://github.com/grantseiter/Biden-Tax-Proposals/tree/master/Tax-Calculator-3.0.0>.

estimate. If entirely devoted to deficit reduction, the additional revenue from Biden's plan would reduce US debt but not enough to stabilize the dramatically increasing debt-to-GDP ratio.

We project that Biden's proposals would reduce the level of GDP relative to baseline by 0.16 percent from 2021 to 2030 by reducing the labor supply and the capital stock (Table 4). The increase in taxes introduces disincentives to both work and save, which results in a reduction in labor supply and the aggregate capital stock. The OG-USA model predicts some fluctuations in labor supply and savings over the first eight years of the policy. This is due to the abrupt increases in effective and marginal tax rates on income over \$400,000 and the expiration of the child tax credit, which induces behavioral changes that take advantage of other expiring policies at different years in that window.

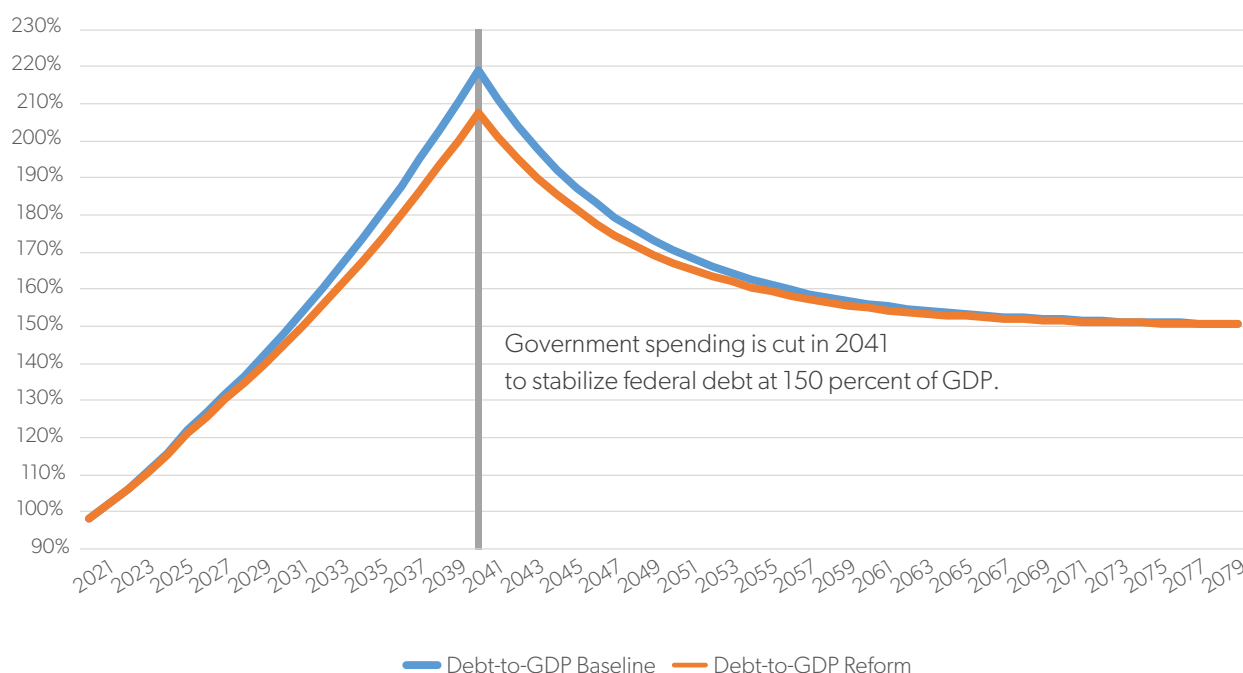
In the second decade, the model predicts that Biden's proposals would increase US GDP relative to the baseline. GDP would be 0.19 percent larger than baseline on average between 2031 and 2040. This is because the increased tax revenue decreases the trajectory of US debt, which means more household savings can be used for private capital accumulation and less has to be used to service the debt interest. In these years, the Biden plan reduces the classical crowding out effect of debt on investment. Debt-to-GDP would be on average 7 percentage points lower than baseline between 2031 and 2040.

In the long run, the model predicts that Biden's plan would reduce GDP by 0.18 percent. Under the Biden plan, the US will continue to have structural deficits. A realistic feature of the dynamic macroeconomic model is that the debt-to GDP ratio cannot increase forever. As such, our model needs to impose an

Table 4. Impact of Biden’s Tax Proposals on Macroeconomic Aggregates by Decade

	2021–30	2031–40	Long Run
Gross Domestic Product	–0.16%	0.19%	–0.18%
Consumption	–0.19%	–0.42%	–0.62%
Capital Stock	–0.29%	0.14%	–0.89%
Labor	–0.09%	0.22%	0.20%
Wage Rate	–0.07%	–0.02%	–0.38%

Source: Authors’ calculations using OG-USA (0.6.2), “Overlapping Generations Model for Evaluating Fiscal Policy in the United States,” <https://github.com/grantseiter/Biden-Tax-Proposals/tree/master/OG-USA-0.6.2>.

Figure 1. Impact on Federal Debt-to-GDP, Biden’s Tax Proposals, 2021–80

Source: Authors’ calculations using OG-USA (0.6.2), “Overlapping Generations Model for Evaluating Fiscal Policy in the United States,” <https://github.com/grantseiter/Biden-Tax-Proposals/tree/master/OG-USA-0.6.2>.

adjustment to ensure that the debt-to-GDP ratio stabilizes in the long run.

We assume that the debt-to-GDP ratio is stabilized at 150 percent in the long run and that this is done by reducing government spending gradually after 2041. (See Figure 1.) We find that in 2050, the Biden plan no longer improves GDP. Beyond that point, the government budget closure rule we have imposed leads to low enough debt levels that the reduced crowding out benefit is outweighed by the distur-

tionary effects of the increased taxes relative to the baseline.

The reduction in output over the first decade would result in a smaller increase in tax revenue than what is found in the conventional analysis (Table 5). We estimate that federal revenue would increase by \$2.6 trillion between 2021 and 2030 under Biden’s proposals after accounting for its impact on the economy. The dynamic revenue estimate is approximately \$233 billion smaller than the conventional estimate.

Table 5. Conventional and Dynamic Revenue Estimate, Biden Tax Proposals, 2021–30

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2021–30
Conventional Revenue Estimate	\$104.4	\$211.4	\$247.7	\$268.0	\$286.0	\$317.3	\$331.6	\$346.4	\$362.6	\$379.8	\$2,855.2
Dynamic Revenue Feedback	–\$13.8	–\$18.7	–\$20.7	–\$18.8	–\$38.2	–\$16.7	–\$33.3	–\$27.4	–\$25.4	–\$20.9	–\$233.8
Net Dynamic Revenue	\$90.6	\$192.7	\$227.0	\$249.2	\$247.8	\$300.6	\$298.3	\$319.0	\$337.2	\$358.9	\$2,621.4

Source: Authors' calculations using Tax-Calculator (3.0.0), "Federal Individual Income and Payroll Tax Microsimulation Model," <https://github.com/grantseiter/Biden-Tax-Proposals/tree/master/Tax-Calculator-3.0.0>; and OG-USA (0.6.2), "Overlapping Generations Model for Evaluating Fiscal Policy in the United States," <https://github.com/grantseiter/Biden-Tax-Proposals/tree/master/OG-USA-0.6.2>.

Conclusion

Biden's tax proposals would raise roughly \$2.8 trillion between 2021 and 2030. His proposals would primarily raise taxes on high-income households and make the tax code more progressive. Biden's proposals would raise

effective tax rates on both individuals and businesses, resulting in lower output in the first decade. His plan would reduce debt-to-GDP in the second decade, leading to slightly higher GDP. However, in the long term, his plan would not raise enough to stabilize debt-to-GDP and would lead to a 0.18 percent smaller economy.

About the Authors

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Appendix A. Modeling Notes

Individual income and payroll tax estimates were made with the Policy Simulation Library's Tax-Calculator release 3.0.0.¹ Tax-Calculator is an open-source micro-simulation model for static analysis of USA federal income and payroll taxes. Business tax estimates were all produced off-model using data from multiple sources.

The macroeconomic estimates were produced with OG-USA version 0.6.2.² OG-USA is an open-source overlapping generations model of the US economy. The

version of OG-USA used in this analysis assumes that the United States is a large open economy, with foreign investors purchasing 40 percent of new issues of government debt and a varying degree of private capital to firms (which depends on differentials in the US interest rate and the prevailing interest rate elsewhere).

In our distributional analysis, we assume that 80 percent of the corporate tax falls on owners of capital and 20 percent falls on workers as lower compensation.

Appendix B. Full Policy Details and Assumptions

Joe Biden's campaign has not provided all the details necessary to fully analyze his proposals. As a result, we needed to make assumptions about how his proposals would be structured. The following section provides the details of Biden's tax plan and any policy assumptions made in modeling them.

Most of the provisions of Biden's tax plans are available on his website and are included in his climate, health care, retirement, COVID-19, and housing plans. Other details of the plan were confirmed by the campaign to others and published in separate analyses and news stories.

A representative of the Biden campaign reviewed our assumptions before publication and confirmed that the majority are consistent with Biden's proposals.

Individual Income and Payroll Tax

- Phase out the Tax Cuts and Jobs Act (TCJA) individual tax cuts for households with income over \$400,000.³ (See Table B1.)
 - **Assumption:** This provision would revert the tax rates and brackets to pre-TCJA levels, restore the Pease limitation on itemized deductions, and phase out Section 199A for those with taxable income over \$400,000. The threshold is \$400,000, regardless of filing status, and Section 199A would phase out evenly between \$400,000 and \$500,000 in taxable income.

- Tax capital gains and dividends as ordinary income for taxpayers with income over \$1 million.⁴
 - **Assumption:** This provision would add a fourth tax rate of 35.8 percent on taxable income over \$1 million (regardless of filing status). The new rate of 35.8 percent, combined with the 3.8 percent net investment income tax, would total 39.6 percent.
- Repeal stepped-up basis at death.⁵
 - **Assumption:** This provision would be consistent with the policy proposed by the Barack Obama administration in its fiscal year 2017 budget. The proposal includes exemptions for the first \$100,000 in gains (threshold indexed for inflation) and small business stock.⁶
- Repeal the \$10,000 cap on the state and local tax deduction.⁷
- Extend the earned income tax credit to childless workers age 65 and older.⁸
- Provide a credit for caregivers of dependent relatives with long-term care needs.
- Expand the child and dependent care credit.⁹ The credit would equal 50 percent of a family's child-care costs up to \$8,000 (\$16,000 for two or more children). The credit would be fully refundable and would phase out for taxpayers with adjusted gross income over \$125,000.
- Temporarily expand the child tax credit.¹⁰ This provision would increase the credit amount from \$2,000 to \$3,000, make the credit fully refundable, and eliminate the earned income requirement. It

Table B1. Tax Brackets, Current Law, and Biden's Proposals (2021–25)

Current Law					Biden's Proposals				
Single		Married		Rate	Single		Married		Rate
Over	But Not over	Over	But Not over		Over	But Not over	Over	But Not over	
\$0	\$10,075	\$0	\$20,150	10%	\$0	\$10,075	\$0	\$20,150	10%
\$10,075	\$41,000	\$20,150	\$82,000	12%	\$10,075	\$41,000	\$20,150	\$82,000	12%
\$41,000	\$87,425	\$82,000	\$174,850	22%	\$41,000	\$87,425	\$82,000	\$174,850	22%
\$87,425	\$166,900	\$174,850	\$333,800	24%	\$87,425	\$166,900	\$174,850	\$333,800	24%
\$166,900	\$211,925	\$333,800	\$423,850	32%	\$166,900	\$400,000	\$333,800	\$400,000	32%
\$211,925	\$529,850	\$423,850	\$635,800	33%	\$400,000	\$450,000	\$400,000	\$450,000	33%
\$529,850	and over	\$635,800	and over	37%	\$450,000	\$452,000	\$450,000	\$508,000	35%
					\$452,000	and over	\$508,000	and over	39.6%

Source: Authors' calculations.

would also increase the credit by \$600 for children under age 6. Children under age 18 would be eligible for the credit, and the credit would be paid out each month.

- Limit the tax benefit of itemized deductions to 28 percent of value.¹¹
 - **Assumption:** The limitation would apply to all itemized deductions but would not apply to other exclusions.
- Apply the 12.4 percent Old Age, Survivors, and Disability Insurance payroll tax to earnings above \$400,000.¹²
 - **Assumption:** The threshold would not be adjusted for inflation or wage growth each year.
- Establish automatic individual retirement accounts (IRAs) and small business startup credit for offering retirement plans.¹³
 - **Assumption:** The provision would be consistent with policy proposed by the Obama administration in its fiscal year 2012 budget.¹⁴
- Equalize the tax benefits of defined contribution plans.¹⁵
 - **Assumption:** This proposal would replace the deduction for defined contribution pension plans

(401ks or IRAs) with a refundable tax credit of 26 percent.¹⁶

- Exempt forgiven student loans from taxable income.¹⁷
- Reinstatement of residential energy efficiency tax credit.¹⁸
- Reinstatement and double the first-time homebuyer credit.¹⁹
- Reinstatement of the electric vehicle credit.²⁰

Business Taxes

- Raise the corporate income tax rate from 21 percent to 28 percent.²¹
- Enact a 21 percent minimum tax on foreign profits earned by US multinational corporations.²²
 - **Assumption:** This proposal would reduce the global intangible low-taxed income (GILTI) deduction from 50 percent to 25 percent, repeal the exemption equal to 10 percent of qualified business asset investment (QBAI), increase the foreign tax credit rate from 80 percent to 100 percent, and calculate the foreign tax credit on a country-by-country basis.

- Deny deductions for “offshoring expenses” and enact a 10 percent credit for onshoring expensing.²³
 - **Assumption:** This provision would be consistent with a similar policy proposed by the Obama administration in its fiscal year 2017 budget.²⁴
- Impose a 10 percent surtax on income from imports of goods and services by US-based multinational corporations.²⁵
 - **Assumption:** This surtax would be applied after the GILTI deduction and can be offset with the foreign tax credit.
- Tighten anti-inversion rules.²⁶
 - **Assumption:** This provision would be consistent with a similar policy proposed by the Obama administration in its fiscal year 2017 budget.²⁷
- Enact a 15 percent minimum tax on book income.²⁸
 - **Assumption:** This tax would be structured like an alternative minimum tax and have adjustments for both net operating losses and a credit for foreign taxes paid.
- Eliminate the deduction for direct-to-consumer drug advertising.²⁹
- Restore the energy investment tax credit.³⁰
- Enact a credit for carbon sequestration.³¹
 - **Assumption:** This provision would be consistent with a similar policy proposed by the Obama administration in its fiscal year 2017 budget.³²
- Establish a “manufacturing communities” tax credit.³³
 - **Assumption:** This provision would be consistent with a similar policy proposed by the Obama administration in its fiscal year 2017 budget.³⁴
- Modify and make permanent the new markets tax credit.³⁵
 - **Assumption:** This provision would be consistent with a similar policy proposed by the Obama administration in its fiscal year 2017 budget.³⁶
- Expand the low-income housing tax credit.³⁷
 - **Assumption:** This provision would be consistent with a similar policy proposed by the Obama administration in its fiscal year 2017 budget.³⁸
- Tighten worker and independent contractor classification rules.³⁹

- **Assumption:** This provision would be consistent with a similar policy proposed by the Obama administration in its fiscal year 2017 budget.⁴⁰
- Repeal the temporary suspension of the excess loss limitation passed as part of the Coronavirus Aid, Relief, and Economic Security Act.⁴¹
- Eliminate tax preferences for fossil fuel companies.⁴²
 - **Assumption:** This provision would be consistent with the proposal in the Congressional Budget Office’s Options for Reducing the Federal Deficit and would repeal expensing of exploration and development costs and disallow the use of percentage depletion.⁴³
- Eliminate tax preferences for the real estate industry.⁴⁴
 - **Assumption:** This provision would eliminate the exception from passive loss rules for \$25,000 of rental loss, accelerated depreciation on rental housing, and the deferral of gains from like-kind exchanges.
- Establish a financial risk fee.⁴⁵
 - **Assumption:** This provision would be consistent with a similar policy proposed by the Obama administration in its fiscal year 2017 budget.⁴⁶

Other

- Restore the estate and gift tax to 2009 parameters.⁴⁷

Provisions Not Modeled

- Impose \$200 billion of sanctions on tax havens.
- Impose a “carbon adjustment fee” import levy on goods from countries that do not meet certain climate and environment standards.
- Establish a refundable renter’s tax credit.⁴⁸
- Impose the individual mandate and expand premium tax credits.

Appendix C. Alternate Assumptions for Macroanalysis

Table C1. Macroanalysis Under Standard and Alternate Assumptions of Economy “Openness”

	Standard Assumption (40% Open Economy)		
	2021–30	2031–40	Long Run
Gross Domestic Product	–0.16%	0.19%	–0.18%
Consumption	–0.19%	–0.42%	–0.62%
Capital Stock	–0.29%	0.14%	–0.89%
Labor	–0.09%	0.22%	0.20%
Wage Rate	–0.07%	–0.02%	–0.38%

	Open Economy (80% Open Economy)		
	2021–30	2031–40	Long Run
Gross Domestic Product	–0.17%	0.00%	–0.13%
Consumption	–0.20%	–0.43%	–0.57%
Capital Stock	–0.33%	–0.33%	–0.75%
Labor	–0.08%	0.18%	0.21%
Wage Rate	–0.09%	–0.18%	–0.34%

Source: Authors’ calculations using OG-USA (0.6.2), “Overlapping Generations Model for Evaluating Fiscal Policy in the United States,” <https://github.com/grantseiter/Biden-Tax-Proposals/tree/master/OG-USA-0.6.2>.

OG-USA’s default assumption is that the United States is a large open economy, with foreign investors purchasing 40 percent of new issues of government debt and a varying degree of private capital to firms. This assumption results in most government debt and domestic investment being financed by US savers. Under this assumption, government borrowing and higher taxes on saving can reduce the size of the capital stock and lead to lower output. As an alternative, we also estimated the Joe Biden proposal’s impact under a more open economy. The following results use the assumption that the economy is 80 percent open. As such, most government debt purchases are made by foreigners, and a greater share of domestic investment is financed by foreign lenders. (See Table C1.)

In the first decade, the results under a more open economy are similar to those of our standard assumption. Biden’s proposal would reduce the average level of gross domestic product (GDP) in the budget window by approximately 0.17 percent (compared to

0.16 percent). In the second decade, however, Biden’s proposal would have a negligible impact on GDP (0 percent), compared to the positive effect under the standard assumptions (0.19 percent). This result is because, under the more open economy, government debt has a smaller impact on the domestic capital stock and output. As such, there is a much smaller positive effect from reducing government debt.

In the long run, the economic burden of Biden’s proposals is slightly smaller under a more open economy than under the standard assumption. A large driver of lower output in the long run under Biden’s proposals is the higher tax burden on saving through higher capital gains and dividends taxes. Using the model’s standard assumption, these taxes would reduce available saving and lead to a smaller capital stock in the long run. In a more open economy, however, lower saving by Americans is offset by a greater inflow of foreign capital to finance the domestic capital stock. As a result, the capital stock and total output do not shrink as much.

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