Details & Analysis of the House Build Back Better Act Tax Provisions

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Democratic lawmakers in the House of Representatives have advanced updated legislation containing the tax elements of President Biden's Build Back Better agenda. The draft legislation may be modified before moving to the House floor and differ from the Senate's version of the legislation. This analysis contains estimates of the budgetary, economic, and distributional impacts of the House bill as specified in the House Rules Committee print released on October 28, 2021.

Using the Tax Foundation General Equilibrium Model, we estimate that the tax provisions, IRS enforcement, and drug pricing provisions in the House bill would increase federal revenues by about $1.2 trillion over the next decade, before accounting for $451 billion in expanded tax credits for individuals and businesses, resulting in a net revenue increase of about $768 billion. Excluding the anticipated revenue from increased tax compliance and the drug pricing provisions, the bill would raise about $503 billion from net tax increases over 10 years.

We estimate that the House bill would reduce long-run economic output by nearly 0.4 percent and eliminate about 103,000 full-time equivalent jobs in the United States. It would also reduce average after-tax incomes for the top 80 percent of taxpayers over the long run.

TABLE 1.

Combined Long-Run Effects of the Updated House Build Back Better Act

Long-run Gross Domestic Product (GDP)	-0.37%
Long-run Gross National Product (GNP)	-0.36%
Capital Stock	-0.78%
Wage Rate	-0.27%
Full-Time Equivalent Jobs	-103,000

Source: Tax Foundation General Equilibrium Mode, November 2021.

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Major Provisions

The updated draft legislation would include the following major changes, effective January 1, 2022, unless otherwise noted:

Individual Income Taxes

- Create a new surcharge on modified adjusted gross income (MAGI), defined as adjusted gross income less investment interest expense, equal to 5 percent on MAGI in excess of $10 million plus 3 percent on MAGI above $25 million.
- Extend the American Rescue Plan Act (ARPA) Child Tax Credit (CTC) expansion through 2022, and make the entire CTC fully refundable on a permanent basis
- Extend the ARPA's temporary expansion of the Earned Income Tax Credit (EITC) eligibility, phase-in rates, and amount through 2022

Pass-through Business Taxes

- Expand the base of the 3.8 percent Net Investment Income Tax (NIIT) to apply to active business income for pass-through firms
- Make permanent the active pass-through loss limitation enacted in the 2017 Tax Cuts and Jobs Act (TCJA)

Corporate and International Taxes

- Impose a 15 percent minimum tax on corporate book income for corporations with profits over $1 billion, effective for tax years beginning after December 31, 2022
- Create a 1 percent excise tax on the value of stock repurchases during the taxable year, net of new issuances of stock, effective for repurchases after December 31, 2021. Excluded from the tax are stock contributed to retirement accounts, pensions, and employee-stock ownership plans (ESOPs)
- Change the Global Intangible Low-Taxed Income (GILTI) regime, effective for tax years beginning after December 31, 2022, including:
    - Reduce the deduction for GILTI to 28.5 percent, resulting in a tax rate of 15 percent
    - Calculate GILTI on a country-by-country basis
    - Reduce the deduction for Qualified Business Asset Investment (QBAI) to 5 percent
    - Reduce the foreign tax credit (FTC) haircut to 5 percent and allow FTCs to be carried forward for 5 to 10 years and disallow FTC carrybacks
    - Exempt GILTI from expense allocation rules
    - Include foreign oil and gas extraction income (FOGEI)
- Reduce the deduction for Foreign-Derived Intangible Income (FDII) to 21.875 percent, resulting in a tax rate of 15.8 percent, effective for tax years beginning after December 31, 2022
- Create a new limitation on interest expense deductions for certain multinational corporations, effective for tax years beginning after December 31, 2022

Other Modeled Tax Proposals

- Delay the requirement to amortize research and development (R&D) expenses over five years, instead of taking immediate deductions, to begin after 2025 instead of after 2021
- Modify, extend, and create a variety of tax credits for green energy and other efforts primarily through 2031 or 2033
- Reinstate the Superfund tax on crude oil and imported petroleum at 16.4 cents per gallon (indexed to inflation), and double the reinstated Superfund tax on the sale of chemicals

Significant Proposals Not Modeled

- Extend or make permanent certain ARPA expansions of premium tax credits, including allowing higher-income households to qualify for the credits and boosting the subsidy for lower-income households
- Create a new limitation on foreign company base sales and services income
- Make tax changes targeted at cryptocurrency, including imposing rules related to common control and wash sales
- Modify the base erosion and anti-abuse tax (BEAT) for multinational corporations

Economic Effects

While the latest proposal steers clear of some of the major tax rate increases of the original Ways and Means bill, this proposal would still raise taxes on work and investment, disincentivizing productive activity. We estimate the new House bill would reduce long-run GDP by about 0.4 percent and long-run American incomes (as measured by gross national product, or GNP) by about 0.4 percent. The bill would also reduce the capital stock by about 0.8 percent and wages by 0.3 percent, while eliminating 103,000 full-time equivalent jobs.

The proposed 15 percent minimum tax on corporate book income is the most economically damaging provision in the bill, reducing GDP by 0.1 percent and costing about 25,000 jobs. The tax increases on high-income earners also contributes to the job losses: the surcharge on MAGI above $10 million eliminates 29,000 jobs while the tax increases on pass-through business income eliminate 16,000 jobs.

The international tax increases imposed on U.S. multinationals (MNEs), including the higher taxes on GILTI and new limit on interest expense, reduce long-run GDP and GNP by about 0.1 percent and eliminate 8,000 full-time equivalent jobs. There is an additional negative impact 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 GILTI.

For purposes of estimating the bill's impact on federal budget deficits, interest payments, and resulting changes in GNP, we have assumed $1.75 trillion of spending over the period 2022-2031 inclusive of tax credits, consistent with the White House framework. In the years beyond 2031, we assume the proposals have no impact on deficits (to comply with the reconciliation process in the Senate).

We estimate that the bill would result in $752 billion of accumulated deficits (including interest payments) during the first decade, leading to an increase in payments to foreign owners of the national debt and a 0.02 percent reduction in long-run GNP. We treat the spending as transfer payments with no associated impact on the economy in the long run.

TABLE 2.

Long-run Economic Effects of the Updated House Build Back Better Act

Provision	Change in GDP	Change in GNP	Change in Capital Stock	Change in Wages	Change in Full-time Equivalent Jobs
Apply a surcharge equal to 5% on MAGI in excess of $10 million plus 3% on MAGI above $25 million.	< -0.05%	-0.1%	-0.1%	< -0.05%	-29,000
Apply the 3.8% net investment income tax to trade or business income over $400,000	-0.1%	-0.1%	-0.1%	-0.1%	-4,000
Make the active pass-through loss limitation permanent	-0.1%	< -0.05%	-0.2%	< -0.05%	-12,000
Make permanent refundability of the CTC	< -0.05%	< -0.05%	< -0.05%	< -0.05%	-15,000
Reinstate the federal Superfund program	< -0.05%	< -0.05%	< -0.05%	0%	-10,000
Make changes to the international tax system, including raising the GILTI tax rate, tightening GILTI rules, and imposing a new limit on interest expense	-0.1%	< -0.05%	-0.1%	-0.1%	-8,000
Impose a 15 percent minimum tax on corporate book income for corporations with profits over $1 billion	-0.1%	-0.1%	-0.2%	-0.1%	-25,000
Create a 1% excise tax on net stock buybacks	< -0.05%	< -0.05%	< -0.05%	< -0.05%	-1,000
Impact of spending and budget deficit	0%	< -0.05%	0%	0%	0
Total Economic Effect	**-0.37%**	**-0.36%**	**-0.78%**	**-0.27%**	**-103,000**

Note: We treat the spending as transfer payments with no associated impact on the economy in the long run.
Source: Tax Foundation General Equilibrium Model, November 2021. Items may not sum due to rounding.

Revenue Effects

On a conventional basis, the House bill would raise about $768 billion in federal revenue from 2022 to 2031 net of tax credits. The bill includes about $1.2 trillion in gross revenue raisers, composed of about $450 billion in corporate tax increases, $504 billion in individual tax increases, $120 billion net from additional IRS tax enforcement, and $145 billion from the drug pricing provisions. The gross revenue is reduced by about $451 billion in expanded tax credits.

We relied on estimates provided in the White House framework for the revenue impacts of the drug pricing provisions and green energy credits. While the White House framework includes $400 billion in gross IRS revenue from the additional $80 billion in enforcement resources, we included $200 billion in gross IRS revenue, consistent with previous analysis from the Congressional Budget Office.

The largest revenue raiser is the 15 percent minimum tax on corporate book income for corporations with average annual adjusted financial statement income that exceeds $1 billion for any three consecutive tax years, beginning in 2023. While we estimate that the provision raises $193 billion over the next decade, this may be an upper bound, as it does not account for any behavioral responses, i.e., avoidance, since the structure of the tax is unique. Actual revenue could be less if, for instance, companies respond by reducing reported financial income.

Another novel revenue raiser is the 1 percent excise tax on net stock buybacks, which we estimate would raise $62 billion over the next decade, again assuming no behavioral responses. Actual revenue may be reduced to the extent companies choose to reduce stock repurchases and instead hold excess cash, for instance.

A third major revenue raiser is the surcharge on MAGI above $10 million. We estimate this provision would raise $186 billion over the next decade, and relatively little in the first two years due to reduced realizations for capital gains. Actual revenue may be reduced further to the extent high-income individuals engage in other avoidance techniques that result in less reported income.

Another element of the House bill that could significantly reduce net revenue is the use of temporary tax policy, particularly the one-year extension of this year's child credit. If this credit were extended permanently, it would reduce net revenue by nearly $1.5 trillion over the next decade.

On a dynamic basis, i.e., accounting for the reduced size of the economy resulting from the tax increases, we estimate the House bill would raise in total about $615 billion in revenue net of tax credits over the next decade.

TABLE 3.

Tax Revenue Effects of the Updated House Build Back Better Act (billions of dollars)

Provision	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2022 - 2031
Individual Provisions											
Levy a surcharge on modified adjusted gross income (MAGI), equal to 5 percent on MAGI in excess of $10 million plus 3 percent on MAGI above $25 million	$1.5	$8.0	$19.8	$20.4	$20.2	$21.8	$22.2	$23.2	$24.1	$25.4	$186.4
Apply the 3.8% net investment income tax (NIIT) to trade or business income over $400,000 not currently subject to the NIIT	$14.5	$15.3	$15.9	$16.9	$17.1	$18.9	$19.8	$20.7	$21.6	$22.8	$183.6
Make the Active Pass-through Loss Limitation Permanent	$-	$-	$-	$-	$20.2	$21.0	$21.8	$22.7	$23.6	$24.5	$133.8
Corporate Provisions											
Impose new limitations on interest expenses for certain multinational corporations	$-	$3.9	$4.2	$4.4	$4.8	$5.0	$5.1	$5.2	$5.4	$5.5	$43.6
Increase Global Low-taxed Intangible Income (GILTI) tax rate to 15%, change the GILTI tax base, and make changes to foreign tax credit (FTC) calculations	$-	$19.0	$21.5	$21.9	$15.0	$14.0	$14.3	$14.6	$15.0	$15.4	$150.6
Change the deduction value for Foreign Derived Intangible Income (FDII)	$-	$4.2	$4.0	$3.9	$-1.6	$-0.7	$-0.9	$-0.9	$-1.0	$-1.0	$5.9
Impose a 15% minimum tax on corporate book income for corporations with profits over $1 billion	$-	$21.3	$21.5	$19.3	$12.3	$12.0	$23.3	$29.8	$31.2	$22.5	$193.3
Create a 1% excise tax on net stock buybacks	$5.7	$6.0	$6.4	$5.5	$5.1	$5.8	$6.6	$7.0	$6.9	$7.1	$62.1
Delay Sec. 174 R&D amortization until 2025	$-21.8	$-37.2	$-34.1	$-26.1	$8.5	$33.3	$31.9	$22.4	$12.0	$6.0	$-5.2
Net Revenue from Unscored Items (Revenue from IRS enforcement and drug pricing provisions)	$26.5	$26.5	$26.5	$26.5	$26.5	$26.5	$26.5	$26.5	$26.5	$26.5	$265.0
Total Revenue Raisers	**$26.4**	**$67.0**	**$85.6**	**$92.6**	**$128.0**	**$157.6**	**$170.8**	**$171.1**	**$165.1**	**$154.8**	**$1,219.0**
Tax Credits											
Extend American Rescue Plan expansion of the Child Tax Credit to 2022 and make CTC fully refundable permenantly	$-101.6	$-14.6	$-14.1	$-12.8	$-3.0	$-2.8	$-2.7	$-2.6	$-2.4	$-2.3	$-158.9
Extend Earned Income Tax Credit (EITC) expansion in the American Rescue Plan through 2022	$-12.0	$-	$-	$-	$-	$-	$-	$-	$-	$-	$-12.0
Provide tax credits for green energy and reinstate the federal superfund program	$-28.9	$-28.5	$-28.4	$-28.2	$-28.1	$-27.9	$-27.7	$-27.5	$-27.4	$-27.4	$-279.9
Total Tax Credits	**$-142.5**	**$-43.1**	**$-42.5**	**$-41.0**	**$-31.1**	**$-30.7**	**$-30.4**	**$-30.1**	**$-29.8**	**$-29.7**	**$-450.8**
Total Conventional Revenue	**$-116.1**	**$23.9**	**$43.1**	**$51.6**	**$97.0**	**$127.0**	**$140.4**	**$141.0**	**$135.4**	**$125.0**	**$768.3**
Total Dynamic Revenue	**$-124.5**	**$18.0**	**$35.6**	**$36.5**	**$88.8**	**$112.7**	**$121.4**	**$118.3**	**$109.5**	**$98.5**	**$614.7**

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

Distributional Effects

The updated House tax proposals 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 proposals would increase the after-tax income of the bottom quintile by about 15.3 percent in 2022 on a conventional basis, which is largely driven by the expanded child tax credit (CTC). By contrast, the top 1 percent of earners would experience a 0.5 percent drop in after-tax income in 2022.

TABLE 4.

Distributional Effects of the Updated House Build Back Better Act (Percent Change in After-Tax Income)

Income Group	Conventional, 2022	Conventional, 2031	Dynamic, long-run
0% to 20%	15.3%	0.7%	0.1%
20% to 40%	4.6%	0.1%	-0.4%
40% to 60%	1.9%	Less than +0.05%	-0.5%
60% to 80%	1.2%	Less than +0.05%	-0.5%
80% to 90%	0.7%	Less than +0.05%	-0.5%
90% to 95%	0.4%	Less than +0.05%	-0.5%
95% to 99%	0.6%	Less than -0.05%	-0.6%
99% to 100%	-0.5%	-1.8%	-2.7%
Total	**1.5%**	**-0.2%**	**-0.8%**

Note: This table omits the impact of additional spending on after-tax incomes.
Source: Tax Foundation General Equilibrium Model, November 2021.

After the expanded CTC expires in 2022, 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 0.7 percent increase in after-tax income by 2031 on a conventional basis. The top 5 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 1.8 percent drop in after-tax income.

On a long-term dynamic basis, the smaller economy reduces after-tax incomes relative to the conventional analysis and most of the expanded tax credits will have expired. On average, the top 80 percent of tax filers would experience a drop in after-tax incomes.

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.