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Details and Analysis of Senator Bernie Sanders's Tax Plan

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Key Findings:

- Senator Sanders (I-VT) would enact a number of policies that would raise payroll taxes and individual income taxes, especially on high-income households.
- Senator Sanders's plan would raise tax revenue by $13.6 trillion over the next decade on a static basis. However, the plan would end up collecting $9.8 trillion over the next decade when accounting for decreased economic output in the long run.
- A majority of the revenue raised by the Sanders plan would come from a new 6.2 percent employer-side payroll tax, a new 2.2 percent broad-based income tax, and the elimination of tax expenditures relating to healthcare.
- According to the Tax Foundation's Taxes and Growth Model, the plan would significantly increase marginal tax rates and the cost of capital, which would lead to 9.5 percent lower GDP over the long term.
- On a static basis, the plan would lead to 10.56 percent lower after-tax income for all taxpayers and 17.91 percent lower after-tax income for the top 1 percent. When accounting for reduced GDP, after-tax incomes of all taxpayers would fall by at least 12.84 percent.

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Over the past few months, Senator Bernie Sanders (I-VT) has released details of changes he would make to the federal tax code.[1] His plan would increase marginal tax rates on all taxpayers, through higher individual income tax rates and two new payroll taxes. The plan includes several provisions aimed at high-income households: it would raise the top marginal income tax rate to 54.2 percent, tax capital gains and dividends as ordinary income, replace the alternative minimum tax with a new limit on itemized deductions, and expand the estate tax. In addition, the plan would create a new financial transactions tax and move the U.S. toward a worldwide tax system by ending the deferral of foreign-source business income.

Our analysis finds that the plan would increase federal revenues by $13.6 trillion over the next decade. The plan would also increase marginal tax rates on both labor and capital. As a result, the plan would reduce the size of gross domestic product (GDP) by 9.5 percent over the long term. This decrease in GDP would translate into an 18.6 percent smaller capital stock and 6.0 million fewer full-time equivalent jobs. After accounting for the economic effects of the tax changes, the plan would end up increasing federal tax revenues by $9.8 trillion over the next decade.

Details of the Plan

Individual Income Tax Changes

- Adds four new income tax brackets for high-income households, with rates of 37 percent, 43 percent, 48 percent, and 52 percent.
- Taxes capital gains and dividends at ordinary income rates for households with income over $250,000.
- Creates a new 2.2 percent "income-based [health care] premium paid by households." This is equivalent to increasing all tax bracket rates by 2.2 percentage points, and would raise the top marginal income tax rate to 54.2 percent.

Table 1.
Individual Income Tax Brackets under Senator Bernie Sanders's Tax Plan

Ordinary Income	Capital Gains and Dividends	Single Filers	Married Filers	Heads of Household
12.2%	2.2%	$0 to $9,275	$0 to $18,550	$0 to $13,250
17.2%	2.2%	$9,275 to $37,650	$18,550 to $75,300	$13,250 to $50,400
27.2%	17.2%	$37,650 to $91,150	$75,300 to $151,900	$50,400 to $130,150
30.2%	17.2%	$91,150 to $190,150	$151,900 to $231,450	$130,150 to $210,800
35.2%	17.2%	$190,150 to $250,000	$231,450 to $250,000	$210,800 to $250,000
39.2%	39.2%	$250,000 to $500,000	$250,000 to $500,000	$250,000 to $500,000
45.2%	45.2%	$500,000 to $2,000,000	$500,000 to $2,000,000	$500,000 to $2,000,000
50.2%	50.2%	$2,000,000 to $10,000,000	$2,000,000 to $10,000,000	$2,000,000 to $10,000,000
54.2%	54.2%	$10,000,000 and up	$10,000,000 and up	$10,000,000 and up

Note: The bracket thresholds above are based on 2016 parameters.

1 "How Bernie pays for his proposals," https://berniesanders.com/issues/how-bernie-pays-for-his-proposals/; "Medicare for All: Leaving No One Behind," https://berniesanders.com/issues/medicare-for-all/; "Real Tax Reform Policies that Sen. Sanders Has Proposed," https://berniesanders.com/issues/real-tax-reform-policies-that-sen-sanders-has-proposed/

- Eliminates the alternative minimum tax.
- Eliminates the personal exemption phase-out (PEP) and the Pease limitation on itemized deductions.
- Limits the value of additional itemized deductions to 28 percent for households with income over $250,000.

Payroll Tax Changes

- Creates a new 6.2 percent employer-side payroll tax on all wages and salaries. This is referred to by the campaign as an "income-based health care premium paid by employers."
- Creates a 0.2 percent employer-side payroll tax and 0.2 percent employee-side payroll tax, to fund a new family and medical leave trust fund.
- Applies the Social Security payroll tax to earnings over $250,000, a threshold which is not indexed for wage inflation.

Business Income Tax Changes

- Eliminates several business tax provisions involving oil, gas, and coal companies.
- Ends the deferral of income from controlled foreign subsidiaries.*
- Changes several international tax rules to curb corporate inversions and limit use of the foreign tax credit.*

Estate Tax Changes

- Decreases the estate tax exclusion from $5.4 million to $3.5 million.
- Raises the estate tax rate from 40 percent to a set of rates ranging between 45 percent and 65 percent.
- Changes several estate tax rules involving asset valuation, family trusts, gift taxes, and farmland and conservation easements.*

Other Changes

- Creates a financial transactions tax on the value of stocks, bonds, derivatives, and other financial assets traded by U.S. persons. The rate of the tax ranges from 0.005 percent to 0.5 percent, depending on the type of asset.*
- Limits like-kind exchanges of property to $1 million per taxpayer per year and prohibits the use of like-kind exchanges for art and collectibles.*

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, Senator Bernie Sanders's tax plan would reduce the economy's size by 9.5 percent in the long run. The plan would lead to 4.3 percent lower wages, an 18.6 percent smaller capital stock, and 6.0 million fewer full-time equivalent jobs. The smaller economy results from higher marginal tax rates on capital and labor income.

Table 2.
Economic Impact of Senator Sanders's Tax Reform Proposals

GDP	-9.5%
Capital Investment	-18.6%
Wage Rate	-4.3%
Full-time Equivalent Jobs (in thousands)	-5,973

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

Revenue Impact

Overall, the plan would increase federal revenue on a static basis by $13.6 trillion over the next 10 years. Most of the revenue gain is due to increased payroll tax revenue, which we project to raise approximately $8.3 trillion over the next decade. The changes to the individual income tax will raise an additional $4.9 trillion over the next decade. The remaining $350 billion would be raised through increased estate taxes and taxes on corporations.

If we account for the economic impact of the plan, it would end up raising $9.8 trillion over the next decade. The smaller economy would reduce wages and investment income, which would narrow the revenue gain from the income tax changes to $2.8 trillion and the revenue gain from the payroll tax changes to $7.0 trillion.

Table 3.
Ten-Year Revenue Impact of Senator Sanders's Tax Reform Proposals (Billions of Dollars)

Tax	Static Revenue Impact (2016-2025)	Dynamic Revenue Impact (2016-2025)
Individual Income Taxes	$4,931	$2,759
Payroll Taxes	$8,293	$7,023
Corporate Income Taxes	$62	-$56
Excise Taxes	$0	-$65
Estate and Gift Taxes	$288	$243
Other Revenue	$0	-$76
Total	$13,574	$9,827

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

The largest sources of revenue in the plan are the new "health care premiums": a 6.2 percent employer-side payroll tax and a 2.2 percent increase in the individual income tax. Together, these provisions would raise $6.6 trillion over 10 years, or $5.2 trillion after accounting for economic effects.

Another significant source of revenue for the Sanders plan has to do with the tax treatment of health insurance. Currently, households are not required to pay taxes on the value of health insurance they receive from their employers, which leads to over $300 billion a year in reduced federal revenue.[2] However, the Sanders plan would put an end to nearly all privately-provided insurance. As a result, employers would cease to compensate their employees with health insurance and would instead increase their wages and salaries by the value of the health insurance plans they used to provide.[3] These higher wages and salaries would then be subject to income and payroll taxes, causing federal tax revenues to increase by $3.6 trillion over the next decade, or $3.3 trillion after accounting for economic effects.

The components of the plan aimed specifically at increasing taxes on high-income households (partially removing the Social Security payroll tax cap, adding four new income tax brackets, and taxing capital gains and dividends at ordinary income rates) would increase federal revenue by $2.9 trillion on a static basis and $1.4 trillion after accounting for economic effects.

Table 4.
Ten-Year Revenue and Economic Impact of the Sanders Plan by Provision
(Billions of Dollars, 2016-2025)

Provision	10-year Static Revenue Impact	10-year Change in Level of GDP	10-year Dynamic Revenue Impact
Eliminate health tax expenditures	$3,551	-0.87%	$3,259
A new 0.2% employer- and employee side payroll tax (for paid family leave)	$382	-0.16%	$325
A new 6.2% employer-side payroll tax (an employer “premium”)	$4,148	-1.76%	$3,496
Removing Social Security payroll tax cap for earnings over $250,000	$751	-0.77%	$460
Replace AMT, PEP, and Pease with 28% limit on value of itemized deductions	-$226	-0.11%	-$267
Create four new brackets of 37%, 43%, 48%, and 52%	$981	-0.74%	$681
Tax capital gains and dividends at ordinary income rates for income over $250,000	$1,186	-2.42%	$265
Increase all income tax bracket rates by 2.2% (a household “premium”)	$2,450	-1.60%	$1,687
Eliminate provisions for fossil fuel companies	$63	-0.11%	$17
Decrease the estate tax exclusion to $3.5 million and raise top rate to 65%	$288	-0.93%	-$96

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

Distributional Impact

On a static basis, the Sanders tax plan would reduce the after-tax incomes of taxpayers in every income group. The bottom 50 percent of taxpayers would see their after-tax incomes decrease by at least 4.87 percent. The top 50 percent of taxpayers would see their after-tax incomes decrease by at least 8.57 percent. Finally, the top 1 percent of taxpayers would see their after-tax incomes fall by 17.91 percent.

2 Scott Greenberg, “Options for Broadening the U.S. Tax Base,” Tax Foundation, taxfoundation.org/article/options-broadening-us-tax-base

3 Even in the event that some private employer-provided health plans remain, the Sanders plan eliminates health tax expenditures, which would mean that employer health premiums would still count as individual income.

After accounting for economic effects, taxpayers in all income groups would see their after-tax incomes decrease by at least 12.84 percent. The top 1 percent of taxpayers would see their incomes decrease by 24.88 percent.

Table 5.
Distributional Analysis for Senator Sanders's 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%	-6.41%	-14.54%
10% to 20%	-4.87%	-12.84%
20% to 30%	-5.87%	-13.63%
30% to 40%	-6.92%	-14.95%
40% to 50%	-7.95%	-16.31%
50% to 60%	-8.57%	-16.99%
60% to 70%	-9.00%	-17.32%
70% to 80%	-9.34%	-17.18%
80% to 90%	-9.46%	-17.07%
90% to 100%	-12.93%	-20.28%
99% to 100%	-17.91%	-24.88%
TOTAL FOR ALL	-10.56%	-18.23%

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

It is important to note that these figures only reflect changes in after-tax income that result from Senator Sanders's tax plan. They do not take into account the distributional effects of any of the spending programs that Senator Sanders has proposed.

Conclusion

Senator Bernie Sanders would enact a number of tax policies that would raise tax revenue over the next decade. Together, his proposals would significantly expand federal revenue collections by $13.6 trillion on a static basis, driven mostly by broad-based taxes on income and payroll. If enacted, the Sanders plan would significantly increase marginal tax rates on capital and labor income, which would result in a substantial reduction of the size of the U.S. economy in the long run. This would decrease the revenue that the new tax policies would ultimately collect to $9.8 trillion. Senator Sanders's plan would decrease after-tax incomes for taxpayers at all income levels, but especially high-income taxpayers.

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 changes to international tax rules, changes to estate tax rules (other than the rates and exclusion), limitations on like-kind exchanges, and the new financial transactions tax. The omissions were due to either data limitations or insufficient details from the candidate.[4] We do not model any potential transitional costs associated with the plan.

The tax plan released by the Sanders campaign was unclear on a few points. To seek additional clarity from the campaign, we sent the following document on January 19th to the campaign policy staff, with questions about the details of the plan. The letter also explained what modeling assumptions we would use if the campaign did not send us further clarification. We did not receive a response, and therefore we used the assumptions outlined in the letter below.

Clarifying Questions Regarding Senator Sanders's Tax Plan

We are in the process of modeling the budgetary and economic effects of Senator Bernie Sanders's tax plan. Below are a few questions, to clarify the details of the plan.

1. The plan includes a "6.2% income-based health care premium paid by employers."

    a. Would this premium apply to an employee's payroll or an employee's income?

    b. If the premium applies to an employee's payroll, would there be any cap on the portion of payroll that is subject to the premium?

    c. If the premium applies to an employee's income, what measure of income is subject to the premium? For instance, would the premium apply based on an employee's AGI, MAGI, taxable income, or some other measure?

    d. If the premium applies to an employee's income, what mechanism would businesses use to determine the income of their employees?

    e. If the premium applies to an employee's income, would there be any cap on the portion of income that is subject to the premium?

4 However, some of these provisions have been modeled by other organizations. The Treasury Department estimates that ending the deferral of foreign-source income would raise $812 billion over ten years (https://www.treasury.gov/resource-center/tax-policy/Documents/Tax-Expenditures-FY2016.pdf). The Tax Policy Center estimates that a revenue-maximizing financial transactions tax could bring in $75 billion in 2017 (http://www.taxpolicycenter.org/UploadedPDF/2000587-financial-transaction-taxes.pdf).

2. The plan includes a "2.2 percent income-based premium paid by households."

   a. What measure of income is subject to the premium? Would the premium apply based on a household's AGI, MAGI, taxable income, ordinary income, or some other measure?

   b. According to the most recent document released by the Sanders campaign, the marginal income tax rates for high income individuals would be 37%, 43%, 48%, and 52%. Do these rates include the 2.2% household premium? Or would the 2.2% premium apply on top of these rates?

3. Senator Sanders has previously released a Social Security reform plan that would raise the net investment income tax to 10%. However, according to the most recent document released by the Sanders campaign, the plan would tax "capital gains and dividends the same as income from work." Under the Sanders plan, would the net investment income tax rate be lowered to 0%, kept at the current 3.8%, or raised to 10%?

4. The plan includes "savings from health tax expenditures" on the order of $310 billion a year. The largest health tax expenditure is the exclusion of employer-provided healthcare plans from taxable income. If the Sanders plan intends to eliminate this exclusion, does this mean that publicly-provided health insurance would be included in taxable income?

If we do not receive a response from the campaign by the end of January 25th, we will make the following assumptions:

1. We will assume that the "6.2% income-based health care premium paid by employers" is a payroll tax, rather than a tax on an employee's overall income. We will assume that the tax applies to all payroll.
2. We will assume that the "2.2 percent income-based premium paid by households" applies to taxable income. We will also assume that it applies in addition to the 37%, 43%, 48%, and 52% brackets, meaning that individuals earning over $10 million would pay a marginal income tax rate of 54.2%.
3. We will assume that the net investment income tax rate is lowered to 0%, following the most recent statement of the Sanders campaign that capital gains and dividends would be taxed "the same as income from work."
4. We will assume that the Sanders plan does not include publicly-provided health insurance in taxable income.