FISCAL FACT
No. 730
Oct. 2020

Details and Analysis of Democratic Presidential Nominee Biden's Tax Proposals, October 2020 Update

Garrett Watson
Senior Policy Analyst

Huaqun Li
Senior Economist

Taylor LaJoie
Policy Analyst

Key Findings

- Democratic presidential nominee Joe Biden would enact a number of policies that would raise taxes on individuals with income above $400,000, including raising individual income, capital gains, and payroll taxes. Biden would also raise taxes on corporations by raising the corporate income tax rate and imposing a corporate minimum book tax.
- Biden's plan would raise tax revenue by $3.3 trillion over the next decade on a conventional basis. When accounting for macroeconomic feedback effects, the plan would collect about $2.8 trillion the next decade. This is lower than we originally estimated due to the revenue effects of the coronavirus pandemic and economic downturn and new tax credit proposals introduced by the Biden campaign.
- According to the Tax Foundation's General Equilibrium Model, the Biden tax plan would reduce GDP by 1.62 percent over the long term.
- On a conventional basis, the Biden tax plan by 2030 would lead to about 7.7 percent less after-tax income for the top 1 percent of taxpayers and about a 1.9 percent decline in after-tax income for all taxpayers on average.

Summary of Biden's Tax Proposal Estimates

Plan Highlights	• Repeal the TCJA components for high-income filers; • Impose 12.4% Social Security payroll tax for wages above $400k; • Increase the corporate income tax to 28%; • Establish a corporate minimum tax on book income; • Double the tax rate on GILTI and impose it country-by-country; • Temporarily increase the generosity of the Child Tax Credit and Dependent Credit
Conventional Revenue, 2021-2030 (Billions of Dollars)	$3,334
Dynamic Revenue, 2021-2030 (Billions of Dollars)	$2782
Gross Domestic Product (GDP)	-1.62%
Capital Stock	-3.75%
Full-time Equivalent Jobs	-542,000

Source: Tax Foundation General Equilibrium Model, January 2020.

The Tax Foundation is the nation's leading independent tax policy research organization. Since 1937, our research, analysis, and experts have informed smarter tax policy at the federal, state, and global levels. We are a 501(c)(3) nonprofit organization.

Editor, Rachel Shuster
Designer, Dan Carvajal

Tax Foundation
1325 G Street, NW, Suite 950
Washington, DC 20005

202.464.6200

taxfoundation.org

Details of the Plan

Biden's plan includes the following payroll tax, individual income tax, and estate and gift tax 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 for those earning more than $400,000, which means that taxpayers earning above that income threshold with tax rates higher than 28 percent would 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.

- Expands the Child and Dependent Care Tax Credit (CDCTC) from a maximum of $3,000 in qualified expenses to $8,000 ($16,000 for multiple dependents) and increases the maximum reimbursement rate from 35 percent to 50 percent.

- For 2021 and as long as economic conditions require, increases the Child Tax Credit (CTC) from a maximum value of $2,000 to $3,000 for children 17 or younger, while providing a $600 bonus credit for children under 6. The CTC would also be made fully refundable, removing the $2,500 reimbursement threshold and 15 percent phase-in rate.[3]

- Reestablishes the First-Time Homebuyers' Tax Credit, which was originally created during the Great Recession to help the housing market. Biden's homebuyers' credit would provide up to $15,000 for first-time homebuyers.[4]

- Expands the estate and gift tax by restoring the rate and exemption to 2009 levels.

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 Joe Biden Campaign, "A Tale of Two Tax Policies: Trump Rewards Wealth, Biden Rewards Work," https://joebiden.com/two-tax-policies/.

4 Jim Wang, "Joe Biden Calls for Rent, Mortgage Forgiveness & $15,000 First-Time Homebuyer Credit," *Forbes*, May 13, 2020, https://forbes.com/sites/jimwang/2020/05/13/joe-biden-calls-for-rent-mortgage-forgiveness--15000-first-time-homebuyer-credit/.

Biden's plan also includes the following proposed business tax changes:

- Increases the corporate income tax rate from 21 percent to 28 percent.[5]
- 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.[6]
- 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.
    - In addition to doubling the tax rate assessed on GILTI, Biden proposes to assess GILTI on a country-by-country basis and eliminate GILTI's exemption for deemed returns under 10 percent of qualified business asset investment (QBAI).[7]
- 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, including tax credits for carbon capture, use, and storage as well as credits for residential energy efficiency, and a restoration of the Energy Investment Tax Credit (ITC) and the Electric Vehicle Tax Credit. The Biden plan would also end tax subsidies for fossil fuels.

Other proposals not modeled due to a lack of detailed information include:

- Imposing a new 10 percent surtax on corporations that "offshore manufacturing and service jobs to foreign nations in order to sell goods or provide services back to the American market."[8] This surtax would raise the effective corporate tax rate on this activity up to 30.8 percent.
- Establishing an advanceable 10 percent "Made in America" tax credit for activities that restore production, revitalize existing closed or closing facilities, retool facilities to advance manufacturing employment, or expand manufacturing payroll.[9]

5 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/.

6 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/.

7 Daniel Bunn, "Biden's Plan to Address Offshoring Comes with Contradictions," Tax Foundation, Sept. 9, 2020, https://taxfoundation.org/biden-offshoring-made-in-america-tax-credit/.

8 Joe Biden Campaign, "The Biden-Harris Plan to Fight for Workers by Delivering on Buy America and Make It in America," September 2020, https://joebiden.com/wp-content/uploads/2020/09/Buy-America-fact-sheet.pdf.

9 Ibid.

- Equalizing the tax benefits of traditional retirement accounts (such as 401(k)s and individual retirement accounts) by providing a refundable tax credit in place of traditional deductibility.[10]
- Eliminating certain real estate industry tax provisions.
- Expanding the Affordable Care Act's premium tax credit.
- Creating a refundable renter's tax credit capped at $5 billion per year, aimed at holding rent and utility payments at 30 percent of monthly income.
- Increasing the generosity of the Low-Income Housing Tax Credit.

Updates from our September 2020 Analysis

Since our September analysis of the Biden plan, we have included the Biden campaign proposal to expand the estate and gift tax by reducing the exemption amount to $3.5 million and increasing the top rate for the estate tax to 45 percent,[11] which has impacted our economic, revenue, and distributional estimates.

We have also added a discussion of the effects of Biden's plan on Gross National Product (GNP), which allows us to examine how it would reduce American incomes.

Updates from our April 2020 Analysis

Since we released our first analysis of Biden's tax proposals, the campaign has proposed several new tax policies that have impacted our revenue and distributional estimates.

That includes proposals to expand several credits, including the CTC and the CDCTC. The proposed expansion to the CTC would be a major increase in the generosity of the credit by increasing the maximum credit amount up to $3,600 for children under 6 and by making the credit fully refundable without regard to a taxpayer's income level. The CDCTC would be expanded to a maximum value of $8,000, with a higher maximum refundable percentage of 50 percent.

The Biden campaign has proposed that the CTC expansion remain for 2021 and "as long as economic conditions require," based on an original proposal in the House-passed HEROES Act.[12] For this proposal, we assume that the expansion lasts for one year, as estimated by the Joint Committee on Taxation (JCT) for the HEROES Act proposal.[13]

10 Garrett Watson, "Biden's Proposal Would Shift the Distribution of Retirement Benefits," Tax Foundation, Aug. 26, 2020, https://taxfoundation.org/bidens-proposal-would-shift-the-distribution-of-retirement-tax-benefits/.

11 JoeBiden.com, "Highlights of Joe Biden's plans to support women during the COVID-19 crisis," https://joebiden.com/plans-to-support-women-duringcovid19/#.

12 Taylor LaJoie, "HEROES Act Temporarily Increases Dependent Credit Generosity," Tax Foundation, May 19, 2020, https://taxfoundation.org/heroes-act-temporarily-increases-dependent-credit-generosity/.

13 Joint Committee on Taxation, "Estimated Budget Effects Of The Revenue Provisions Contained In H.R. 6800, The "Health And Economic Recovery Omnibus Emergency Solutions ('HEROES') Act," May 28, 2020, https://jct.gov/publications.html?func=startdown&id=5261.

In addition to proposed changes to the CTC and CDCTC, Biden has released a proposed plan to reduce offshoring of production and jobs from the United States by modifying the way GILTI is taxed and through other tax incentives. In addition to doubling the GILTI rate to 21 percent, Biden would eliminate the 10 percent deemed return exemption based on qualified business asset investment (QBAI) and would assess the tax on a country-by-country basis.

Biden has also newly proposed a 10 percent surtax on imports from offshored business activity and a 10 percent "Made in America" tax credit to incentivize onshoring; we have not included these two proposals in our estimates due to a lack of detail on their design.

We have also refined our estimate for the Biden minimum book tax on corporations to project the revenue effects of the tax more accurately. In this update, we have included an estimate of Biden's First-Time Homebuyer's Tax Credit worth up to $15,000. Additionally, we have included stacked long-term economic effects for each proposal to provide more granularity on each proposal's economic impact.

Since our original analysis, the Biden campaign has clarified that it will hold harmless taxpayers making under $400,000 from tax increases associated with the proposed 28 percent cap on itemized deductions. We have modified our modeling of this proposal so that filers with less than $400,000 can take the full value of their itemized deductions but those above that threshold have the value of itemized deductions capped at 28 percent.[14]

Finally, the coronavirus pandemic and related economic downturn have impacted the federal government's budget outlook over the next 10 years, including federal revenue projections. The large economic shock will also affect how much revenue the Biden tax plan would be expected to raise due to a lower baseline level of economic activity, especially in the first few years in the budget window. To account for this effect, we have used the Congressional Budget Office's (CBO) September 2020 update to the budget outlook to adjust our revenue estimates for each proposal.[15]

14 Glenn Kessler, "Joe Biden's claim that he won't raise taxes on people making less than $400,000," *The Washington Post*, Aug. 31, 2020, https://washingtonpost.com/politics/2020/08/31/joe-bidens-claim-that-he-wont-raise-taxes-people-making-less-than-400000/.

15 Congressional Budget Office, "An Update to the Budget Outlook: 2020 to 2030," Sept. 2, 2020, https://www.cbo.gov/publication/56517.

Economic Effect

According to the Tax Foundation General Equilibrium Model, Biden's tax plan would reduce the economy's size by 1.62 percent in the long run. The plan would shrink the capital stock by about 3.75 percent and reduce the overall wage rate by a little over 1 percent, leading to about 542,000 fewer full-time equivalent jobs.

TABLE 1.

Economic Effect of Biden's Tax Plan

Gross Domestic Product (GDP)	-1.62%
Capital stock	-3.75%
Wage rate	-1.15%
Full-time Equivalent Jobs	-542,000

Source: Tax Foundation General Equilibrium Model, October 2020.

The economic effect of Biden's tax proposals can be separated to show the specific impact of each proposal on long-run economic output (see Table 2).

TABLE 2.

Economic Effect of Biden's Tax Plan by Provision

Provision	Long-Run Change in Economic Output
Apply a Social Security payroll tax of 12.4% to earnings above $400,000	-0.18%
Tax capital gains and dividends at 39.6% on income above $1 million and repeal step-up in basis	-0.02%
Restore estate and gift taxes to 2009 levels	-0.15%
Limit the tax benefit of itemized deductions at 28% of value for those earning over $400,000	-0.09%
Raise the corporate income tax to 28%	-0.97%
15% corporate minimum book tax	-0.21%
Total	**-1.62%**

Source: Tax Foundation General Equilibrium Model, October 2020.

The increase in the corporate income tax from 21 percent to 28 percent and the 15 percent minimum book tax on corporations make up a majority of the economic impact of Biden's tax proposals. Applying the Social Security payroll tax on earnings over $400,000 also reduces long-run output by about 0.18 percent. Taxing capital gains as ordinary income for those earning over $1 million, repealing step-up in basis, and limiting itemized deductions to 28 percent of value for higher earners also contribute to lower economic output for a combined reduction of 0.11 percent. Biden's plan to increase the estate and gift tax would reduce long-run output by 0.15 percent.

Biden's proposed increase to the top individual income tax rate from 37 percent to 39.6 percent does not reduce long-run growth, as the top individual income tax rate is already scheduled to increase under current law in 2026. This is because of the temporary nature of the tax reduction under the

Tax Cuts and Jobs Act (TCJA) from 2018 to 2025.[16] Similarly, the phaseout of the Section 199A pass-through reduction for those earning over $400,000 does not reduce long-run growth because it is scheduled to expire in 2026.

Effect of Biden's Tax Plan on Gross National Product

Several of Biden's tax proposals, such as imposing ordinary income tax rates on capital gains and dividends for those earning over $1 million and raising estate and gift taxes, would reduce both American economic output (GDP) and the incomes received by Americans. By estimating the plan's effect on Gross National Production (GNP), we can examine how the plan would reduce American incomes.

Taxes levied on domestic saving may reduce the ownership of American investment by domestic residents. However, the U.S. economy is open to international investment, which means that domestic investment opportunities may instead be financed by foreign investors not subject to the increased tax burden. While increased international investment helps reduce the effect of the tax change on domestic output, it would also change the composition of that output's ownership. In the case of international investment, returns to those investments would instead flow to foreign owners, rather than to Americans.

The result of this capital flow is a wedge between GDP (economic output) and GNP (American incomes). Biden's tax plan would produce this wedge by raising taxes on domestic savers, resulting in lower American incomes and greater foreign ownership of domestic assets. This would also manifest in a shifted balance of trade, increasing the trade deficit, all else held equal.[17]

The Tax Foundation's General Equilibrium Model assumes that C corporations and the U.S. government can receive financing from abroad without changing interest rates, while the pass-through sector may not be able to fully use foreign capital inflows when tax rates change. This means the service price of capital may increase for the pass-through sector, producing lower investment and long-run economic output.[18] In combination, this means the Biden taxes on U.S. savers reduces economic output for pass-through firms and shifts the ownership of C corporations away from domestic residents due to increased foreign financial inflows. All else being equal, this reduces long-run American incomes, and the increased foreign financial inflows drives up the value of the dollar, which increases the trade deficit, all else held equal.

According to the Tax Foundation's General Equilibrium Model, the Biden tax plan would reduce long-run GNP by about 1.83%.[19] The difference between the plan's effect on GNP and GDP results from the flow of foreign investment into the U.S. that keeps U.S. economic output higher than GNP after taxes change.

16 Kyle Pomerleau, "Testimony: Temporary Policy in the Federal Tax Code," Tax Foundation, Mar. 13, 2019, https://taxfoundation.org/testimony-temporary-tax-policy/.

17 For a discussion of this effect, see Huaqun Li and Karl Smith, "Analysis of Sen. Warren and Sen. Sanders' Wealth Tax Plans," Tax Foundation, Jan. 27, 2020, 12-17, https://taxfoundation.org/wealth-tax//.

18 Ibid, 13.

19 The Tax Foundation's model assumes federal debt is stabilized after 10 years to produce a long-run change in GNP.

TABLE 3.

Effect of Biden's Tax Plan on Gross National Product

Gross Domestic Product (GDP)	-1.62%
Gross National Product (GNP)	-1.83%

Source: Tax Foundation General Equilibrium Model, October 2020.

In addition to reduced economic output and lower GNP, the shift in financial flows internationally may also produce transitional effects. While these effects may be smaller than those produced by larger taxes on savers proposed by others (such as a wealth tax), there would still be impacts on exchange rates as capital flows readjust.[20]

If international capital flows are restricted in the future, the Biden plan's taxes on savers would result in an even greater loss in economic output and less investment in the American economy than these estimates show, resulting in lower wages and worker productivity.

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 $3.33 trillion between 2021 and 2030 relative to current law. Increasing the corporate tax rate to 28 percent would account for the largest revenue gain (about $1 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 46 percent 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 trillion over 10 years. The payroll tax increase for high-income households would generate around $820 billion in additional revenue over 10 years.

Table 4 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, raise 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.

Our original analysis projected that the Biden tax plan would raise about $3.8 trillion conventionally over 10 years. The reduction in estimated revenue is due to two factors. First, the economic downturn driven by the coronavirus pandemic reduced expected revenue over the budget window, including revenue expected from tax increases. Second, the Biden campaign included new tax credit proposals, including a $105.5 billion expansion in the CTC, that reduced net revenue collections over the budget window.

20 Huaqun Li and Karl Smith, "Analysis of Sen. Warren and Sen. Sanders' Wealth Tax Plans," 15.

On a dynamic basis, we estimate that Biden's tax plan would raise about $553 billion less revenue than on a conventional basis over the next decade. Dynamic revenue gains would total approximately $2.78 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 4.

Conventional and Preliminary Dynamic Revenue Effect of Biden's Tax Plans (Billions of Dollars)

Proposal	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	$73.2	$78.5	$81.3	$80.7	$79.5	$80.8	$83.9	$87.1	$88.1	$86.8	$819.9
2. Raise the top ordinary income tax rate from 37% to 39.6%	$25.1	$29.0	$30.4	$31.1	$32.5	$0.0	$0.0	$0.0	$0.0	$0.0	$148.1
3. Reactivate the Pease limitation for income above $400,000	$16.2	$18.8	$19.7	$20.4	$21.4	$0.0	$0.0	$0.0	$0.0	$0.0	$96.6
4. Tax capital gains and dividends at 39.6 percent on income over $1 million and repeal step-up in basis	$14.2	$27.1	$39.5	$42.1	$45.8	$49.5	$56.9	$61.8	$64.8	$67.6	$469.4
5. Limit the tax benefit of itemized deductions at 28% of value for those earning over $400,000	$23.7	$27.7	$28.9	$29.7	$31.2	$25.3	$27.7	$28.7	$29.7	$31.0	$283.5
6. Phase out qualified business income deductions for income over $400,000	$29.9	$34.4	$35.8	$37.3	$39.6	$0.0	$0.0	$0.0	$0.0	$0.0	$177.1
7. Expand the Child Tax Credit (CTC) to $3,000 maximum value, $600 bonus for children under 6, and make the CTC fully refundable with no phase-in thresholds	-$105.5	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	-$105.5
8. Expand the Child and Dependent Care Tax Credit (CDCTC) to a maximum value of $8,000 and increase the refundability percentage to a maximum of 50 percent	-$6.0	-$7.0	-$7.2	-$7.5	-$7.9	-$8.3	-$8.7	-$9.0	-$9.4	-$9.7	-$80.7
9. Provide a First-Time Homebuyer Credit up to $15,000 in value	-$12.0	-$14.0	-$14.5	-$15.0	-$15.9	-$16.9	-$17.8	-$18.8	-$19.4	-$20.2	-$164.6
10. Restore the gift and estate tax to 2009 levels	$26.5	$28.3	$30.0	$30.9	$32.4	$31.1	$25.5	$24.1	$25.5	$26.5	$280.7
11. Raise the corporate income tax rate to 28%	$40.9	$78.0	$96.0	$106.3	$115.8	$117.4	$118.5	$122.7	$125.8	$128.9	$1,050.8
12. Impose a 15 percent corporate minimum tax on book income	$7.9	$15.1	$18.6	$20.5	$22.3	$22.7	$22.9	$23.7	$24.3	$24.9	$202.7
13. Double the tax rate on GILTI, eliminate the exemption for deemed returns to QBAI, and impose GILTI on a country-by-country basis	$16.0	$29.5	$34.7	$39.2	$43.1	$28.5	$26.9	$26.3	$24.3	$21.2	$289.7
14. Miscellaneous credits	-$6.6	-$9.1	-$11.0	-$11.8	-$12.9	-$14.7	-$15.7	-$16.6	-$17.5	-$18.4	-$134.3
Total Conventional Revenue	**$143**	**$336**	**$382**	**$404**	**$427**	**$315**	**$320**	**$330**	**$336**	**$339**	**$3,333**
Total Dynamic Revenue	**$129**	**$284**	**$314**	**$343**	**$358**	**$306**	**$267**	**$260**	**$262**	**$259**	**$2,782**

Source: Tax Foundation General Equilibrium Model, October 2020. Items may not sum due to rounding.

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 TCJA expire and Biden's CTC proposal is no longer in effect. To show this difference, we present the distributional effect 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 11.3 percent due to higher taxes on income above $400,000. The top 5 percent would see a reduction in after-tax incomes of about 1.3 percent. Filers in the 90th to 95th percentiles would see a slight reduction in after-tax incomes of about 0.2 percent.

Taxpayers in lower income quintiles would see an increase in their after-tax income in 2021. This increase is driven by the large expansion of the CTC in 2021, which boosts the bottom 20 percent's after-tax incomes the most due to the CTC's increased refundability and size. Taxpayers higher up the income distribution would see smaller increases in after-tax incomes, facing the indirect effects of higher business taxes while receiving a CTC benefit that is a lower share of their after-tax incomes compared to the bottom 20 percent.

The conventional distribution table for 2030 contrasts with the conventional distribution in 2021. This is because the proposed CTC expansion would have ended, and households across the income spectrum would experience lower after-tax incomes. The bottom 20 percent of filers, for example, would experience a 0.2 percent decrease in their after-tax incomes in 2030.

Households across the income spectrum in 2030 would face an 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 the two in the long run. However, the labor share of the corporate income tax change is gradually phased in over five years.[21]

Another notable difference is that the change in after-tax income for the top 1 percent would be smaller in 2030 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. Accordingly, 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 after-tax incomes for the top 1 percent by about 7.7 percent in 2030, compared to 11.3 percent in 2021. On average, after-tax income for all taxpayers would shrink by 1.9 percent, lower than the 1.2 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 about 2.8 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 1.2 percent. Taxpayers in between the 95th and 99th percentiles would see their after-tax income drop by 2.1 percent, while taxpayers in the 99th percentile and up would have a more significant reduction in their after-tax income of about 8.9 percent.

21 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/.

TABLE 5.

Distributional Effect of Biden's Tax Plan

Income Group	Conventional, 2021	Conventional, 2030	Dynamic, long run
0% to 20%	10.8%	-0.2%	-1.2%
20% to 40%	3.6%	-0.2%	-1.2%
40% to 60%	1.4%	-0.3%	-1.3%
60% to 80%	0.6%	-0.5%	-1.4%
80% to 100%	-3.9%	-3.0%	-3.8%
80% to 90%	0.1%	-0.6%	-1.5%
90% to 95%	-0.2%	-0.7%	-1.6%
95% to 99%	-1.3%	-1.1%	-2.1%
99% to 100%	-11.3%	-7.7%	-8.9%
TOTAL	-1.2%	-1.9%	-2.8%

Source: Tax Foundation General Equilibrium Model, October 2020.

Conclusion

Democratic presidential nominee Joe Biden's tax plan raises taxes on the labor income, investment income, and business income of those earning over $400,00. Among other changes, the plan imposes a "donut hole" payroll tax on earnings over $400,000, repeals the TCJA's income tax cuts for taxpayers with taxable income above $400,000, and increases the corporate income tax rate to 28 percent.

Additionally, Biden has proposed a variety of new tax credits or expansions to existing credits to help increase after-tax incomes for low-earners. Biden's onshoring plan increases the taxation of foreign profits while providing credits to incentivize economic activity that is onshored. Biden's plan would shrink the long-run size of the economy by 1.62 percent due to higher marginal tax rates on labor and capital.

Biden's tax plan would raise about $3.33 trillion over the next decade on a conventional basis, and $2.78 trillion after accounting for the reduction in the size of the U.S. economy. While taxpayers in the bottom four quintiles would see an increase in after-tax incomes in 2021 primarily due to the temporary CTC expansion, by 2030 the plan would lead to lower after-tax income for all income levels.

Modeling Notes

We use the Tax Foundation General Equilibrium Tax Model to estimate the impact of tax policies.[22] 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.[23] 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 realized event for capital gains.

22 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.

23 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.