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Details and Analysis of Governor Jeb Bush's Tax Plan

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Key Findings

- Governor Jeb Bush's tax plan would reform both the individual income tax and the corporate income tax and eliminate a number of complex features in the current tax code.
- According to the Tax Foundation's Taxes and Growth Model, the plan would significantly reduce marginal tax rates and the cost of capital, which would lead to a 10 percent higher GDP over the long-term.
- The plan would also lead to a 28.8 percent larger capital stock, 7.4 percent higher wages, and 2.7 million more full-time equivalent jobs.
- The Governor's plan would cut taxes by $3.6 trillion over the next decade on a static basis. However, the plan would end up reducing revenue by $1.6 trillion over the next decade when accounting for the additional economic growth created by the plan.
- The plan would cut taxes and lead to higher after-tax incomes for taxpayers at all levels of income.

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Yesterday, Governor Jeb Bush (R-FL) released a comprehensive tax reform plan.[1] This plan would reduce individual income tax rates, broaden the income tax base by limiting itemized deductions, and expand the Earned Income Tax Credit for childless taxpayers. The plan would also reform the business tax code by reducing the corporate income tax rate to 20 percent, moving to full expensing of all capital investment, and moving to a territorial tax system. In addition, the plan would eliminate the Estate Tax, eliminate the Alternative Minimum Tax, change the treatment of interest, and eliminate many other complex features of the current tax code.

Our analysis finds that the plan would increase the size of Gross Domestic Product (GDP) by 10 percent over the long term. This increase in GDP would translate into 7.4 percent higher wages and 2.7 million new full-time equivalent jobs. On a static basis, the plan would be a $3.6 trillion tax cut over the next decade. However, accounting for the economic effects of the tax changes, the plan would end up reducing federal tax revenues by $1.6 trillion over the next decade.

Details of the Plan

Individual Income Tax Changes

- Consolidates the current 7 tax brackets into three, with a top marginal income tax rate of 28 percent (Table 1).
- Taxes long-term capital gains and qualified dividends at a top marginal rate of 20 percent
- Increases the standard deduction from the $6,300 to $11,300 for single filers, from $12,600 to $22,600 for married joint filers, and from $9,250 to $16,750 for heads of household. The personal exemption would remain at $4,000.
- Eliminates the personal exemption phase-out (PEP) and the Pease limitation on itemized deductions.
- Eliminates the state and local income tax deduction.
- Caps all remaining itemized deductions except for the charitable deduction at 2 percent of adjusted gross income (AGI).
- Eliminates the Alternative Minimum Tax.
- Eliminates the Net Investment Income Tax of 3.8 percent, which was passed as part of the Affordable Care Act.
- Doubles the Earned Income Tax Credit (EITC) for childless filers.
- Allows second earners to file their tax returns separately.
- Exempts taxpayers over the age of 67 from the employee-side payroll tax.
- Taxes carried interest at ordinary income tax rates instead of capital gains and dividends tax rates.
- Eliminates the Estate Tax and ends stepped-up basis in capital gains for estates currently liable for the estate tax.
- Taxes all interest income at the lower capital gains and dividend tax rates.

1 "Backgrounder: Jeb Bush's Tax Reform Plan: The Reform and Growth Act of 2017. https://jeb2016.com/backgrounder-jeb-bushs-tax-reform-plan/.

Table 1.
Tax Brackets Under Governor Jeb Bush's Tax Plan

Ordinary Income	Capital Gains and Dividends	Single Filers	Married Filers	Head of Household
10%	0%	$0 to $32,450	$0 to $64,900	$0 to $42,700
25%	15%	$32,450 to $85,750	$64,900 to $141,200	$42,700 to $122,100
28%	20%	$85,750 and above	$141,200 and above	$122,100 and above

Business Tax Changes

- Cuts the corporate income tax rate from the current 35 percent to 20 percent.
- Allows all capital investments, including inventories, to be fully deductible in the year they are purchased.
- Enacts a territorial tax system that allows a 100 percent exemption on dividends received from controlled foreign subsidiaries. It would also enact, as a transitional revenue raiser, a one-time deemed repatriation tax of 8.75 percent on all foreign profits currently deferred.
- Eliminates all other corporate tax expenditures, such as the Section 199 manufacturers' deduction and various business credits.
- Eliminates the corporate Alternative Minimum Tax.
- Eliminates the deductibility of interest expenses.

Economic Impact

According to our Taxes and Growth Model, Governor Bush's tax plan would increase the size of the economy by 10 percent over the long run. The plan would lead to 7.4 percent higher wages and a 28.8 percent larger capital stock. The larger economy is mainly the result of the significant reduction in the service price of capital due to the shift to full expensing and the reduction of the corporate income tax rate from 35 percent to 20 percent. In addition, the reduction of marginal tax rates on individual income would increase incentives to work and result in 2.762 million full-time equivalent jobs.

Table 2.
Economic Impact of Governor Bush's Tax Reform Plan

GDP	10.0%
Capital Investment	28.8%
Wage Rate	7.4%
Full-time Equivalent Jobs (in thousands)	2,762

Source: Tax Foundation Taxes and Growth Model, August 2015

Revenue Impact

Overall, the plan would reduce federal revenue on a static basis by $3.66 trillion over the next ten years. Most of the revenue loss is due to the reduction in individual income tax rates, which we project to cost approximately $2.2 trillion over the next decade. The changes to the corporation income tax will cost an additional $1.1 trillion over the next decade, with the remaining static cost ($238 billion) due to the elimination of the estate tax.

However, if we account for the economic growth that the plan would produce, the plan would end up costing $1.6 trillion over the next decade. The larger economy would increase wages, which would narrow the revenue lost through the individual income tax by about $1 trillion and increase payroll tax revenue by about $726 billion over the next decade.

Table 3.

Ten-Year Revenue Impact of Governor Bush's Tax Reform Plan (Billions of Dollars)

Tax	Static Revenue Impact (2015-2024)	Dynamic Revenue Impact (2015-2024)
Individual Income Taxes	-$2,273	-$1,246
Payroll Taxes	$0	$726
Corporate Income Taxes	-$1,154	-$1,000
Excise taxes	$0	$59
Federal Reserve remittances	$0	$21
Customs duties	$0	$27
Estate and gift taxes	-$237	-$237
Miscellaneous fees and fines	$0	$39
Total	-$3,665	-$1,610

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

Distributional Impact

On a static basis, Governor Bush's tax plan would increase the after-tax income across all taxpayers by 3.3 percent, on average, and taxpayers in all income classes would see higher after-tax income.

Taxpayers in the bottom deciles (the 0-10 and 10-20 percent deciles), would see increases in after-tax adjusted gross income (AGI) of 1.8 and 1 percent, respectively. Middle-income taxpayers with incomes that fall among the 30-40 to the 70-80 income deciles would see slightly larger increases in their after-tax AGI, of between 2.3 and 3.1 percent. Taxpayers with incomes that fall in the highest income class (the 90-100 decile) would see an increase in after-tax income of 4.7 percent. The top 1 percent of all taxpayers would see an 11.6 percent increase in after-tax income.

On a dynamic basis, the plan would increase after-tax incomes by 11.3 percent on average. All deciles would see an increase in after-tax AGI by at least 9.7 percent over the long-term. axpayers that fall in the bottom three deciles would see their after-tax AGIs increase between 9.7 and 10.3 percent. Middle income taxpayers would see increases in their after-tax AGI by as much as 12.9 percent. The top 1 percent of all taxpayers would see an increase in after-tax AGI of 16.4 percent.

Table 4.

Distributional Analysis for
Governor Bush's Tax Reform 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%	1.8%	10.0%
10% to 20%	1.0%	9.7%
20% to 30%	1.4%	10.3%
30% to 40%	2.3%	11.5%
40% to 50%	2.7%	12.5%
50% to 60%	2.9%	12.9%
60% to 70%	3.1%	12.7%
70% to 80%	2.7%	11.3%
80% to 90%	1.5%	9.7%
90% to 100%	4.7%	11.2%
99% to 100%	11.6%	16.4%
TOTAL FOR ALL	3.3%	11.3%

Source: Tax Foundation Taxes and Growth Model, August 2015

Conclusion

Governor Jeb Bush's comprehensive tax plan would enact a number of tax reforms that would both lower marginal tax rates on workers and significantly reduce the cost of capital. These changes would greatly increase the U.S. economy's size in the long run, leading to higher incomes for taxpayers at all income levels. The plan would also be a large tax cut, which would increase the federal government's deficit both on a static and dynamic basis.

Modeling Notes

We modeled the provisions outlined above except for the switch to a territorial tax system, the taxation of carried interest at ordinary income tax rates, the employee payroll tax exemption for workers over the age of 67, the elimination of stepped-up basis for certain estates, and the option for second-earners to file separately. We also did not account for profit shifting from abroad due to a lower U.S. corporate income tax rate. Finally, we did not model any possible transitional costs associated with the plan.

With the exception of the ability for second-earners to file separately and additional revenues from profit shifting, these provisions would likely have a limited impact on both GDP and revenues. The effects of territorial taxation are likely to be small in tandem with a corporate tax rate of 20 percent, because the 20 percent is lower than the average corporate tax rate abroad, so foreign tax credits make the repatriation tax in that case relatively small.[2] Likewise, taxing carried interest at ordinary income rates under current law would only raise approximately $1.3 billion per year according to the Joint Committee on Taxation.[3] With the lower marginal tax rates under the Governor's plan, the revenue impact would be even smaller.

2 Michael Schuyler and William McBride, "The Economic Effects of the Rubio-Lee Tax Reform Plan," Tax Foundation Fiscal Fact No. 457. http://taxfoundation.org/article/economic-effects-rubio-lee-tax-reform-plan#_ftnref10.

3 "Estimated Budget Effects Of The Revenue Provisions Contained In The President's Fiscal Year 2016 Budget Proposal," Joint Committee on Taxation. https://www.jct.gov/publications.html?func=startdown&id=4739.