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Details and Analysis of Governor Bobby Jindal's Tax Plan

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Key Findings

- Governor Jindal's tax plan would substantially lower individual income taxes, eliminate the corporate income tax, and repeal a number of complex features in the current tax code.
- Governor Jindal's plan would cut taxes by $11.3 trillion over the next decade on a static basis. However, the plan would end up reducing tax revenues by $9 trillion over the next decade when accounting for economic growth from increases in the supply of labor and capital.
- The plan would also result in increased outlays due to higher interest on the debt, creating a ten-year deficit somewhat larger than the estimates above.
- 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 14.4 percent higher GDP over the long term, provided that the tax cut could be appropriately financed.
- The plan would also lead to a 38.3 percent larger capital stock, 8.7 percent higher wages, and 5.8 million more full-time equivalent jobs.
- On a static basis, the plan would cut taxes for both middle- and high-income taxpayers, but would increase taxes on low-income taxpayers.
- Accounting for economic growth, all taxpayers would see an increase in after-tax income of at least 6 percent at the end of the decade.

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This week, Governor Bobby Jindal released details of a tax reform plan.[1] This plan would reduce individual income tax rates, lowering the top rate from 39.6 percent to 25 percent while eliminating both the standard deduction and personal exemption. The plan would also eliminate the corporate income tax. In addition, the plan would eliminate the estate tax and the Alternative Minimum Tax.

Our analysis finds that the plan would reduce federal revenues by $11.3 trillion over the next decade. However, it also would improve incentives to work and invest, which could increase gross domestic product (GDP) by 14.4 percent over the long term. This increase in GDP would translate into 8.7 percent higher wages and 5.8 million new full-time equivalent jobs. After accounting for increased incomes due to these factors, the plan would reduce tax revenues by $9 trillion.[2]

Details of the Plan

Individual Income Tax Changes

- Consolidates the current seven tax brackets into three, with a top marginal income tax rate of 25 percent (Table 1).
- Eliminates the personal exemption and standard deduction.
- Eliminates the head of household filing.
- Taxes long-term capital gains and qualified dividends at ordinary income tax rates.
- Eliminates all itemized deductions except for the home mortgage interest deduction and the charitable deduction. Places a tighter cap on the home mortgage interest deduction.
- Eliminates the Pease Limitation on itemized deductions.
- Eliminates the Alternative Minimum Tax.
- Eliminates the Net Investment Income Tax of 3.8 percent and the Medicare surtax of 0.9 percent, which were passed as part of the Affordable Care Act.
- Creates a new non-refundable "dependent credit."
- Moves the Earned Income Tax Credit over to the payroll tax.
- Replaces the exclusion for employer-provided health insurance with a standard deduction for both employer-provided and individually purchased health insurance.
- Creates a "Tax-Free Savings Account" of up to $30,000 per year. The account would fold in existing saving plans. Contributions would be tax deductible and distributions would be taxable.

Table 1.

Table 1. Individual Income Tax Brackets under Governor Jindal's Tax Plan

Ordinary Income	Capital Gains and Dividends	Single Filers	Married Filers
2%	2%	$0 to $10,000	$0 to $20,000
10%	10%	$10,000 to $90,000	$20,000 to $180,000
25%	25%	$90,000 and up	$180,000 and up

1 *The Jindal Tax Reform Plan: Everybody Has to Have Some Skin in the Game*, Oct. 7, 2015, https://www.bobbyjindal.com/Tax/.

2 For a reduction in revenues of this size, it is also likely appropriate to consider the macroeconomic effects that the Taxes and Growth Model does not predict. Among these are the fiscal costs of higher interest payments, as well as the macroeconomic effects of the spending reductions needed to bring the budget into balance.

Business Tax Changes

- Eliminates the corporate income tax.

Other Changes

- Eliminates the estate tax.

Economic Impact

According to our Taxes and Growth Model, the increased incentives to work and invest from this tax plan would increase the size of the economy by 14.4 percent over the long run. The plan would lead to 8.7 percent higher wages and a 38.3 percent larger capital stock. The larger economy would mainly result from a significant reduction in the service price of capital, due to the elimination of the corporate income tax and the rate reductions for pass through businesses. In addition, the reduction of marginal tax rates on individual income would increase incentives to work and result in 5.88 million full-time equivalent jobs.

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

GDP	14.4%
Capital Investment	38.3%
Wage Rate	8.7%
Full-time Equivalent Jobs (in thousands)	5,886

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

Revenue Impact

Overall, the plan would reduce federal revenue on a static basis by $11.36 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 reduce revenues by approximately $6.7 trillion over the next decade. The elimination of the corporate income tax will reduce revenues by an additional $4.4 trillion over the next decade, with the remaining static cost ($238 billion) due to the elimination of the estate tax.

If we account for the economic growth that the plan would produce, the plan would end up lowering revenue by $9 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 revenues by $1 trillion, with the remainder of the recouped revenue coming from other taxes.

Table 3.
Ten-Year Revenue Impact of Governor Jindal's Tax Reform Plan (Billions of Dollars)

Tax	Static Revenue Impact (2015-2024)	Dynamic Revenue Impact (2015-2024)
Individual Income Taxes	-$6,710	-$5,637
Payroll Taxes	$0	$1,040
Corporate Income Taxes	-$4,413	-$4,413
Excise Taxes	$0	$86
Estate and Gift Taxes	-$238	-$238
Other Revenue Sources	$0	$126
Total	-$11,361	-$9,037

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

Distributional Impact

On a static basis, Governor Jindal's tax plan would increase after-tax incomes by 8.5 percent, on average. Taxpayers in middle and high income groups would see higher after-tax incomes, while taxpayers in lower income groups would see lower after-tax incomes.

Taxpayers in the bottom four deciles (the 0-10, 10-20, 20-30, 30-40 percent deciles), would see a reductions in after-tax adjusted gross income (AGI) of between 1 and 3.9 percent. Middle-income taxpayers with incomes that fall within the 40-50th to 80-90th percentiles would see increases in their after-tax AGI, of between 0.4 and 6.1 percent. Taxpayers with incomes that fall in the highest income class (the 90-100 percent decile) would see an increase in after-tax income of 16.5 percent. The top 1 percent of all taxpayers would see a 25 percent increase in after-tax income.

On a dynamic basis, the plan would increase after-tax incomes by 19.3 percent on average. All deciles would see an increase in after-tax AGI of at least 6.6 percent over the long term. Taxpayers that fall in the bottom three deciles would see their after-tax AGIs increase between 6.6 and 8.8 percent. Middle-income taxpayers in the 30-40th to 70-80th percentiles would see increases in their after-tax AGI by as much as 17.5 percent. The top 1 percent of all taxpayers would see an increase in after-tax AGI of 26.0 percent.

Table 4.
Distributional Analysis for Governor Jindal'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%	-1.0%	8.8%
10% to 20%	-3.9%	6.6%
20% to 30%	-3.4%	8.2%
30% to 40%	-1.6%	11.1%
40% to 50%	0.4%	14.3%
50% to 60%	2.0%	16.0%
60% to 70%	3.0%	16.8%
70% to 80%	4.1%	17.5%
80% to 90%	6.1%	19.3%
90% to 100%	16.5%	23.7%
99% to 100%	25.0%	26.0%
TOTAL FOR ALL	8.5%	19.3%

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

Conclusion

Governor Jindal's tax plan would enact a number of tax reforms that would lower marginal tax rates on workers. In addition, the elimination of the corporate income tax would significantly reduce the cost of capital. These changes in the incentives to work and invest 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 by over $9 trillion, both on a static and dynamic basis.

Modeling Notes

We modeled the most significant provisions outlined above. We omitted a few proposals that did not have sufficient detail to model. For example, it was not clear how large the new standard deduction for health insurance coverage would be. This provision would function similarly to the "Cadillac tax" on high-value health insurance premium, but its revenue impact would likely be small. We also did not model the impact (neither the cost nor the benefits) of the new tax free saving account.

We assumed the Earned Income Tax Credit (EITC) reforms were mainly cosmetic and assumed that the EITC would be limited to payroll tax liability. As such, its revenue impact is reflected on the individual income tax, not the payroll tax.

The plan states that it would limit the home mortgage interest deduction to home values of $500,000, down from $1,000,000. We modeled this as a $25,000 cap on the amount of home mortgage interest a taxpayer could deduct.

Finally, it is worth noting that 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 effects of any spending cuts that may be required to finance the plan.