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Details and Analysis of the "Main Street Tax Plan"

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Key Findings:

- The "Main Street Tax Plan" would enact a number of changes that would lower marginal tax rates while broadening the U.S. tax base.
- The "Main Street Tax Plan" would reduce tax revenue by over $1 trillion over the next decade on a static basis. However, the plan would end up collecting $679 billion over the next decade when accounting for increased economic output in the long run.
- A majority of the revenue loss from the plan would come from the elimination of the Medicare payroll tax, which would reduce revenues by $2.6 trillion over a decade.
- According to the Tax Foundation's Taxes and Growth Model, the plan would increase GDP by 7.6 percent over the long term due to lower marginal tax rates on capital and labor.
- On a static basis, the tax plan would lead to 0.7 percent lower after-tax income for the top 10 percent of taxpayers and 1.7 percent lower income for the top 1 percent. When accounting for reduced GDP, after-tax incomes of all taxpayers would fall by at least 0.9 percent.

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Introduction

Recently, the Hudson Institute released a tax reform proposal called the "Main Street Tax Plan."[1] The plan would reform the individual income tax by reducing the top marginal tax rate from 39.6 to 33 percent, broadening the tax base by eliminating many itemized deductions, and limiting the value of many tax credits. It would also reform the business tax code by reducing the corporate income tax to 25 percent, allowing the full expensing of capital investments, and eliminating deferral taxation of foreign profits. The plan also eliminates the Medicare payroll tax, reduces the federal estate tax, and eliminates the deduction for interest paid by businesses.

Our analysis finds that the plan would reduce revenue by $1.1 trillion over a decade. The plan would also reduce marginal tax rates on both labor and capital. As a result, the plan would increase the size of gross domestic product (GDP) by 7.6 percent over the long term. This increase in GDP would translate into 5.5 percent higher wages and 2.2 million more full-time equivalent jobs. Accounting for the economic effects of the tax changes, the plan would end up increasing federal tax revenues by $679 billion over a decade.

Details of the Plan

Individual Income Tax Changes

- Eliminates the both the 39.6 and 35 percent tax brackets and creates a new 20 percent tax bracket.

Table 1.

Tax Brackets under "The Main Street Plan"

Ordinary Income	Single Filers	Married Filers
10%	$0 to $9,275	$0 to $18,550
15%	$9,275 to $37,650	$18,550 to $75,300
20%	$37,650 to $51,025	$75,301 to $102,050
25%	$50,026 to $91,150	$102,052 to $182,300
28%	$91,151 to $101,150	$182,301 to $202,300
33%	$101,151 and above	$202,301 and above

- Eliminates the head of household filing status
- Reduces the standard deduction by $1,000 ($2,000 for married taxpayers filing jointly) to $5,300 ($10,600 for married taxpayers filing jointly).
- Eliminates the personal exemption phase-out (PEP) and the Pease limitation on itemized deductions.
- Creates a new "child tax deduction" of $2,000.
- Eliminates all itemized deductions except the home mortgage interest deduction and the charitable deduction.
- Taxes carried interest at ordinary income tax rates.*

1 Anderson, Jeffrey H. "The Main Street Tax Plan." Hudson Institute. [DATE]. [LINK].

- Increases AMT exempt levels by 50 percent and eliminates their phase-out.

Tax Credit Changes

- Makes all credits non-refundable except for the Earned Income Tax Credit and the ACA health insurance credits.
- Reduces the value of the Child Tax Credit by 50 percent, to $500 per child.
- Converts the Child and Dependent Care tax credit to a deduction of up to $5,000 per child.

Payroll Tax Changes

- Eliminates both the employer- and employee-side Medicare payroll tax.

Business Tax Changes

- Reduces the corporate income tax rate to 25 percent.
- Allows for full expensing of all capital investments
- Eliminates the deduction for interest paid by businesses.
- Ends the deferral of taxation of foreign profits, but with a 66 percent exclusion of foreign profits.*
- Enacts a deemed repatriation of all currently deferred foreign profits with a 50 percent exclusion.

Other Changes

- Reduces the top marginal estate tax rate to 20 percent.*

Note: The asterisks (*) indicate provisions that were not modeled. For more information, see Modeling Notes, below.

Economic Impact

According to the Tax Foundation's Taxes and Growth Model, the Main Street Tax Plan would increase the economy's size by 7.6 percent in the long run. The plan would lead to 5.5 percent higher wages, a 21.0 percent larger capital stock, and 2.2 million more full-time equivalent jobs. The larger economy would result from lower marginal tax rates on both capital and labor income.

Table 2.

Economic Impact of the Main Street Tax Plan

GDP	7.6%
Capital Investment	21.0%
Wage Rate	5.5%
Full-time Equivalent Jobs (in Thousands)	2,288

Source: Tax Foundation Taxes and Growth Model, October 2015.

Revenue Impact

Overall, the plan would reduce federal revenue on a static basis by $1.1 trillion over 10 years. Most of the revenue loss is due to the elimination of the Medicare payroll tax, which we project would reduce revenues by approximately $2.6 trillion over the next decade. Corporate income tax revenues would be reduced by an additional $1.1 trillion over the next decade. Changes to the individual income tax would end up raising $2.1 trillion over a decade.

After accounting for the economic impact of the plan, it would end up raising $679 billion over a decade. The larger economy would increase wages, which would narrow the revenue loss from the payroll tax changes to about $2.2 trillion and increase individual income tax revenue by about $1 trillion to $3.4 trillion over a decade.

Table 3.

Ten-Year Revenue Impact of the Main Street Tax Plan (Billions of Dollars)

Tax	Static Revenue Impact (2016-2025)	Dynamic Revenue Impact (2016-2025)
Individual Income Taxes	$2,128	$3,467
Payroll Taxes	-$2,685	-$2,226
Corporate Income Taxes	-$1,131	-$990
Excise Taxes	$0	$46
Estate and Gift Taxes	$0	$11
Other Revenue	$0	$70
Total	-$1,086	$679

Note: Individual items may not sum to total due to rounding.
Source: Tax Foundation Taxes and Growth Model, October 2015.

Distributional Impact

On a static basis, the Main Street Tax Plan would increase after-tax income across all taxpayers by 0.5 percent. Taxpayers with income in the bottom decile would see an increase in after-tax income of 0.5 percent. The next three deciles (between the 10th and 40th percentiles) would see a reduction in after-tax income of between 0.1 percent and 3 percent due mainly to making most tax credits non-refundable. Taxpayers in the middle-income deciles (40th to 90th percentiles) would see an increase in after-tax income of between 0.8 percent and 1.1 percent. Those in the top 10 percent would see no change in after-tax income. The top 1 percent of all taxpayers would see a 0.4 percent increase in after-tax income.

On a dynamic basis, the plan would increase after-tax incomes by an average of 6.6 percent. All deciles would see an increase in after-tax income of at least 3.4 percent over the long term. Taxpayers that fall in the middle deciles (between the 40th and 80th percentiles) would see the largest increases in after-tax incomes, of at least 8 percent. The top 10 percent of taxpayers would see an increase in after-tax income of 5 percent. The top 1 percent of all taxpayers would see an increase in after-tax income of 4 percent.

Table 4.

Distributional Analysis for The Main Street Tax Plan

Effect of Tax Reform on After Tax Income Compared to Current Law

All Returns by Decile	Static Distributional Analysis	Dynamic Distributional Analysis
0% to 10%	0.5%	6.8%
10% to 20%	-3.0%	3.4%
20% to 30%	-1.8%	4.9%
30% to 40%	-0.1%	6.9%
40% to 50%	0.8%	8.1%
50% to 60%	1.0%	8.4%
60% to 70%	1.0%	8.3%
70% to 80%	1.0%	8.0%
80% to 90%	1.1%	7.8%
90% to 100%	0.0%	5.0%
99% to 100%	0.4%	4.0%
TOTAL FOR ALL	0.5%	6.6%

Source: Tax Foundation Taxes and Growth Model, October 2015.

Conclusion

The Main Street Tax Plan would enact a number of changes that would reduce marginal tax rates on individuals and businesses, while broadening the tax base. These changes would increase the incentive to work and invest and would increase the size of the economy in the long run, leading to higher incomes for taxpayers at all income levels. The plan would be a net tax cut and would reduce revenue by about $1.1 trillion over a decade on a static basis, but would end up raising revenue by $679 billion over the same period when accounting for the larger economy.

Modeling Notes

The Taxes and Growth Model does not take into account the fiscal or economic effects of interest on debt. It also does not require budgets to balance over the long term, nor does it account for the potential macroeconomic or distributional effects of any changes to government spending that may accompany the tax plan.

We modeled the revenue and economic impacts of the tax provisions outlined above except for the taxation of carried interest at ordinary income tax rates, provisions involving the taxation of overseas income, and the proposed changes to the estate tax.[2] The omissions were due to either data limitations or insufficient details of how the plan would be enacted. We do not model any potential transitional costs associated with the plan.

2 Taxing carried interest at ordinary income rates would raise approximately $1.3 billion per year, according to other estimates. "Estimated Budget Effects Of The Revenue Provisions Contained In The President's Fiscal Year 2016 Budget Proposal." Joint Committee on Taxation. March 6, 2015. https://www.jct.gov/publications.html?func=startdown&id=4739.