

Details and Analysis of President Biden's American Jobs Plan

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The Biden administration's proposed [American Jobs Plan](#) (AJP) would increase federal spending by about \$2.2 trillion over 10 years, including \$1.7 trillion for infrastructure, partially funded with permanently higher corporate taxes of about \$1.7 trillion over 10 years (conventionally estimated). Using the Tax Foundation General Equilibrium Model, we find that the combined effects of the tax changes and spending would reduce U.S. gross domestic product (GDP) in the long run by 0.5 percent and result in 101,000 fewer U.S. jobs.

TABLE 1.
**Combined Long-Run Effects of Changes in Tax and Spending
in the American Jobs Plan**

Gross Domestic Product (GDP)	-0.5%
Gross National Product (GNP)	-0.3%
Capital Stock	-1.3%
Wage Rate	-0.5%
Full-Time Equivalent Jobs	-101,000

Source: Tax Foundation General Equilibrium Model, May 2021.

Major Tax Changes in the American Jobs Plan

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 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 corporate book income for firms with over \$2 billion in net income.

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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.
- Remove tax deductions for offshoring jobs, offset with a credit for onshoring jobs.
- Support research and development expenditures as an offset for repeal of FDII.
- Support housing and infrastructure through expanded Low-Income Housing Tax Credit and other provisions.
- Prioritize clean energy through repeal of fossil fuel tax preferences and various clean energy tax credits.

Economic Effect of the American Jobs Plan

The American Jobs Plan includes \$1.7 trillion in 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. In the Tax Foundation model, we assume a [5 percent return for these public investments](#), consistent with assumptions by the [Congressional Budget Office](#). We assume these infrastructure investments generate maintenance costs of roughly 2 percent of the spending per year, which continues beyond the 10-year budget window. The remainder of the additional spending in the AJP (\$486 billion) includes support for home care workers and workforce development, which we model as transfer payments with zero long-run effect on GDP.

TABLE 2.

Additional Infrastructure Spending in the American Jobs Plan, 2022-2031

Type of Infrastructure	Spending (billions)
Transportation infrastructure	\$595.7
Rebuild clean drinking water infrastructure, a renewed electrical grid, and high-speed broadband to all Americans	\$308.8
Build, preserve, and retrofit more than two million homes and commercial buildings; modernize our nation's schools, community colleges, and early learning facilities; and upgrade veterans' hospitals and federal buildings	\$326.0
Invest in R&D and the technologies of the future	\$180.0
Retool and revitalize American manufacturers and small businesses	\$298.8
Total	\$1,709.3

Source: U.S. Treasury Department, "General Explanations of the Administration's Fiscal Year 2022 Revenue Proposals," May 2021, <https://www.home.treasury.gov/system/files/131/General-Explanations-FY2022.pdf>.

We estimate the infrastructure spending would increase long-run GDP by 0.3 percent, but this positive economic effect is entirely offset by the increase in corporate taxation, resulting in less corporate investment which reduces GDP by 0.5 percent in the long run, reduces wages by 0.5 percent, and eliminates 101,000 full-time equivalent jobs. Gross national product (GNP), a measure of American incomes, falls by 0.3 percent in the long run—somewhat smaller than the drop in GDP—as the combination of permanent tax increases and temporary spending would in the long run reduce the deficit and payments to foreign owners of the federal debt.

If the revenue raised was used entirely for transfers (which do not have any impact on long-run GDP), the increase in the corporate taxes would reduce long-run GDP by 0.9 percent, reduce wages by 0.7 percent, and eliminate 162,000 full-time equivalent jobs. Most of that effect is due to the increase in the corporate tax rate to 28 percent, which reduces long-run GDP by 0.7 percent, reduces wages by 0.6 percent, and eliminates 138,000 full-time equivalent jobs.

The large tax increases on GILTI have a relatively small effect on the domestic economy. The provision increases tax only on the portion of U.S. multinational (MNE) intangible income that is located abroad, which reduces U.S. MNE incentives to invest in domestic R&D and generate intangible property (IP) that can ultimately be relocated to lower-tax foreign countries. The GILTI tax increases reduce long-run GDP by less than 0.05 percent and eliminate 8,000 full-time equivalent jobs. The GILTI tax increases have a small positive impact on long-run GNP, as they reduce the deficit and interest payments abroad; however, there is an offsetting effect on GNP that we have not modeled (due to a lack of empirical studies) arising from the incentive for U.S. MNEs to avoid the higher GILTI taxes by selling foreign assets to foreign competitors not subject to the GILTI taxes.

Lastly, the book minimum tax reduces long-run GDP by 0.1 percent, reduces wages by 0.1 percent, and eliminates 16,000 full-time equivalent jobs. Note that these results are stacked on top of the higher corporate tax rate, meaning the GILTI tax increases or the book minimum tax in isolation could have somewhat different economic effects than shown below.

TABLE 3.

Long-Run Economic Effect of the American Jobs Plan by Provision

Provision	Change in GDP	Change in GNP	Change in Capital Stock	Change in Wages	Change in Full-time Equivalent Jobs
\$2.2 Trillion of Spending including \$1.7 Trillion on Infrastructure	0.3%	0.1%	0.3%	0.3%	61,000
Raise the Corporate Tax Rate to 28%	-0.7%	-0.4%	-1.4%	-0.6%	-138,000
Raise GILTI Rate and Tighten GILTI Rules	Less than -0.05%	0.1%	-0.1%	Less than -0.05%	-8,000
Impose a 15% Book Minimum Tax	-0.1%	Less than -0.05%	-0.2%	-0.1%	-16,000
Total	-0.5%	-0.3%	-1.3%	-0.5%	-101,000

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

Revenue Effect of the American Jobs Plan

On a conventional basis, these tax changes would raise \$1.7 trillion in federal revenue over the period 2022 to 2031. However, by raising the tax burden on corporations it reduces long-run GDP, ultimately raising \$1.6 trillion in federal revenue over the 10-year window, on a dynamic basis. Of the corporate tax proposals in the American Jobs Plan, the increase in the corporate tax rate to 28 percent would raise the most revenue on a conventional basis, nearly \$954 billion. Raising the GILTI rate, tightening the GILTI rules, repealing FDII, and imposing the 15 percent book minimum tax would add \$727 billion in revenue on a conventional basis. These estimates account for a substantial increase in [profit shifting](#) out of the U.S., particularly arising from the repeal of FDII.

TABLE 4.

Conventional and Dynamic Revenue Effect of the American Jobs Plan (billions of dollars)

Provision	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2022-2031
Raise 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	35.9	38.4	41.3	43.9	23.9	24.7	25.4	26.1	26.7	27.4	313.8
Tighten GILTI Rules	17.0	18.2	19.6	20.8	22.1	22.8	23.5	24.1	24.7	25.3	218.0
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
Total Conventional Revenue	147.5	153.0	164.7	183.7	160.5	166.5	171.8	171.3	177.6	184.3	1,680.8
Total Dynamic Revenue	146.2	151.3	162.4	180.4	156.7	154.0	155.3	154.3	154.5	155.7	1,570.7

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

Modeling Notes

We model the effects of the Biden administration's tax proposal on U.S. multinationals using Tax Foundation's [Multinational Tax Model](#). The model is structured as a set of representative multinational enterprises (MNEs)—one for each of 40 industries. These MNEs own controlled foreign corporations (CFCs) in each of 74 industries and 42 countries, based on the industries and countries reported in IRS tables of activities by CFCs. Each CFC has profits, receives dividends from related parties, pays foreign taxes, pays dividends to its U.S. parent company, and has some income included in its parent's taxable income through subpart F and GILTI rules. The data from the IRS tables is supplemented with income on tangible assets, interest paid, and other items using data from the BEA's tables on the activities of majority-owned foreign affiliates of U.S. MNEs.

The U.S. parent companies own CFCs in different countries and industries. To compute their tax liabilities, we use IRS data on corporations claiming the foreign tax credit, supplemented with BEA data on activities of the parents of U.S. MNEs. These MNEs receive dividends from their CFCs, have other direct foreign activities (such as foreign branches or foreign royalty income), have domestic income, and have some other taxable income from subpart F and GILTI rules applied to their CFCs. These models of CFCs and their U.S. parents provide sufficient detail to model the U.S. tax rules for international activity before the TCJA, under the TCJA, and under various proposals for reforms to these international tax rules.

The Multinational Tax Model estimates profit-shifting responses to tax changes using the tax benefit from shifting profits to foreign countries. It can also estimate real investment responses to forward-looking or average tax incentives to invest in the U.S. or in foreign countries. These calculations account for foreign and U.S. taxes on foreign profits through subpart F, GILTI, dividend repatriations prior to 2018, and their associated foreign tax credits.

The Book Minimum Tax Model estimates the effects of minimum taxes on book income using Compustat data on U.S. companies. We predict companies' federal tax liabilities using a regression with items reported in firms' financial statements and tax rules in each year. The regression is run on U.S. companies with at least \$100 million in net income. We then adjust for financial reporting responses. In a recent analysis of potential responses to a tax on book income, [Dharmapala \(2020\)](#) identifies that firms have substantial flexibility in reporting book income. The paper predicts that firms' financial reporting would be highly responsive to book income taxes, with an elasticity of reported book income of 1.7 for Compustat firms.