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FISCAL FACT

No. 531

Oct. 2016

Details and Analysis of Hillary Clinton's Tax Proposals, October 2016

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Key Findings:

- Hillary Clinton would enact a number of policies that would raise taxes on individual income, increase tax credits, and reform business taxation.
- According to the Tax Foundation's Taxes and Growth Model, the plan would increase federal tax revenue by $1.4 trillion over the next decade on a static basis.
- The plan would increase marginal tax rates on individuals and businesses, which would lead to a 2.6 percent lower level of GDP. The smaller long-run economy would also lead to lower levels of wages and full-time equivalent jobs.
- After accounting for the smaller economy and narrower tax base, the plan would increase revenue by $663 billion.
- On net, the plan makes the tax code more progressive. The plan would reduce the after-tax incomes of the top 1 percent of taxpayers by 6.6 percent but increase the after-tax income of all other income groups by at least 0.1 percent. After accounting for the smaller long-run size of the economy, all after-tax incomes would fall by at least 0.1 percent in the long run.

Over the past year, former Secretary of State Hillary Clinton has proposed a number of new taxes on individuals and businesses.[1] The majority of her proposals raise taxes directly on high-income taxpayers. Her plan would enact a new surtax on taxpayers with incomes above $5 million, a 30 percent minimum tax (the Buffett Rule), a limit on itemized deductions to a tax value of 28 percent, and an estate tax increase to a top rate of 65 percent for estates worth $1 billion or more. She would also enact a number of targeted tax policies that would impact businesses, such as a new "financial risk" fee on large banks, the elimination of tax expenditures related to the fossil fuel industry, and several tax cuts for small businesses. Her plan would also cut taxes for lower- and middle-income taxpayers through an expansion of the Child Tax Credit.

Our analysis finds that the plan would increase revenue by $1.4 trillion over the next decade on a static basis. The plan also increases marginal tax rates on both labor and

1 "Issues." Hillary for America. https://www.hillaryclinton.com/issues/.

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capital. As a result, we estimate that the plan would reduce long-run GDP, reduce wages, and reduce the equilibrium level of full-time equivalent jobs. Due to the smaller economy and the narrower tax base, the plan would increase revenue less on a dynamic basis: $663 billion over the next decade. We also find that the tax plan would make the tax code more progressive.

Our analysis does not account for any potential macroeconomic effects of any of Secretary Clinton's spending proposals.

Details of the Plan

Individual Income Tax Changes

- Creates a 4 percent "surcharge" on high-income taxpayers, which would apply to AGI above $5 million.
- Enacts the "Buffett Rule," which would establish a 30 percent minimum tax on taxpayers with adjusted gross income (AGI) above $1 million. The minimum tax would phase in between $1 million and $2 million of AGI.
- Limits the value of all itemized deductions except the charitable deduction, as well as certain tax expenditures, to a tax value of 28 percent.
- Adjusts the schedule for long-term capital gains by raising the top rate on medium-term capital gains to between 39.6 percent and 20 percent (Table 1).

Table 1.

Marginal Tax Rate on Capital Gains by Holding Period, Clinton Proposal

Years Held	Marginal Tax Rate
Less than One	39.60%
One to Two	39.60%
Two to Three	36%
Three to Four	32%
Four to Five	28%
Five to Six	24%
More than Six	20%

- Limits the total value of tax-deferred and tax-free retirement accounts.
- Limits the tax benefit of like-kind exchanges.
- Taxes carried interest at ordinary income tax rates instead of at capital gains and dividends tax rates.
- Expands the Child Tax Credit by providing an additional $1,000 for children under 5 years old. The expanded CTC would phase in starting at the first dollar of income (under current law it begins phasing in at $3,000).
- Provides additional tax relief for families by providing a 20 percent credit for caregiver expenses, and up to $5,000 in tax relief for excessive healthcare costs.*

Business Tax Changes

- Establishes a “financial risk” fee on large banks.
- Cuts taxes for small businesses by expanding expensing (Section 179), increasing the number of businesses that are eligible for cash accounting, quadrupling the size of the startup deduction from $5,000 to $20,000, creating a small business “standard deduction,” and expanding the Affordable Care Act (ACA) credit for small businesses.
- Reforms the Net Investment Income Tax (NIIT) and self-employment taxes (SECA) taxes, by broadening the NIIT tax base to include more business income.
- Eliminates fossil fuel tax expenditures.
- Establishes business tax credits for profit sharing and apprenticeships.*
- Enacts business tax reform in order to fund new infrastructure spending, although details have not been specified.*

Other Changes

- Reduces the estate tax exemption amount to $3.5 million ($7 million for married couples) and enacts progressive rates on estates, with a top rate of 65 percent on estates worth $1 billion ($500 million for singles) or more.
- Taxes unrealized gains at death for high-income taxpayers, with exemptions for certain businesses.*
- Enacts a tax on high-frequency trading, at an unspecified rate.*

Note: The asterisks (*) indicate provisions that did not have enough detail from the campaign, or available data to model.

Changes from our January 2016 Analysis

Since we released our first analysis of Secretary Clinton’s tax proposals, her campaign has introduced a number of new policies that significantly impacted both our growth and revenue estimates. We also improved our estimates of existing policies based on additional information released by the campaign.

The most significant change to Secretary Clinton’s plan is the Child Tax Credit expansion. Her previous tax plan did not contain any tax cuts for lower- and middle-income taxpayers that were detailed enough to model. Since then, she has introduced an expansion to the Child Tax Credit. This expansion provides an additional $1,000 credit for children under the age of 5. In addition, the campaign’s plan would begin phasing in the credit at the first dollar of earned income. Under current law it begins phasing in at $3,000 of earned income. Lastly, the additional $1,000 credit for children under 5 would phase in at 45 percent. The current credit would continue to phase in at 15 percent.

Another significant change to the plan is Secretary Clinton’s expansion of her estate tax proposal. Previously, her plan only proposed raising the estate tax by reducing the exclusion

from the current $5.45 million ($10.9 million for couples) to $3.5 million ($7 million for couples). In her most recent plan, she would still reduce the exemption to $3.5 million, but would also tax larger estates progressively up to a top rate of 65 percent. She also paired the expansion of the estate tax with a modification to the step-up basis in capital gains.

Her most recent changes also introduced a number of business tax reforms. Her plan now includes an expansion of Section 179, an expansion of cash accounting, a substantial increase in start-up cost deductions, and a new small business standard deduction. The campaign also introduced reforms to the Net Investment Income Tax and self-employment taxes that would raise taxes on certain business owners and would limit the tax value of like-kind exchanges.

In addition to the introduction of new policies, we improved the estimate of several existing policies.

Previously, we assumed that the new 4 percent surtax on high income taxpayers would operate much like a new tax bracket, which would apply to taxable income above $5 million. Based on information provided to the Tax Policy Center from the Clinton campaign,[2] our new analysis now assumes that this surtax is applied to Adjusted Gross Income above $5 million. We also assumed in our original analysis that the 28 percent limitation would apply only to itemized deductions. In our updated estimates, we assumed that the 28 percent limitation would be identical to the one proposed by President Obama. As such, this limitation applies to all itemized deductions except the charitable deduction. It also applies to tax expenditures for employer-provided health insurance, municipal bond interest, and above-the-line contributions to retirement accounts. Lastly, we reexamined our estimate of Secretary Clinton's capital gains proposal and adjusted our assumptions about its impact on realizations behavior.

Proposals without enough detail

Because campaigns are not in the business of crafting legislative language, it is often the case that many proposals are too vague to model precisely. As a result, it is necessary to make assumptions about how campaign proposals would operate; but if a proposal is sufficiently vague, it may be necessary to leave it out of the analysis altogether.

Throughout the campaign, Secretary Clinton has proposed several tax policies without indicating precisely how they would work. For instance, she has proposed new tax credits for caregiver expenses and out-of-pocket healthcare costs, but has not specified their parameters. She has also indicated that she wants to pursue business tax reform that would raise revenue and has put forth smaller business-related policies such as a high-frequency trading tax, a small business standard deduction, and a tax credit for profit sharing, without fully specifying the details.

It is unclear exactly how many of these policies would work, and slight differences in our modeling assumptions could significantly alter how these policies would impact taxpayers'

2 Richard Auxier, et al. "An Analysis of Hillary Clinton's Tax Proposals," March 3, 2016. Tax Policy Center http://www.taxpolicycenter.org/sites/default/files/alfresco/publication-pdfs/2000638-an-analysis-of-hillary-clintons-tax-proposals.pdf

after-tax incomes, federal revenues, and the economy. A business tax reform could take many forms. A business tax reform that cuts the marginal rate and broadens the tax base may be revenue positive, but it could have varying impacts on the economy depending on which base broadeners were used.

Without further detail about the expansion of the business tax reform and other policies, it was necessary to omit many of them. However, many of Clinton's proposals are very similar to those introduced by President Obama in several of his budgets. These policies include a bank "risk fee," the elimination of fossil fuel tax expenditures," reforms to the Net Investment Income Tax and self-employment taxes, and changes to anti-base erosion and inversion rules. For these policies, we modeled them and assumed that they would operate identically to those in the president's budgets.

Economic Impact

According to the Tax Foundation's Taxes and Growth Model, Secretary Clinton's tax plan would reduce the economy's size by 2.6 percent in the long run (Table 2). The slightly smaller economy would lead to 2.1 percent lower wages, a 6.9 percent smaller capital stock, and 697,000 fewer full-time equivalent jobs. The smaller economy results from somewhat higher marginal tax rates on capital and labor income.

These projections are what we estimate would happen at the end of a ten-year period and are compared to the underlying baseline of what would occur absent any policy change. For example, the U.S. real GDP will grow by 19.2% from 2016-2025, according to the Congressional Budget Office (CBO), if policy remains unchanged. We predict that the reduced incentives to work, save, and invest would reduce the end-of-period GDP by 2.6 percent below the level it would have been without the policy change.

Table 2.

Economic Impact of Hillary Clinton's Tax Plan

GDP	-2.6%
Capital Investment	-7.0%
Wage Rate	-2.1%
Full-time Equivalent Jobs (in thousands)	-697

Source: Tax Foundation Taxes and Growth Model, March 2016.

Revenue Impact

If fully enacted, Clinton's tax proposals would increase federal revenue by $1.4 trillion over the next 10 years on a static basis (Table 3). Most of the revenue gain is due to increased individual income tax revenue, which we project to amount to approximately $817 billion over the next decade. The changes to the estate tax will raise an additional $310 billion over the next decade. The remaining $300 billion would come from increased corporate and payroll tax revenues.

On a dynamic basis, the plan would increase federal revenues by $663 billion over the next decade. The slightly smaller economy would reduce wages, which would narrow both the individual income and payroll tax bases. As a result, the individual income tax proposals would raise less than half as much revenue as they do under the static analysis, while payroll tax revenues would decline.

Table 3.

Ten-Year Revenue Impact of Hillary Clinton's Tax Reform Plan (Billions of Dollars)

Tax	Static Revenue Impact (2016-2025)	Dynamic Revenue Impact (2016-2025)
Individual Income Taxes	$817	$321
Payroll Taxes	$72	-$128
Corporate Income Taxes	$229	$214
Excise Taxes	$0	-$17
Estate and Gift Taxes	$310	$293
Other Revenue	$0	-$20
Total	**$1,427**	**$663**

Note: Individual items may not sum to total due to rounding.
Source: Tax Foundation Taxes and Growth Model, March 2016.

Revenue and Economic Impacts of Specific Provisions

The largest sources of revenue in the plan are the new taxes targeted at high-income taxpayers (Table 4). The introduction of the Buffett Rule, the 28 percent cap on itemized deductions and tax expenditures, and the new 4 percent surtax on high-income taxpayers would raise about $758 billion on a static basis. On a dynamic basis they raise slightly less ($556 billion) due to their impact on the supply of labor and capital.

Clinton's proposals to expand Section 179, cash accounting, the start-up deduction, and the ACA credit expansion would reduce revenue by about $44 billion over the next decade, reduce the cost of capital, and boost the long-run size of GDP by 0.12 percent. However, all of her business proposals, which include the bank "risk fee," the reforms to the Net Investment Income Tax, the eliminations of fossil fuel expenditures, and her policies to strengthen base erosion and anti-inversion rules, would end up raising revenue on net.

Clinton's new estate tax proposal has the single largest economic impact of all her policies. Her estate tax proposal would raise about $309 billion over the next decade, or about 19 percent of the total revenue impact of her plan. Yet, the new estate tax would account for about 40 percent of the economic impact of the plan. This is because the much higher marginal estate tax rates would greatly reduce the incentive to save and invest.[3]

3 Alan Cole, "Modeling the Estate Tax Proposals of 2016," June 14, 2016. http://taxfoundation.org/article/modeling-estate-tax-proposals-2016

We estimate that Clinton's expanded Child Tax Credit would reduce federal revenue by $199 billion over the next decade.

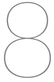
A number of proposals that would have an impact on federal revenues and the long-run size of the economy have been omitted from the analysis. They have been omitted because the campaign has not provided enough detail or there is insufficient data to model the proposals.

Table 4.

Ten-Year revenue and Economic Impact of the Clinton 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
Buffett Rule, 30% Minimum Tax on Taxpayers with Incomes above $1 Million	$313	-0.4%	$203
4% Surtax on Incomes above $5 Million	$163	-0.1%	$147
28% Cap on the Value of Itemized Deductions and Certain Tax Expenditures	$283	-0.3%	$207
Cap value of IRAs, Tax Carried Interest as Ordinary Income, Limit Like-Kind Exchanges	$89	-0.1%	$53
Lengthen Capital Gains Schedule	$35	-0.3%	-$47
Bank Risk Fee	$107	-0.2%	$38
Expand Section 179, Expand Cash Accounting, Quadruple Startup Deduction, Expand/Simplify ACA credit	-$45	0.1%	-$11
Reform NIIT and SECA taxes	$251	-0.2%	$182
Eliminate Fossil Fuel Tax Expenditures, Strengthen Thin-Capitalization Rules, Strengthen Anti-Inversion Rules.	$122	-0.1%	$104
Reduce Estate Tax Exemption, Progressive Estate Tax with Top Rate of 65%	$309	-1.0%	$7
Expanded Child Tax Credit	-$199	-0.1%	-$220
Provisions that Lack Sufficient Detail to Model			
Tax Relief for Taxpayers with Excessive Healthcare Costs			
20 Percent Credit for Caregiving Expenses			
Tax Credit for Profit Sharing			
High-Frequency Trading Tax			
Unspecified Business Tax Reform			
Small Business Standard Deduction			
Taxes Built-up Gains at Death for High-Income Taxpayers with Exemptions for Certain Businesses			
Total	**$1,427**	**-2.6%**	**$663**

Note: Individual items may not sum to total due to rounding.
Source: Tax Foundation Taxes and Growth Model, March 2016.



Distributional Impact

On a static basis, Clinton's tax plan would raise taxes on the top 20 percent of taxpayers and cut taxes for taxpayers in all other income quintiles. Taxpayers in the top quintile (between 80% and 100%) would see a reduction in after-tax income of 2.1 percent. Those in the top 10 percent (between 90% and 100%) would see a reduction in income of 2.8 percent. The top 1 percent of all taxpayers would see the largest reduction in after-tax income of 6.6 percent. Taxpayers in the three middle quintiles would see an increase in after-tax income of between 0.1 percent and 0.5 percent. The largest increase in after-tax incomes (2.2 percent) would go to taxpayers in the bottom quintile.

After the economy has adjusted to the new equilibrium level of GDP, wages, and employment, all taxpayers would see a reduction in after-tax income of at least 0.1 percent. Taxpayers who fall in the middle three quintiles would see their after-tax incomes decline by between 1.8 percent and 2.4 percent. The top 20 percent of taxpayers would see a reduction in after-tax income of 4.2 percent. The top 1 percent of all taxpayers would see the largest decline in after-tax income: 8.4 percent. Taxpayers in the bottom quintile would see a slight reduction in after-tax income of 0.1 percent.

Table 5.

Distributional Analysis for Hillary Clinton's Tax Plan

Effect of Tax Reform on After-Tax Income compared to Current Law

AGI by Quintile	Static	Dynamic
0% to 20%	2.2%	-0.1%
20% to 40%	0.5%	-1.8%
40% to 60%	0.2%	-2.4%
60% to 80%	0.1%	-2.3%
80% to 100%	-2.1%	-4.2%
90% to 100%	-2.8%	-4.9%
99% to 100%	-6.6%	-8.4%
TOTAL	**-1.2%**	**-3.4%**

Note: Returns with Positive AGI
Source: Tax Foundation, Taxes and Growth Model (March 2016 version)

Conclusion

Hillary Clinton would enact a number of tax policies that would raise tax revenue over the next decade in order to fund new or expanded programs. If enacted, her tax policies would impose slightly higher marginal tax rates on capital and labor income, which would result in a slight reduction in the size of the U.S. economy in the long run. This would decrease the revenue that the new tax policies would ultimately collect. The plan would make the tax code more progressive overall, but would lead to lower after-tax incomes for taxpayers at all income levels, but especially for taxpayers at the top.

9 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 all provisions outlined above, with the exception of those marked with an asterisk (*) due to either lack of detail from campaign or lack of sufficient data. We assumed that all provisions were enacted in the beginning of 2016. We accounted for potential transitional costs for provisions such as the behavior impact of the new capital gains holding period schedule. Both the static and dynamic revenue impacts of the plan are relative to the CBO's current law baseline.

In modeling the distributional impact of the plan we follow the convention that changes to the corporate income tax are passed to capital and labor. We assume on a static basis that 25 percent of the corporate tax change is passed to labor and 75 percent is passed to capital. On a dynamic basis, changes to the corporate income tax fall on capital and labor in proportion to their share of factor income: roughly 70 percent labor and 30 percent capital.