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Details and Analysis of President Biden's FY 2022 Budget Proposals

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The Biden administration's proposed American Jobs Plan (AJP), American Families Plan (AFP), and fiscal year 2022 budget would increase federal spending by about $4 trillion over 10 years, including $1.7 trillion for infrastructure, partially funded with higher taxes on individuals and businesses as well as increased tax enforcement.

Using the Tax Foundation General Equilibrium Model, we estimate the tax proposals impacting individuals and businesses would increase federal revenue by about $1.3 trillion conventionally over 10 years. In addition, the administration claims about $700 billion in additional revenue from tax enforcement. We estimate the combination of revenue and spending proposals contained in the president's budget would reduce U.S. gross domestic product (GDP) in the long run by 0.9 percent and result in 165,000 fewer U.S. jobs.

TABLE 1.

Combined Long-Run Effects of Changes in Tax and Spending under Biden's FY 2022 Budget Proposals

Long-run Gross Domestic Product (GDP)	-0.9%
Long-run Gross National Product (GNP)	-1.0%
Capital Stock	-2.5%
Wage Rate	-0.8%
Full-Time Equivalent Jobs	-165,000

Source: Tax Foundation General Equilibrium Model, June 2021.

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Major Tax Changes in Biden's FY 2022 Budget

The American Jobs Plan would include the following major tax changes:

- Raise the federal statutory corporate tax rate from 21 percent to 28 percent.
- Raise the tax on Global Intangible Low Tax Income (GILTI) from 10.5 percent to 21 percent, calculate GILTI on a per-country basis, and eliminate the exemption of the first 10 percent return on foreign qualified business asset investment (QBAI).
- Repeal the foreign derived intangible income (FDII) deduction.
- Impose a 15 percent minimum tax on worldwide pretax corporate book income for firms with over $2 billion in net income.

The American Jobs Plan would also include the following tax changes which we did not model, due to a lack of data and/or a lack of policy detail, and which in total roughly offset each other in terms of revenue as estimated by the administration:

- Replace the Base Erosion Anti-Abuse Tax (BEAT) with the Stopping Harmful Inversions and Ending Low-Tax Developments (SHIELD).
- Increase taxation of foreign fossil fuel income.
- Restrict deductions for domestic interest expense.
- Limit foreign tax credits for sales of hybrid entities.
- Remove tax deductions for offshoring jobs, offset with a credit for onshoring jobs.
- Encourage research and development expenditures as an offset for repeal of FDII.
- Support housing and infrastructure through an expanded Low-Income Housing Tax Credit (LIHTC) and other provisions, such as making permanent the New Markets Tax Credit (NMTC).
- Prioritize clean energy through repeal of fossil fuel tax preferences and various clean energy tax credits.

The American Families Plan would include the following major tax changes:

- Raise the top marginal income tax rate from 37 percent to 39.6 percent, which would apply to income over $452,700 for single filers, $481,000 for head of household filers, and $509,300 for joint filers. These thresholds are indexed for inflation after 2022.

- Tax long-term capital gains as ordinary income for taxpayers with adjusted gross income above $1 million, resulting in a top marginal rate of 43.4 percent when including the new top marginal rate of 39.6 percent and the 3.8 percent Net Investment Income Tax (NIIT).

- Tax unrealized capital gains at death for unrealized gains above $1 million ($2 million for joint filers, plus current law capital gains exclusion of $250,000/$500,000 for primary residences). This excludes gains on tangible personal property and the existing exclusion for capital gain on certain small business stock.

- Apply the 3.8 percent NIIT to active pass-through business income for those earning over $400,000. Limit Section 1031 Like-Kind Exchanges above $500,000 in deferred capital gains, end the preferred treatment of carried interest for those earning over $400,000, and make permanent the 2017 tax law's limitation on excess losses that applies to non-corporate income.

- Extend the enhanced Child Tax Credit (CTC) in the American Rescue Plan Act (ARPA) through 2025, which provides $3,600 for children under age 6 and $3,000 for children age 6 to 17 and phases out at a 5 percent rate beginning at $112,500 for head of household filers and $150,000 for joint filers. The credit amounts would not fall below what would be allowed in each year under current law. Fifty percent of the credit would be paid in advance on a regular basis based on information on a filer's previous year's income tax return.

- Make permanent the ARPA changes that made the CTC fully refundable and expanded the Earned Income Tax Credit (EITC) and Child and Dependent Care Tax Credit (CDCTC).

- Make permanent the expanded health insurance Premium Tax Credits provided in ARPA.

The American Families Plan would also include the following tax changes which we did not model, due to a lack of data and/or a lack of policy detail:

- Increase the employer-provided childcare tax credit for businesses.

- Increase Internal Revenue Service (IRS) funding by $72.5 billion over a decade and make other IRS reporting and compliance changes to increase tax collections.

Economic Effect of Biden's Tax and Spending Proposals

President Biden's FY 2022 budget includes about $4 trillion in additional spending above baseline spending over 10 years, including about $2.2 trillion in spending from the AJP, $943 billion from the AFP, a $615 billion increase in discretionary non-defense spending, and $422.7 billion increase in mandatory spending. Discretionary defense spending falls by $168 billion over 10 years.

TABLE 2.

Additional Spending in Biden's Fiscal Year 2022 Budget, 2022-2031

Spending by Type	Spending Difference from Baseline (billions), 2022-2031
American Jobs Plan (AJP) Spending	$2,195.9
American Families Plan (AFP) Spending	$943.2
Discretionary Non-Defense Spending Changes	$615.0
Discretionary Defense Spending Changes	-$168.0
Mandatory Spending Changes	$422.7
Total Spending	**$4,008.8**

Note: This table excludes tax credits provided in the AFP and AJP, outlined in the tax estimates that follow.
Source: Office of Management and Budget, "FY 2022 President's Budget," May 2021, https://www.whitehouse.gov/omb/budget/.

Of the $2.2 trillion in the AJP, about $1.7 trillion is new infrastructure spending over 10 years, including spending on transportation, utilities, school and hospital buildings, research and development (R&D), and manufacturing, with the spending phasing out completely over the 10-year budget window. The remainder of the spending in the AJP ($486 billion) includes support for home care workers and workforce development. See our AJP analysis for more details on our modeling of infrastructure spending.

The AFP includes $943 billion in new permanent federal spending on education and family programs. We treat this spending and other non-infrastructure spending as an increase in transfer payments in the Tax Foundation model.

We estimate that Biden's spending proposals would increase long-run GDP by 0.3 percent, due to enhanced public infrastructure. However, this positive economic effect is entirely offset by the increase in corporate and individual taxation, resulting in less work and investment, which in combination with the spending reduces GDP by 0.9 percent in the long run, reduces wages by 0.8 percent, and eliminates 165,000 full-time equivalent jobs.

Increasing the corporate income tax from 21 percent to 28 percent has the largest negative impact on long-run GDP, followed by imposing a 15 percent minimum corporate book tax, raising capital gains tax rates, and increasing taxes on pass-through business income.

Gross national product (GNP), a measure of American incomes, falls by 1 percent in the long run—somewhat larger than the drop in GDP—due to deficit spending and increased taxation of U.S. savers, which reduces U.S. saving and increases payments to foreign owners of U.S. assets.

The impact on GNP is sensitive to assumptions about how much revenue the proposed tax compliance measures would bring in. In Table 3, we assume that the compliance-related revenue projected within the Biden plan—about $718 billion—is fully collected. However, if the tax compliance measures brought in no revenue, GNP would fall by 1.3 percent in the long run, as the deficit would be larger than projected and additional payments would be made to foreign owners of the debt.

TABLE 3.

Long-run Economic Effect of Biden's Tax and Spending Proposals in the 2022 Budget

Provision	Change in GDP	Change in GNP	Change in Capital Stock	Change in Wages	Change in Full-time Equivalent Jobs
Tax Unrealized Capital Gains at Death Over $1 Million and Impose a 39.6 Percent Tax Rate on Capital Gains for Filers with Income over $1 Million	-0.1%	-0.3%	-0.3%	-0.1%	-27,000
Impose Net Investment Income Tax on Active Pass-through Income	-0.1%	-0.1%	-0.2%	-0.1%	-12,000
Make the Active Pass-through Loss Limitation Permanent	-0.1%	-0.1%	-0.2%	-0.1%	-16,000
Limit 1031 Like-Kind Exchanges to $500K in Gain	Less than -0.05%	Less than -0.05%	Less than -0.05%	Less than -0.05%	-1,500
Tax Carried Interest as Ordinary Income	Less than -0.05%	Less than -0.05%	Less than -0.05%	Less than -0.05%	-1,000
Make the Child Tax Credit (CTC) Fully Refundable on a Permanent Basis and Extend Expanded CTC Through 2025	Less than -0.05%	Less than -0.05%	Less than -0.05%	Less than -0.05%	-15,000
Make Earned Income Tax Credit Expansion in the American Rescue Plan Permanent	Less than +0.05%	Less than +0.05%	Less than +0.05%	Less than +0.05%	+8,500
Raise the Corporate Tax Rate to 28%	-0.7%	-0.7%	-1.9%	-0.6%	-145,000
Raise GILTI Rate and Tighten GILTI Rules	Less than -0.05%	Less than -0.05%	-0.1%	Less than -0.05%	-8,000
Impose a 15% Book Minimum Tax	-0.1%	-0.1%	-0.2%	-0.1%	-16,000
Total Tax Effect	**-1.3%**	**-1.4%**	**-2.8%**	**-1.0%**	**-233,000**
Increased Spending and Tax Enforcement	+0.3%	+0.4%	+0.3%	+0.3%	+68,000
Total Tax and Spending Effect	**-0.9%**	**-1.0%**	**-2.5%**	**-0.8%**	**-165,000**

Source: Tax Foundation General Equilibrium Model, June 2021. Items may not sum due to rounding.

Revenue Effect of Biden's 2022 Budget Tax Proposals

On a conventional basis, Biden's tax proposals would raise $1.3 trillion in federal revenue from 2022 to 2031 net of tax credits. This includes about $2.3 trillion in gross revenue raisers, comprised of about $1.7 trillion in corporate tax increases and $660 billon in individual tax increases, and offset by about $1 trillion in tax credits. The budget projects an additional $718 billion in revenue from increased tax enforcement, which is not included in our estimates below.

On a dynamic basis, i.e., accounting for the reduced size of the economy resulting from the tax increases, Biden's tax plan would raise about $916 billion in revenue net of tax credits.

The largest revenue raisers include raising the corporate income tax rate to 28 percent, tightening GILTI rules and raising the GILTI rate, and raising capital gains tax rates. These three changes make up about 73 percent of Biden's conventional revenue increase before tax credits.

TABLE 4.

Conventional and Dynamic Revenue Effects of Biden's FY 2022 Budget Tax Proposals (billions of dollars)

Provision	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2022-2031
Raise Top Individual Income Tax Bracket to 39.6 Percent	27.1	28.6	29.3	30.9	0.0	0.0	0.0	0.0	0.0	0.0	115.9
Tax Unrealized Capital Gains at Death over $1 Million and Impose a 39.6 Percent Tax Rate on Capital Gains over $1 Million	-3.6	5.7	16.2	18.9	19.5	23.6	27.2	30.8	34.7	39.8	212.8
Impose Net Investment Income Tax on Active Passthrough Income	14.5	15.3	15.9	16.8	17.1	18.9	19.8	20.6	21.5	22.8	183.2
Make the Active Pass-through Loss Limitation Permanent	0.0	0.0	0.0	0.0	20.2	21.0	21.8	22.7	23.6	24.5	133.8
Limit 1031 Like-Kind Exchanges to $500K in Gain	0.6	0.7	0.7	0.7	0.7	0.7	0.8	0.8	0.8	0.8	7.5
Tax Carried Interest as Ordinary Income	0.6	0.7	0.7	0.7	0.7	0.8	0.8	0.8	0.8	0.8	7.4
Raise the Corporate Tax Rate to 28%	68.6	76.2	82.6	88.4	99.3	101.9	105.0	107.8	110.5	113.3	953.7
Raise GILTI Rate and Tighten GILTI Rules	52.9	56.6	60.8	64.7	46.0	47.5	48.9	50.1	51.4	52.8	531.8
Repeal FDII	6.8	9.0	11.0	12.9	9.4	9.2	7.8	7.2	5.5	6.4	85.2
Impose a 15% Book Minimum Tax	19.2	11.2	10.3	17.6	5.7	7.9	10.1	6.2	10.2	11.8	110.1
Revenue Raisers	**186.7**	**203.9**	**227.6**	**251.7**	**218.6**	**231.5**	**242.2**	**247.0**	**259.1**	**273.1**	**2341.4**
Make the Child Tax Credit (CTC) Fully Refundable on a Permanent Basis and Extend Expanded CTC Through 2025	-101.6	-101.1	-100.2	-98.8	-3.0	-2.8	-2.7	-2.6	-2.4	-2.3	-417.5
Make Earned Income Tax Credit Expansion in the American Rescue Plan Permanent	-12.0	-12.0	-12.1	-12.1	-15.0	-15.1	-15.2	-15.3	-15.4	-15.3	-139.7
Make the Child and Dependent Care Tax Credit (CDCTC) Expansion in the American Rescue Plan Permanent	-8.0	-8.3	-8.6	-9.0	-9.4	-9.8	-10.3	-10.7	-11.1	-11.5	-96.7
Permanent Expansion of Premium Tax Credits	-22.0	-30.3	-31.6	-33.0	-34.4	-35.7	-37.1	-38.5	-39.9	-41.4	-343.8
Total Credits	**-143.6**	**-151.7**	**-152.5**	**-152.9**	**-61.8**	**-63.5**	**-65.3**	**-67.0**	**-68.8**	**-70.7**	**-997.7**
Total Conventional Revenue	**43.1**	**52.3**	**75.1**	**98.9**	**156.8**	**168.0**	**176.9**	**180.0**	**190.3**	**202.4**	**1343.7**
Total Dynamic Revenue	**23.4**	**25.2**	**41.8**	**55.1**	**126.5**	**127.0**	**128.9**	**126.7**	**129.0**	**132.2**	**915.8**

Source: Tax Foundation General Equilibrium Model, June 2021. Items may not sum due to rounding.

Distributional Effect of Biden's 2022 Budget Tax Proposals

Biden's tax plan would increase the progressivity of the tax code by raising marginal income tax rates faced by higher earners and corporations while expanding several refundable tax credits for low- and middle-income earners.

The tax portion of the FY 2022 budget would increase the after-tax income of the bottom quintile by about 15.9 percent in 2022 on a conventional basis, which is largely driven by the AFP's extended and expanded Child Tax Credit. The top 1 percent of earners would experience a 4.5 percent drop in after-tax income in 2022.

TABLE 5.

Distributional Effect of Biden's FY 2022 Budget Tax Proposals (Percent Change in After-Tax Income)

Income Group	Conventional, 2022	Conventional, 2031	Dynamic, long-run
0% to 20%	15.9%	6.4%	5.3%
20% to 40%	4.7%	1.5%	0.4%
40% to 60%	1.1%	-0.3%	-1.4%
60% to 80%	0.1%	-0.7%	-1.7%
80% to 90%	-0.6%	-0.8%	-1.8%
90% to 95%	-1.1%	-1.0%	-2.0%
95% to 99%	-1.6%	-1.5%	-2.6%
99% to 100%	-4.5%	-5.1%	-6.3%
Total	**Less than -0.05%**	**-1.0%**	**-2.1%**

Note: This table omits the impact of the FY 2022 budget's additional spending on after-tax incomes.
Source: Tax Foundation General Equilibrium Model, June 2021.

After the expanded CTC expires in 2026, the bottom 40 percent of filers would see a smaller increase in after-tax incomes, reflecting the remaining expanded credits. The bottom quintile would experience a 6.4 percent increase in after-tax income by 2031 on a conventional basis. The top 60 percent of income earners would experience a drop in after-tax income due to higher individual and corporate taxes. The top 1 percent would see a 5.1 percent drop in after-tax income.

On a long-term dynamic basis, the smaller economy reduces after-tax incomes relative to the conventional analysis. The bottom two quintiles have higher after-tax incomes, but the top 60 percent of income earners would see their after-tax incomes drop, ranging from -1.4 percent for those in the middle quintile to -6.3 percent for the top 1 percent.

Modeling Notes

We use the Tax Foundation General Equilibrium Tax Model to estimate the impact of tax policies, including recent updates allowing a detailed modeling of U.S. multinational enterprises. The model produces conventional and dynamic revenue and distributional 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 also produces estimates of how policies impact measures of economic performance such as GDP, GNP, wages, employment, the capital stock, investment, consumption, saving, and the trade deficit.

See our analyses on the American Families Plan and the American Jobs Plan for details on our modeling of the tax and spending components of the FY 2022 budget proposals.