Details and Analysis of Former Vice President Biden's Tax Proposals

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Key Findings

- Former Vice President Joe Biden would enact a number of policies that would raise taxes, including individual income taxes and payroll taxes, on high-income individuals with income above $400,000.
- Biden's plan would raise tax revenue by $3.8 trillion over the next decade on a conventional basis. When accounting for macroeconomic feedback effects, the plan would collect about $3.2 trillion over the next decade.
- According to the Tax Foundation's General Equilibrium Model, the Biden tax plan would reduce GDP by 1.51 percent over the long term.
- On a conventional basis, the Biden tax plan would lead to 7.8 percent less after-tax income for the top 1 percent of taxpayers, 1.1 percent lower after-tax income for the top 5 percent, and around 0.6 percent less after-tax income for other income quintiles in 2030.

Summary of Former Vice President Biden's Tax Proposal Estimates

Conventional Revenue, 2021-2030 (Billions of Dollars)	$3,796
Dynamic Revenue, 2021-2030 (Billions of Dollars)	$3,223
Gross Domestic Product (GDP)	-1.51%
Capital Stock	-3.23%
Full-time Equivalent Jobs	-585,000

Source: Tax Foundation General Equilibrium Model, November 2019.

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Details of the Plan

Payroll tax and individual income changes:

- Imposes a 12.4 percent Old-Age, Survivors, and Disability Insurance (Social Security) payroll tax on income earned above $400,000, evenly split between employers and employees. This would create a "donut hole" in the current Social Security payroll tax, where wages between $137,700, the current wage cap, and $400,000 are not taxed.[1]

- Reverts the top individual income tax rate for taxable incomes above $400,000 from 37 percent under current law to the pre-Tax Cuts and Jobs Act level of 39.6 percent.

- Taxes long-term capital gains and qualified dividends at the ordinary income tax rate of 39.6 percent on income above $1 million and eliminates step-up in basis for capital gains taxation.[2]

- Caps the tax benefit of itemized deductions to 28 percent of value, which means that taxpayers in the brackets with tax rates higher than 28 percent will face limited itemized deductions.

- Restores the Pease limitation on itemized deductions for taxable incomes above $400,000.

- Phases out the qualified business income deduction (Section 199A) for filers with taxable income above $400,000.

- Expands the Earned Income Tax Credit (EITC) for childless workers aged 65+; provides renewable-energy-related tax credits to individuals.

Business tax changes:

- Increases the corporate income tax rate from 21 percent to 28 percent.[3]

- Creates a minimum tax on corporations with book profits of $100 million or higher. The minimum tax is structured as an alternative minimum tax—corporations will pay the greater of their regular corporate income tax or the 15 percent minimum tax while still allowing for net operating loss (NOL) and foreign tax credits.[4]

- Doubles the tax rate on Global Intangible Low Tax Income (GILTI) earned by foreign subsidiaries of US firms from 10.5 percent to 21 percent.

1 For more details, see Garrett Watson and Colin Miller, "Analysis of Democratic Presidential Candidate Payroll Tax Proposals," Tax Foundation, Feb. 11, 2020, https://taxfoundation.org/2020-payroll-tax-proposals/.

2 See generally, Scott Eastman, "Unpacking Biden's Tax Plan for Capital Gains," Tax Foundation, July 31, 2019, https://taxfoundation.org/joe-biden-tax-proposals/.

3 For more details, see Erica York, "Analysis of Democratic Presidential Candidates Corporate Income Tax Proposals," Tax Foundation, Feb. 19, 2020, https://taxfoundation.org/2020-corporate-tax-proposals/.

4 See generally, Garrett Watson, "Biden's Minimum Book Income Tax Proposal Would Create Needless Complexity," Tax Foundation, Dec. 13, 2019, https://taxfoundation.org/joe-biden-minimum-tax-proposal/.

- Establishes a Manufacturing Communities Tax Credit to reduce the tax liability of businesses that experience workforce layoffs or a major government institution closure; expands the New Markets Tax Credit and makes it permanent; offers tax credits to small business for adopting workplace retirement savings plans; expands several renewable-energy-related tax credits and deductions and ends subsidies for fossil fuels.

Other Changes Include:

An $8,000 tax credit for childcare; equalizing the tax benefits of defined contribution retirement plans; eliminating real estate industry tax loopholes; expanding the Affordable Care Act's premium tax credit; sanctions on tax havens and outsourcing, among other proposals[5] which are not included in our analysis due to the lack of detailed information.

Economic Effect

According to the Tax Foundation General Equilibrium Model, Biden's tax plan would reduce the economy's size by 1.51 percent in the long run. The plan would shrink the capital stock by 3.23 percent and reduce the overall wage rate by 0.98 percent, leading to 585,000 fewer full-time equivalent jobs.

TABLE 1.

Economic Effect of Former Vice President Biden's Tax plan

Gross Domestic Product (GDP)	-1.51%
Capital stock	-3.23%
Wage rate	-0.98%
Full-time Equivalent Jobs	-585,000

Source: Tax Foundation General Equilibrium Model, November 2019.

Revenue Effect

Based on the Tax Foundation General Equilibrium Model, we estimate that, on a conventional basis, Biden's plan would increase federal tax revenue by $3.8 trillion between 2021 and 2030 relative to current law. Increasing the corporate tax rate to 28 percent would account for the largest revenue gain ($1.3 trillion over 10 years) in the plan. Adding other changes on the business side, such as the 15 percent corporate minimum tax and tax increases on international profits, Biden's taxes on businesses account for about half of the revenue gains.

Higher taxes levied on taxpayers earning more than $400,000, including higher tax rates on ordinary income as well as capital gains and dividends, would raise another $1.2 trillion over 10 years. The payroll tax increase for high-income households would generate around $800 billion in additional revenue over 10 years.

5 Amir El-Sibaie, Tom VanAntwerp, and Erica York, "Tracking the 2020 Presidential Tax Plans," Tax Foundation, Nov. 20, 2019, https://taxfoundation.org/2020-tax-tracker/.

Table 2 presents the conventional revenue score for each individual provision of the plan. We estimate the integrated revenue effects by stacking one provision after the other. The presented revenue effect for each provision is the difference between the newly stacked simulation and the simulation that includes all provisions listed above it. Note that some of Biden's proposals, such as the higher marginal income tax rate on income above $400,000, raises revenue in the beginning of the 10-year window, but not at the end. This is because under current law, the lower 37 percent rate is already scheduled to revert to 39.6 beginning in 2026, meaning Biden's proposal does not result in increased revenue in those years.

On a dynamic basis, we estimate that Biden's tax plan would raise about 15 percent less revenue than on a conventional basis over the next decade. Dynamic revenue gains would total approximately $3.2 trillion between 2021 and 2030. That is because the relatively smaller economy would shrink the tax base for payroll, individual income, and business income taxes.

TABLE 2.

Conventional and Dynamic Revenue Effect of Former Vice President Biden's Tax Plans (Billions of Dollars)

Conventional	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2021-2030
1. Apply a Social Security payroll tax of 12.4% to earnings above $400,000	$72	$70	$72	$72	$76	$83	$87	$89	$92	$95	$808
2. Raise the rate on top ordinary income	$27	$29	$30	$31	$33	$0	$0	$0	$0	$0	$151
3. Reactivate the Pease limitation for income above $400,000	$10	$11	$11	$12	$12	$0	$0	$0	$0	$0	$56
4. Tax capital gains and dividends at 39.6 percent on income $1m+ and repeal step-up in basis	$17	$32	$49	$51	$56	$53	$57	$59	$63	$66	$503
5. Limit tax benefit of itemized deduction at 28% of the value	$24	$25	$26	$28	$29	$30	$33	$34	$35	$36	$301
6. Phase out qualified business income deduction for income above $400,000	$36	$38	$39	$41	$43	$0	$0	$0	$0	$0	$197
7. Raise the corporate income tax to 28%	$97	$106	$119	$133	$143	$142	$136	$142	$143	$144	$1,306
8. Impose a corporate minimum tax on book income	$24	$26	$29	$32	$35	$35	$33	$34	$35	$36	$318
9. Double the tax rate on GILTI	$30	$33	$36	$40	$43	$28	$26	$25	$23	$20	$303
10. Miscellaneous credits	$-8	$-10	$-12	$-13	$-14	$-16	$-17	$-18	$-19	$-20	$-146
Total Conventional Revenue	$331	$359	$400	$426	$455	$355	$355	$365	$372	$378	$3,796
Total Dynamic Revenue	$303	$307	$333	$367	$387	$349	$300	$290	$294	$293	$3,223

Source: Tax Foundation General Equilibrium Model, November 2019.

Distributional Effect

On a conventional basis, Biden's tax plan would make the tax code more progressive. The proposed changes to individual income taxes affect the distribution of the tax burden differently after 2025, as the individual income tax provisions in the Tax Cuts and Jobs Act (TCJA) expire. To show this difference, we present the distribution change for both 2021 and 2030.

In 2021, on a conventional basis, taxpayers in the top 1 percent would see their after-tax incomes reduced by around 13.0 percent due to higher taxes on income above $400,000. However, taxpayers in other income quintiles would also see a reduction in their after-tax income. The reduction in income for the bottom four income quintiles is mainly due to the increased tax burden on labor from higher corporate income taxes. The Tax Foundation's General Equilibrium Model assumes that the corporate tax is borne by both capital and labor and evenly split between two in the long run. However, the labor share of the corporate income tax change is gradually phased in over five years.[6]

The conventional distribution table for 2030 is similar to the conventional distribution for 2021. One notable difference is the change in after-tax income for the top 1 percent in 2030 is smaller than in 2021. This is because several individual income tax provisions, such as the 37 percent top marginal income tax rate, expire starting in 2026. This means that some of Biden's tax increases on high-income households would not increase their tax burden in 2030 compared to current law in that year. Biden's plan would reduce the after-tax income for the top 1 percent by about 7.8 percent in 2030, compared to 13 percent in 2021. After-tax income for all taxpayers shrinks by 1.7 percent, lower than the 2.5 percent decline in 2021.

On a dynamic basis, the Tax Foundation's General Equilibrium Model estimates that the plan would reduce after-tax incomes by around 2.6 percent across all income groups over the long run. The lower four income quintiles would see a decrease in after-tax incomes of at least 1.4 percent. Taxpayers in between the 95th and 99th percentiles would see their after-tax income fall by 1.9 percent, while taxpayers in the 99th percentile and up would have a more significant reduction in their after-tax income at 8.9 percent.

TABLE 3.

Distributional Effect of Former Vice President Biden's Tax Plan

Income Group	Conventional, 2021	Conventional, 2030	Dynamic, long run
0% to 20%	-0.5%	-0.7%	-1.6%
20% to 40%	-0.4%	-0.5%	-1.4%
40% to 60%	-0.5%	-0.6%	-1.4%
60% to 80%	-0.5%	-0.6%	-1.4%
80% to 100%	-4.2%	-2.7%	-3.5%
80% to 90%	-0.6%	-0.6%	-1.4%
90% to 95%	-0.9%	-0.7%	-1.5%
95% to 99%	-1.8%	-1.1%	-1.9%
99% to 100%	-13.0%	-7.8%	-8.9%
TOTAL	-2.5%	-1.7%	-2.6%

Source: Tax Foundation General Equilibrium Model, November 2019.

6 For a more detailed assumption on how the Tax Foundation's General Equilibrium Model distributes the capital and labor burden of a corporate income tax change, see Huaqun Li and Kyle Pomerleau, "The Distributional Impact of the Tax Cuts and Jobs Act over the Next Decade," Tax Foundation, June 28, 2018, https://taxfoundation.org/the-distributional-impact-of-the-tax-cuts-and-jobs-act-over-the-next-decade/.

Conclusion

Former Vice President Joe Biden's tax plan has three major components: imposing a "donut hole" payroll tax on earnings over $400,000, repealing the TCJA's income tax cuts for taxpayers with taxable income above $400,000, and increasing the corporate income tax rate to 28 percent. This plan would shrink the size of the economy by 1.51 percent due to higher marginal tax rates on labor and capital.

This plan would raise about $3.8 trillion revenue over the next decade on a conventional basis, and $3.2 trillion after accounting for the reduction in the size of the U.S. economy. The plan would lead to lower after-tax income for all income levels, but especially for taxpayers in the top 1 percent.

Modeling Notes

We use the Tax Foundation General Equilibrium Tax Model to estimate the impact of tax policies.[7] The model can produce both conventional and dynamic revenue estimates of tax policy. Conventional estimates hold the size of the economy constant and attempt to estimate potential behavioral effects of tax policy. Dynamic revenue estimates consider both behavioral and macroeconomic effects of tax policy on revenue.

The model can also produce estimates of how policies impact measures of economic performance such as GDP, wages, employment, the capital stock, investment, consumption, saving, and the trade deficit. Lastly, it can produce estimates of how different tax policy impacts the distribution of the federal tax burden.

In our revenue estimate, we assume the long-run capital gains realization elasticity is -0.79.[8] Individuals respond more drastically to the change of capital gains tax rate at the beginning years of tax change, with a transitory elasticity of -1.2 and -1.0 for the first two years.

In modeling the repeal of step-up in basis on capital gains tax, we assume Biden's plan would lead to taxing capital gains at death, which means that death would be treated as a realization event for capital gains.

7 Stephen J. Entin, Huaqun Li, and Kyle Pomerleau, "Overview of the Tax Foundation's General Equilibrium Model," Tax Foundation, April 2018 update, https://files.taxfoundation.org/20180419195810/TaxFoundaton_General-Equilibrium-Model-Overview1.pdf.

8 Following research from both the Joint Committee on Taxation (JCT) and the Congressional Budget Office (CBO). See Tim Dowd, Robert McClellland, and Athiphat Muthitacharoen, "New Evidence on the Elasticity of Capital Gains: Working Paper 2012-09," Congressional Budget Office, June 15, 2012, https://cbo.gov/publication/43334.