AN UPDATED ANALYSIS OF HILLARY CLINTON'S TAX PROPOSALS

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ABSTRACT

This paper updates an analysis of Hillary Clinton's tax proposals, which would raise taxes on high-income taxpayers, increase the child tax credit, modify taxation of multinational corporations, reform capital gains taxes, and increase estate and gift taxes. Nearly all of the tax increases would fall on the highest-income 1 percent; on average, low- and middle-income households would see small increases in after-tax income. Marginal tax rates would increase for high-income filers, reducing incentives to work, save, and invest, and the tax code would become more complex. Her proposals would increase revenue by $1.4 trillion over the next decade, before accounting for reduced interest costs and macroeconomic effects. Including those factors, the federal debt would be reduced by at least $1.5 trillion over the first decade and by at least $5.4 trillion by 2036.

An earlier version of this publication was released on October 11, 2016. This revised version includes macroeconomic estimates of Hillary Clinton's tax proposals, modeled in partnership with the Penn Wharton Budget Model. We provide dynamic scoring estimates of Clinton's tax proposals using two new models: TPC's short-term Keynesian Model and the Penn Wharton Budget Model's Overlapping Generations Model.

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Presidential candidate Hillary Clinton has proposed a series of tax changes that would raise taxes on high-income filers, increase the child tax credit, reform international tax rules for corporations and capital gains taxes, and increase estate and gift taxes.

This analysis updates the Urban-Brookings Tax Policy Center's (TPC) March report[1] on Clinton's tax proposals—including new revenue, distribution, and marginal tax rate estimates that reflect updated economic assumptions. This report includes Clinton's new proposal to increase the child tax credit, raise estate tax rates, reform capital gains taxes, change the net investment income tax and self-employment taxes paid by high-income individuals, and several small business tax proposals.

TPC estimates that Clinton's proposals would increase federal revenue $1.4 trillion over the first decade and an additional $2.7 trillion over the subsequent 10 years.[2] Including interest savings, the proposals would decrease the debt $1.6 trillion over the first 10 years.

TPC, in collaboration with PWBM, also prepared two sets of estimates of Clinton's proposals that take into account macroeconomic feedback effects.[3] Both sets of estimates indicate that the plan would reduce GDP in the short run, decreasing the amount of revenue raised by the plan. However, including lower interest costs, the federal debt would still decrease by $1.5 trillion, even with slightly negative macroeconomic feedback effects on revenues. By 2028, the PWBM indicates that GDP would be larger than it would have been without the plan, because smaller budget deficits would free up savings to finance private investment, and the federal debt would decrease by $5.4 trillion by 2036. These estimates are sensitive to assumptions about how savings, investment, and labor supply would respond to policy changes like Clinton's tax plan, so the effects on GDP could be larger or smaller in both the short- and the long-run. In addition, Clinton's spending proposals would negate the budget savings, meaning that the macroeconomic effect of the whole plan—including both tax and spending proposals—would be negative.

Nearly all of the revenue gain would come from individual income tax changes that affect high-income taxpayers. The highest-income 1 percent of households would pay more than 90 percent of the proposed tax increases, reducing their after-tax income by an average of 7 percent. Clinton's proposals would decrease incentives for high-income households to work, save, and invest. On average, the proposals would increase after-tax income for low- and middle-income families, with households in the lowest income quintile seeing the largest average benefit as a percentage of after-tax income (nearly a 1 percent increase).

MAJOR ELEMENTS OF THE PROPOSAL[4]

Individual Income Tax

Clinton has proposed three individual income tax increases on high-income households: 1) a 4 percent surcharge on adjusted gross income (AGI) in excess of $5 million ($2.5 million for married couples filing separately); 2) a minimum tax of 30 percent of AGI phasing in between $1 and $2 million of income (i.e., the "Buffett Rule"); and 3) a 28 percent limit on the tax benefit from specified deductions and exclusions (excluding charitable contributions).[5]

Clinton would also increase tax rates on capital gains for assets owned for between one and six years in an effort to encourage investors to hold assets longer (table 1).

TABLE 1

Top Capital Gains Tax Rates
by Holding Period

Holding period (years)	Clinton top rate[a] (%)	Current law top rate[a] (%)
under 1	43.4	43.4
1 to 2	43.4	23.8
2 to 3	39.8	23.8
3 to 4	35.8	23.8
4 to 5	31.8	23.8
5 to 6	27.8	23.8
6 and over	23.8	23.8

Sources: Urban-Brookings Tax Policy Center based on the Clinton tax plan and Internal Revenue Service tax brackets.

[a] Tax rates include 3.8 percent surtax on net investment income.

Clinton would tax "carried interest" as ordinary income. She would require derivative contracts to be marked-to-market annually, and limit contributions to tax-favored retirement accounts (including traditional and Roth IRAs, as well as defined benefit plans) and to defined contribution plans such as 401(k), 403(b), and 457(b) accounts, for taxpayers with large accumulated balances.

Clinton proposed a tax credit for qualified expenses for elderly care that would primarily benefit middle-income families, but because of the lack of available data we were not able to include that in our analysis.[6] We also did not include her proposed tax credit for out-of-pocket health care expenses.[7]

New Individual Income Tax Proposals

Clinton proposes increasing the child tax credit from $1,000 to $2,000 and increasing the phase-in rate from 15 percent to 45 percent for the refundable portion of the credit, for families with eligible children under age 5. She would also eliminate the minimum earnings requirement (currently $3,000) for all families with eligible children (under age 17) so that tax relief would begin with the first dollar earned.

On capital income, Clinton would limit the exclusion of gains from “like-kind exchanges” and treat bequests as realization events. Typically, when an asset is sold for more than its cost, the seller pays tax on the increase in value. But sellers can defer or escape the tax in two prominent ways.

First, under current law, taxpayers may defer realizations of gains from a like-kind exchange, in which a taxpayer uses the proceeds from selling one property to buy a similar asset. Clinton would limit the amount of gains the seller can defer from such transactions to $1 million for property and deny the deferral completely for exchanges of artwork.

Second, Clinton would limit the exemption of a decedent’s unrealized capital gains when assets are transferred at death. Under current law, when a person inherits an asset, the basis or deemed purchase price of the asset is reset to its current market value—so the decedent’s unrealized capital gain on the asset is never taxed. For example, if an asset purchased for $10 is worth $100 when the owner dies and the heir subsequently sells it for $150, the capital gain tax applies only to the $50 increase in value after the inheritance. The $90 gain accrued by the decedent is never subject to tax. Clinton would end this so-called “step-up” in basis—the transfer at death would be considered a realization event and the estate would pay tax on the unrealized gain ($90 in the example) accrued during the decedent’s lifetime. The proposal would exempt a moderate amount of capital gains as well as most gains on owner-occupied housing and some small business gains.

Clinton proposes “rationalizing” the 3.8 percent net investment Income tax (NIIT) imposed by the Affordable Care Act on investment income for filers with incomes above $200,000 ($250,000 for married filers). Clinton would broaden the tax base of the NIIT to include all pass-through business income not subject to the self-employment payroll (SECA) tax. Currently, some pass-through income is not subject to either SECA or the NIIT.

Taxes Related to the Affordable Care Act

Clinton would repeal the excise tax on high-cost health plans, commonly referred to as the “Cadillac Tax.” Scheduled to take effect in 2018, the 40 percent excise tax will apply to the value of employer-provided health policies whose benefits exceed specified thresholds. The tax will be

levied on insurance companies, but the burden will likely be passed on to workers in the form of lower wages.

Business Taxes

Clinton has not proposed changing corporate income tax rates but instead has offered a series of proposals tied to specific policy goals. Three proposals aim to discourage multinational corporations from avoiding or lowering their US taxes. One proposal would broaden the definition of an inversion transaction by reducing the 80 percent “inversion test” to 50 percent. This means that a US firm that merges with a smaller foreign company would continue to be taxed as a US-based firm unless it met certain other requirements.

A second proposal attempts to prevent “earnings stripping,” where the US affiliate of a multinational company makes interest payments rather than dividend payments to a parent company located in a tax haven. The proposal would limit a company’s US interest deductions if its share of net interest expenses for US tax purposes exceeds its share on consolidated financial statements.

Clinton’s third proposal would levy an “exit tax” on US multinational companies that become foreign residents either through inversion or through acquisition by a larger foreign company. These firms would have to pay US corporate income tax on the untaxed earnings they had accumulated in their foreign subsidiaries prior to the merger transaction.

Other Clinton proposals would limit tax avoidance by insurance companies through arrangements with foreign affinities, impose a transactions tax on high-frequency traders who place and cancel millions of orders a year, and impose a “risk” fee on large financial institutions.

Clinton would also eliminate tax subsidies for fossil fuels, including expensing of intangible drilling costs, percentage depletion, and the deduction for domestic manufacturing for production of oil, natural gas, and coal.

Clinton has also proposed targeted tax breaks for specific business activities, including credits for businesses that hire workers from an apprentice program, share profits with employees, or invest in distressed communities and infrastructure. She also proposes to reauthorize and expand Build America Bonds. State’s authority to issue these alternatives to tax-exempt bonds—taxable bonds that are eligible for a federal tax credit—expired at the end of 2010.

Small Business Tax Simplification

In August, Clinton proposed a series of measures to simplify tax filing for small businesses. One proposal would allow small businesses to compute net business income by taking a standard deduction instead of deducting specified business expenses, similar to the standard deduction used by most individual tax filers. (There were not sufficient details to include this proposal in our estimates.) [8] Another proposal would allow firms with gross receipts of $1 million or less to use "checkbook accounting," where they would assess their taxable profit or loss by comparing the balance at the end of the year with the balance at the start. Business with receipts up to $25 million would be able to elect cash accounting for tax purposes—that is, these firms would only need to track cash outlays and receipts, simplifying accounting for inventories, depreciation of equipment, and accounts receivable.

Clinton also proposed to increase the limit on investments small businesses can expense from $500,000 to $1 million and quadrupling the deduction for start-up costs from $5,000 to $20,000.

Estate and Gift Taxes (Updated)

In tax year 2016, the basic exclusion for the estate tax is $5.45 million (twice that amount for couples) and the top tax rate is 40 percent. Clinton proposes reducing the threshold to $3.5 million (double for couples) with no indexation for inflation and replacing the current 40 percent tax rate with three rates: (1) a 45 percent rate on the value of an estate between $3.5 and $10 million (with all values doubled for couples); (2) a 50 percent rate on the value of an estate between $10 million and $50 million; and (3) a 55 percent rate on the value of an estate in excess of $50 million. A 10 percent surtax would apply to estates valued at $500 million or more ($1 billion or more for married couples), raising the top rate to 65 percent. The proposal would retain the current estate tax deductions, including the one for charitable contributions.

Finally, Clinton proposes to require consistency between valuations for transfer (estate and gift) tax and income tax purposes, and to reform the rules that apply to grantor trusts.

IMPACT ON REVENUE, DISTRIBUTION, AND COMPLEXITY

Effects on Revenue

We estimate that Clinton's proposals would increase federal receipts by about $1.4 trillion between 2016 and 2026 (assuming implementation in 2017, table 2).

Most of the revenue increase over the 10-year period would come from four individual income tax provisions aimed at high-income taxpayers: the 28 percent cap on certain deductions

and exclusions ($520 billion), the 4 percent surtax ($140 billion), the 30 percent minimum tax ($124 billion), and the limitation on like-kind exchanges and rationalization of the NIIT and SECA taxes ($247 billion). The new capital gains tax rates would increase revenue by $83 billion over the decade.

Clinton's corporate income tax changes would raise $130 billion and the proposed estate tax's lower threshold, higher rates, and other reforms would boost revenues $410 billion.

Clinton's increased child tax credit would reduce revenue by $209 billion and repealing the Cadillac Tax would lose $79 billion.

TABLE 2

Estimated Effect of Clinton Tax Plan on Tax Receipts

$ billions, FY 2016–36

Provision	Fiscal Year							
	2016	2017	2018	2019	2020	2021	2016–26	2027–36
Individual income tax								
Repeal excise tax on high-cost health plans ("Cadillac Tax")	0.0	0.0	0.0	0.0	-4.7	-7.3	-79.3	-410.5
Limit value of certain tax expenditures (other than charitable) to 28 percent	0.0	29.3	41.6	44.6	48.0	51.4	520.3	930.8
Four percent surcharge on adjusted gross income (AGI) greater than $5 million, unindexed	2.3	1.1	3.8	10.6	13.3	14.1	140.2	336.9
"Buffett Rule"	2.3	3.3	6.2	11.2	12.6	13.0	123.6	217.0
Increase capital gains rates based on holding period of capital asset	3.5	-6.6	-5.1	-1.5	2.1	7.2	83.2	254.4
Increase the child tax credit for children under five to $2,000; expand phase-in of refundable portion of credit	0.0	-16.9	-22.5	-22.3	-22.0	-21.7	-208.7	-186.4
Increased expensing limit and start-up cost deduction, cash accounting for small businesses	0.0	-3.7	-4.9	-4.6	-5.7	-6.2	-46.2	-47.8
Incentives for community development and infrastructure	0.0	0.0	0.0	-0.1	-0.1	-0.1	-1.5	-5.9
Eliminate fossil fuel tax incentives	0.0	0.6	1.1	1.2	1.1	1.0	8.5	6.1
Repeal carried interest, mark derivatives to market, and limit deferral in retirement accounts	0.0	0.9	4.8	4.5	4.5	4.2	36.3	28.3
Limit like-kind exchanges; rationalize net investment income tax	0.0	14.1	21.6	22.5	23.5	24.5	247.3	393.4
Other provisions	------------------------------------- Insufficient data for analysis -------------------------------------							
Total for individual income tax revenues	**8.2**	**22.1**	**46.6**	**66.0**	**72.6**	**79.9**	**823.6**	**1,516.4**
Corporate income tax								
International reforms	0.0	3.2	7.0	8.6	9.2	10.0	100.5	182.7
Increased expensing limit and start-up cost deduction, cash accounting for small businesses	0.0	-1.2	-1.6	-1.5	-1.8	-2.0	-15.3	-19.1
Incentives for community development and infrastructure	0.0	0.0	0.0	-0.1	-0.2	-0.3	-5.1	-28.7
Eliminate fossil fuel tax incentives and limit like-kind exchanges	0.0	3.1	4.7	4.8	4.9	5.0	49.8	88.5
Other provisions	------------------------------------- Insufficient data for analysis -------------------------------------							
Total for corporate income tax revenues	**0.0**	**5.2**	**10.0**	**11.8**	**12.1**	**12.6**	**129.9**	**223.4**
Estate and gift taxes								
Restore 2009 estate and gift parameters; top rate of 65 percent; tax capital gains above exemption levels at death; reform grantor trust and valuation rules	0.0	11.0	26.9	32.0	36.2	40.6	410.4	978.4
Total for estate and gift tax revenues	**0.0**	**11.0**	**26.9**	**32.0**	**36.2**	**40.6**	**410.4**	**978.4**
Excise taxes								
Impose the oil spill liability excise on oil production from tar sands	0.0	*	*	*	*	*	*	*
Other proposals	------------------------------------- Insufficient data for analysis -------------------------------------							
Total for excise tax revenues	**0.0**	*	*	*	*	*	*	*
Total revenue effect of all provisons								
Total revenue change before macro feedback (sum of amounts above)	**8.2**	**38.3**	**83.5**	**109.7**	**121.0**	**133.1**	**1,363.8**	**2,718.2**
Total revenue change after macro feedback (dynamic score)								
TPC Keynesian model estimates	**8.2**	**23.4**	**73.5**	**104.6**	**118.1**	**132.5**	**1,330.4**	**2,718.2**
PWBM overlapping generations model estimates	**8.2**	**44.6**	**75.8**	**97.3**	**108.6**	**120.4**	**1,269.1**	**2,844.5**
Exhibit: Difference in total revenue change due to macro feedback								
TPC Keynesian model estimates	0.0	-14.9	-10.0	-5.1	-2.8	-0.6	-33.4	0.0
PWBM overlapping generations model estimates	0.0	6.3	-7.6	-12.4	-12.4	-12.7	-94.7	126.3

Sources: Urban-Brookings Tax Policy Center (TPC) Microsimulation Model (version 0516-1); TPC off-model estimates; TPC Keynesian model; Penn Wharton Budget Model (PWBM) overlapping generations model.
Note: * = less than $0.05 billion.

Including interest savings from reducing the federal debt, Clinton's tax proposals would reduce the federal debt nearly $1.6 trillion over the 10-year budget window (table 3). Overall, from 2016 to 2036, Clinton's tax proposals—not counting the effect of new spending initiatives or additional tax changes—would decrease the federal debt by $5.5 trillion, or 13.1 percent of GDP in 2036.

TABLE 3

Effect of Clinton Tax Plan on Federal Revenues, Deficits, and the Debt

FY 2016–36

	Fiscal Year												
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2016–26	2027–36
Estimates before macro feedback													
Revenue gain ($ billions)	8.2	38.3	83.5	109.7	121.0	133.1	148.8	161.9	173.7	186.1	199.7	1,363.8	2,718.2
As a percentage of GDP (%)	0.0	0.2	0.4	0.5	0.6	0.6	0.6	0.7	0.7	0.7	0.7	0.6	0.8
Decrease in interest ($ billions)	0.0	0.6	2.1	6.1	10.4	15.5	21.1	27.6	34.8	42.6	51.1	211.9	1,162.4
Decrease in deficit ($ billions)	8.2	38.8	85.5	115.7	131.4	148.6	170.0	189.5	208.5	228.6	250.9	1,575.7	3,880.6
Decrease in debt[a] ($ billions)	8.2	47.1	132.6	248.3	379.7	528.3	698.3	887.8	1,096.2	1,324.9	1,575.7	1,575.7	5,456.4
Cumulative decrease in debt relative to GDP (%)	**0.0**	**0.2**	**0.7**	**1.2**	**1.7**	**2.3**	**3.0**	**3.6**	**4.3**	**5.0**	**5.7**	**5.7**	**13.1**
Addendum: GDP (end of period; $ billions)	18,493.8	19,296.5	20,127.1	20,906.0	21,709.7	22,593.2	23,527.5	24,497.2	25,505.6	26,559.2	27,660.0	27,660.0	41,511.7
Estimates after macro feedback from TPC Keynesian model													
Revenue gain ($ billions)	8.2	23.4	73.5	104.6	118.1	132.5	148.8	161.9	173.7	186.1	199.7	1,330.4	2,718.2
As a percentage of GDP (%)	0.0	0.1	0.4	0.5	0.5	0.6	0.6	0.7	0.7	0.7	0.7	0.6	0.8
Decrease in interest ($ billions)	0.0	0.4	1.5	5.0	9.2	14.3	19.9	26.3	33.4	41.1	49.6	200.8	1,143.5
Decrease in deficit ($ billions)	8.2	23.7	75.0	109.6	127.3	146.8	168.7	188.2	207.1	227.2	249.3	1,531.2	3,861.7
Decrease in debt[a] ($ billions)	8.2	31.9	106.9	216.5	343.9	490.7	659.4	847.6	1,054.7	1,281.9	1,531.2	1,531.2	5,392.9
Cumulative decrease in debt relative to GDP (%)	**0.0**	**0.2**	**0.5**	**1.0**	**1.6**	**2.2**	**2.8**	**3.5**	**4.1**	**4.8**	**5.5**	**5.5**	**13.0**
Addendum: GDP (end of period; $ billions)	18,493.8	19,223.3	20,078.3	20,881.0	21,696.0	22,590.5	23,527.5	24,497.2	25,505.6	26,559.2	27,660.0	27,660.0	41,511.7
Estimates after macro feedback from PWBM overlapping generations model													
Revenue gain ($ billions)	8.2	44.6	75.8	97.3	108.6	120.4	134.9	147.3	162.5	176.8	192.6	1,269.1	2,844.5
As a percentage of GDP (%)	0.0	0.2	0.4	0.5	0.5	0.5	0.6	0.6	0.6	0.7	0.7	0.5	0.8
Decrease in interest ($ billions)	0.0	0.6	2.2	5.8	9.7	14.3	19.4	25.4	31.9	39.3	47.4	196.0	1,123.4
Decrease in deficit ($ billions)	8.2	45.2	78.0	103.1	118.3	134.7	154.4	172.7	194.5	216.1	239.9	1,465.1	3,967.8
Decrease in debt[a] ($ billions)	8.2	53.4	131.4	234.5	352.8	487.5	641.9	814.6	1,009.1	1,225.1	1,465.1	1,465.1	5,432.9
Cumulative decrease in debt relative to GDP (%)	**0.0**	**0.3**	**0.7**	**1.1**	**1.6**	**2.2**	**2.7**	**3.3**	**4.0**	**4.6**	**5.3**	**5.3**	**13.0**
Addendum: GDP (end of period; $ billions)	18,493.8	19,273.7	20,079.8	20,852.2	21,656.4	22,541.7	23,477.3	24,450.8	25,466.2	26,526.7	27,637.5	27,637.5	41,736.4

Sources: Urban-Brookings Tax Policy Center (TPC) Microsimulation Model (version 0516-1); Congressional Budget Office (2016a, 2016b); TPC Keynesian model; Penn Wharton Budget Model (PWBM) overlapping generations model.

[a] Decrease in debt equals the cumulative decrease in deficit plus the decrease in interest on the debt.

Taking macroeconomic feedback effects into account, the debt reduction as a percentage of GDP would be somewhat smaller—5.3 percent of GDP in .2026 and 13.0 percent in 2036 (table 3). The PWBM model estimates that after 2027, revenues would grow above the levels estimated without macro feedback, so the ratio of debt to GDP would fall further in later years.

Clinton's proposed spending increases—not modeled—would tend to negate the long run macro benefits, however.

***Effects on Distribution*[9]**

In 2017, Clinton's proposals would increase taxes on the highest-income filers. Overall, filers in the top quintile (20 percent) would pay 110 percent of the net tax increase because, on average, filers in the lower quintiles would get a tax cut (table 4). Nearly two-thirds of the total tax increase would fall on the highest-income 0.1 percent of filers and 92 percent would hit the top 1 percent.

Filers in the top income quintile would have an average tax increase of nearly $6,700 in 2017 (a 2.6 percent reduction in after-tax income). For the top 0.1 percent—filers with income greater than $3.7 million—the average tax increase would be just over $800,000 (a 10.8 percent reduction in after-tax income).

TABLE 4

Distribution of Federal Tax Change under Clinton Tax Plan

By expanded cash income percentile, 2017[a]

Expanded cash income percentile[b,c]	Percent change in after-tax income[d] (%)	Share of total federal tax change (%)	Average federal tax change ($)	Average Federal Tax Rate[e]	
				Change (percentage points)	Under the proposal (%)
Lowest quintile	0.7	-3.3	-100	-0.7	3.0
Second quintile	0.4	-3.7	-140	-0.4	8.0
Middle quintile	0.2	-2.6	-110	-0.2	13.4
Fourth quintile	0.1	-0.9	-40	0.0	17.3
Top quintile	-2.6	110.7	6,690	2.0	28.0
All	-1.2	100.0	830	0.9	21.0
Addendum					
80–90	-0.1	0.8	100	0.1	20.2
90–95	-0.4	3.1	750	0.3	22.5
95–99	-1.5	14.7	4,690	1.1	26.6
Top 1 percent	-7.4	92.2	117,760	4.9	38.4
Top 0.1 percent	-10.8	64.9	805,250	7.1	41.5

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0516-1).

Note: Number of AMT taxpayers (millions). Baseline: 4.8; Proposal: 4.7.

[a] Calendar year. Baseline is current law. Proposal includes individual, payroll, corporate, excise and estate provisions in the Clinton tax plan. http://www.taxpolicycenter.org/taxtopics/Baseline-Definitions.cfm.

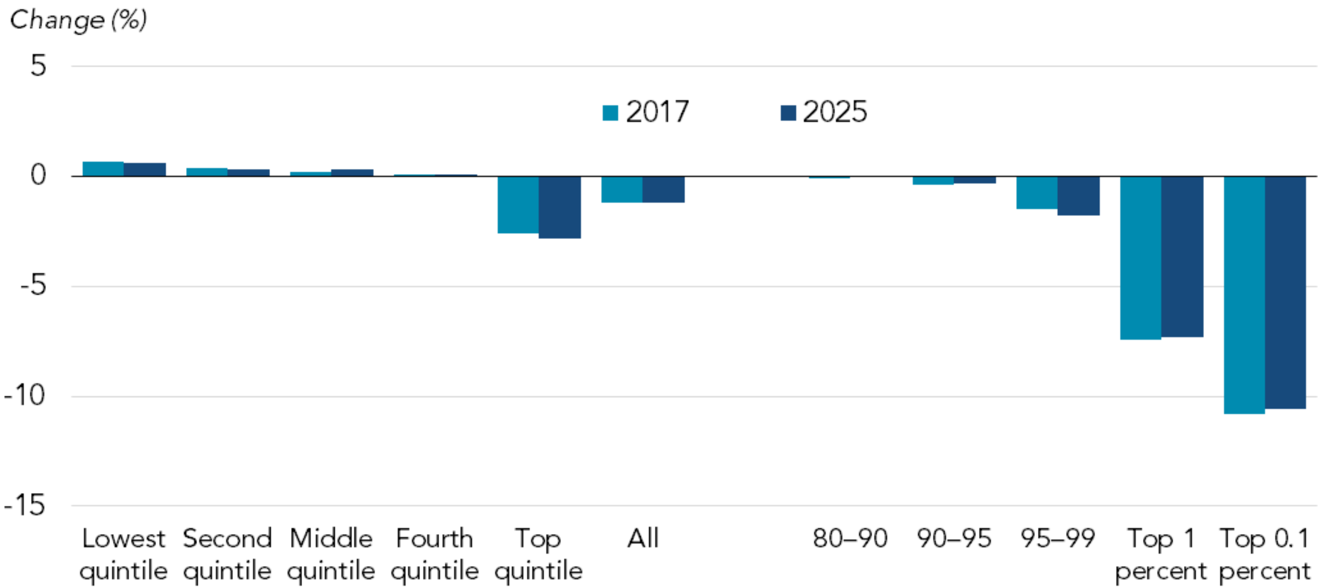
[b] The percentile includes both filing and nonfiling units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. For a description of expanded cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm.

[c] The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2016 dollars): 20% $24,800; 40% $48,400; 60% $83,300; 80% $143,100; 90% $208,800; 95% $292,100; 99% $699,000; 99.9% $3,749,600.

[d] After-tax income is expanded cash income less individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate tax; and excise taxes.

[e] Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

The effect of Clinton's proposals on all other taxpayers would be relatively modest (figure 1). On average, filers in the bottom 80 percent of the income distribution (income under $140,000) would see a small increase in after-tax income (averaging no more than 1 percent). Filers in the lowest income quintile would receive an average tax cut of $100 (or a 0.7 percent increase in after-tax income).



On average, filers falling within the 80 percent to 90 percent range of the income distribution would have a small tax increase, reducing after-tax income by 0.1 percent. These increases would result primarily from the proposed increases in business and corporate taxes, which are ultimately borne by investors and workers.

Clinton's tax proposals would have roughly the same distributional effects in 2025 (table 5). On average, the bottom 80 percent of tax units would continue to see a small increase in after-tax incomes and high-income taxpayers would face higher taxes.

TABLE 5

Distribution of Federal Tax Change under Clinton Tax Plan

By expanded cash income percentile, 2025[a]

Expanded cash income percentile[b,c]	Percent change in after-tax income[d] (%)	Share of total federal tax change (%)	Average federal tax change ($)	Average Federal Tax Rate[e]	
				Change (percentage points)	Under the proposal (%)
Lowest quintile	0.6	-2.4	-100	-0.5	3.8
Second quintile	0.3	-2.8	-140	-0.3	8.5
Middle quintile	0.3	-3.3	-190	-0.2	13.8
Fourth quintile	0.1	-2.4	-170	-0.1	17.1
Top quintile	-2.8	111.2	9,300	2.1	28.4
All	-1.2	100.0	1,140	1.0	21.2
Addendum					
80–90	0.0	0.4	70	0.0	20.0
90–95	-0.3	2.4	840	0.3	22.2
95–99	-1.8	15.9	7,060	1.3	26.8
Top 1 percent	-7.3	92.5	163,510	4.8	38.3
Top 0.1 percent	-10.6	65.6	1,106,210	7.0	41.1

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0516-1).

Note: Number of AMT taxpayers (millions). Baseline: 5.6; Proposal: 5.4.

[a] Calendar year. Baseline is current law. Proposal includes individual, payroll, corporate, excise, and estate provisions in the Clinton tax plan. http://www.taxpolicycenter.org/taxtopics/Baseline-Definitions.cfm.

[b] The percentile includes both filing and nonfiling units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. For a description of expanded cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm.

[c] The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2016 dollars): 20% $26,900; 40% $52,300; 60% $89,300; 80% $149,900; 90% $219,700; 95% $299,500; 99% $774,300; 99.9% $4,760,500.

[d] After-tax income is expanded cash income less individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate tax; and excise taxes.

[e] Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

Effects on Complexity

Many of Clinton's proposals would make the tax code more complex, especially for higher-income tax filers. The "Buffett Rule" would effectively be a new 30 percent minimum tax on AGI. The 28 percent limit on the value of certain deductions and exclusions would be another form of minimum tax on selected tax preferences. Tax preparation software makes such calculations manageable, but they would still make the already complex individual income tax even more complicated.

Capital gains taxation would also become more complex with the new rate schedule based on holding periods. Taxpayers eligible for Clinton's new tax credits would need additional tax documentation and have to make new calculations. Other proposals, such as the changes to the tax treatment of carried interest income and derivative contracts, would not so much add complexity as reshuffle an already complex system.

Clinton's small business proposals, however, would provide significant simplification for most businesses.

DYNAMIC EFFECTS ON THE ECONOMY

In addition to conventional estimates, which are based on fixed macroeconomic assumptions, TPC also prepared, in collaboration with the PWBM, a set of estimates of the Clinton proposals that take into account macroeconomic feedback effects.[10] Estimates of the impacts of tax changes on the economy are subject to considerable uncertainty and can vary widely depending on the models and assumptions chosen. We present "dynamic" estimates from two models to illustrate different ways that tax policy can influence the economy. Estimates using the TPC Keynesian model illustrate how the plan's impact on aggregate demand would influence the economy in the short run—that is, over the next few years. Estimates using the PWBM illustrate the longer-run impact of the plan on potential output through its effects on incentives to work, save, and invest, and on the budget deficit.[11]

The Penn Wharton Budget Model is a state of the art tool to estimate the economic effects of tax policy, but like any economic model it is an imperfect representation of the economy that we expect to evolve and improve. Therefore, these estimates (like our "static" revenue estimates) are subject to revision and improvement over time.

Impact on Aggregate Demand

Clinton's tax proposals would decrease aggregate demand, and therefore output, in two main ways. First, by increasing average tax rates for high-income households, the plan would decrease after-tax incomes.

Households would reduce spending due to that loss of income, decreasing demand. This effect would be attenuated to some degree because nearly all of the tax increase would be on high-income households, which would cut spending proportionately less than lower-income households in response to decreased after-tax income. Second, business tax changes and rate increases on high-income households would reduce incentives for business investment spending, further decreasing demand. These effects on aggregate demand would reduce output relative to

its potential level for several years until actions by the Federal Reserve and equilibrating forces in the economy returned output to its long-run potential level.

Using the TPC Keynesian model, we estimate that these factors would reduce output by about 0.4 percent in 2017, by 0.2 percent in 2018, and by smaller amounts in later years (table 6). Using a range of assumptions about the response of household spending to changes in income, the response of investment, and the impact of decreased demand on output, TPC estimates that the impact on output could be between -0.1 and -0.9 percent in 2017, -0.1 and -0.6 percent in 2018, and smaller amounts in later years.

TABLE 6

Dynamic Effects of Clinton Tax Plan on GDP

FY 2016–36

	Fiscal Year												
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2016–26 [a]	2027–36 [a]
	GDP ($ billions)												
Before macro feedback	18,493.8	19,296.5	20,127.1	20,906.0	21,709.7	22,593.2	23,527.5	24,497.2	25,505.6	26,559.2	27,660.0	27,660.0	41,511.7
After macro feedback													
TPC Keynesian model	18,493.8	19,223.3	20,078.3	20,881.0	21,696.0	22,590.5	23,527.5	24,497.2	25,505.6	26,559.2	27,660.0	27,660.0	41,511.7
PWBM overlapping generations model	18,493.8	19,273.7	20,079.8	20,852.2	21,656.4	22,541.7	23,477.3	24,450.8	25,466.2	26,526.7	27,637.5	27,637.5	41,736.4
	Exhibit: Percentage change in GDP due to macro feedback (%)												
TPC Keynesian model	0.0	-0.4	-0.2	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PWBM overlapping generations model	0.0	-0.1	-0.2	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1	0.5

Sources: Congressional Budget Office (2016a, 2016b); Urban-Brookings Tax Policy Center (TPC) Keynesian model; Penn Wharton Budget Model (PWBM) overlapping generations model.

[a] End of period.

Those decreases in output would reduce incomes, which in turn would decrease tax revenue, offsetting some of the revenue gains from the tax plan. TPC estimates that the plan's effects on demand would, in themselves, reduce revenues by $14.9 billion in 2017 (or between $3.0 and $34.5 billion in 2017 using TPCs full range of estimates), by $10.0 billion (or between $2.0 and $23.0 billion) in 2018, and by smaller amounts in later years. However, the short-term drag would likely be offset by other proposals to increase spending in the short term, which we did not model. The revenue effect of the Clinton plan, taking into account the dynamic revenue gains based on the TPC Keynesian model using standard parameters, is shown in table 2.

Impact on Potential Output

In addition to short-run effects through aggregate demand, Clinton's tax proposals would have a lasting effect on potential output--altering incentives to work, save, and invest—as well as on the budget deficit. Those lasting effects, described below, were estimated using the PWBM.

Impact on Saving and Investment

Clinton's proposals would decrease incentives to save and invest, but only for filers in the top decile (table 7). However, those filers receive most investment income. The 4 percent surtax on AGI over $5 million and the new 30 percent minimum tax would increase marginal tax rates on all forms of capital income for high-income filers. The average marginal tax rate on interest income would rise 3.8 percentage points—from 35.4 to 39.2 percent—among the top 0.1 percent of filers. The effective marginal tax rate on dividends would rise even more—from 24.0 to 31.0 percent for the highest-income taxpayers.

TABLE 7

Effective Marginal Individual Income Tax Rates on Capital Income

By expanded cash income percentile, 2017[a]

Expanded cash income percentile[b,c]	Tax units (thousands)	Long-term capital gains			Qualified dividends			Interest income		
		Current law (%)	Clinton proposal (%)	Change (percentage points)	Current law (%)	Clinton proposal (%)	Change (percentage points)	Current law (%)	Clinton proposal (%)	Change (percentage points)
Lowest quintile	48,335	0.7	0.7	0.0	0.3	0.3	0.0	1.7	1.7	0.0
Second quintile	38,629	0.8	0.8	0.0	0.8	0.8	0.0	6.5	6.4	0.0
Middle quintile	33,885	6.9	6.9	0.0	7.2	7.2	0.0	17.7	17.6	0.0
Fourth quintile	28,656	10.6	10.6	0.0	10.7	10.7	0.0	22.3	22.3	0.0
Top quintile	23,960	23.2	31.4	8.1	22.2	26.6	4.4	34.1	36.6	2.5
All	174,683	21.6	28.9	7.3	19.2	22.6	3.5	26.8	28.4	1.6
Addendum										
80–90	12,387	14.3	14.4	0.0	14.6	14.6	0.0	25.0	25.2	0.1
90–95	5,907	16.8	17.2	0.4	16.7	17.6	0.9	28.3	29.8	1.5
95–99	4,534	22.9	24.6	1.7	22.6	23.5	0.8	35.0	37.6	2.5
Top 1 percent	1,133	24.1	33.7	9.6	24.0	30.2	6.2	36.5	39.6	3.1
Top 0.1 percent	117	24.1	34.4	10.3	24.0	31.0	7.0	35.4	39.2	3.8

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0516-1).

Notes: Projections are for calendar year 2017. Marginal effective tax rates are weighted by the appropriate income source.

[b] Includes both filing and nonfiling units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. For a description of expanded cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm.

[c] The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2016 dollars): 20% $24,800; 40% $48,400; 60% $83,300; 80% $143,100; 90% $208,800; 95% $292,100; 99% $699,000; 99.9% $3,749,600.

Average effective marginal tax rates on long-term capital gains (those held for more than one year, the current threshold) would rise the most—10.3 percentage points for taxpayers in the top 0.1 percent—because of the factors mentioned above plus the higher tax rate applied to long-term capital gains on assets held less than six years. The higher rates levied on individuals' dividends and capital gains would raise corporations' cost of capital. All of these provisions would discourage saving and investment, although the responsiveness of saving to taxes is a subject of considerable debate among economists.[12]

The overall effect of taxes on incentives to save and invest can be summarized in the marginal effective tax rate (METR). METR is a forward-looking measure of the effect of the tax

system on the rate of return of a hypothetical marginal (i.e., just break-even) investment project[13] (table 8).

TABLE 8
Marginal Effective Tax Rates on New Investment
In percent, 2017

Category	Current law	Clinton plan	Change (percentage points)
Business investment	**22.0**	**23.4**	**1.4**
Corporate	24.0	25.9	1.9
Equipment	19.9	21.8	1.9
Structures	27.9	29.6	1.7
Intellectual property products	-0.1	1.8	1.9
Inventories	38.4	40.0	1.6
Pass-through	18.9	19.2	0.3
Equipment	15.5	15.8	0.3
Structures	22.3	22.6	0.3
Intellectual property products	-3.4	-3.5	-0.1
Inventories	31.6	32.9	1.3
Memo			
Corporate (equity financed)	30.8	32.7	1.9
Corporate (debt financed)	-7.4	-5.7	1.7
Variation (s.d.) across assets	12.2	11.9	
Variation (s.d.) across industries	6.1	5.9	

Source: Urban-Brookings Tax Policy Center calculations. See Rosenberg and Marron (2015) for discussion.
Notes: s.d. = standard deviation. Estimates for are calendar year 2017. The baseline is current law.

The Clinton proposal would raise the overall METR on nonresidential business investment by 1.4 percentage points, from 22.0 to 23.4 percent. METRs increase because of Clinton's proposed higher effective tax rates on capital gains, dividends, and interest, which all lower the after-tax rate of return earned by savers. In addition, individual income tax changes affecting pass-through business owners—primarily the new 30 percent minimum tax and tax expenditure limit—slightly increase the METR on investment in pass-throughs.

Because the largest tax changes affect the taxation of returns to corporate equity—especially capital gains—the proposal would exacerbate two current biases in the federal tax system that favor pass-through businesses over corporations and favor debt over equity financing. METRs for corporations would increase 1.9 percentage points to 25.9 percent, while METRs for pass-through businesses would increase 0.3 percentage points to 19.2 percent. For

corporations, METRs on equity-financed investments would increase 1.9 percentage points (from 30.8 percent to 32.7 percent), while the METRs on debt-financed investments would increase 1.7 percentage points (from −7.4 percent to −5.7 percent). The variation of METRs across assets and industries would change little under the Clinton proposals.

Impact on Labor Supply

Clinton's proposals would also raise effective tax rates on labor income (i.e. wages and salaries for employees and self-employment income for others) for the highest earners and not affect those in the lower quintiles. Overall, the proposal would increase effective income tax rates on labor income by an average of 0.7 percentage points—from 24.7 to 25.5 percent (table 9). The average increase for the top quintile would be 1.3 percentage points, while for the top 0.1 percent it would be 3.0 percentage points.

TABLE 9

Effective Marginal Individual Income Tax Rates on Wages, Salaries, and Self-Employment Income

By expanded cash income percentile, 2017[a]

Expanded cash income percentile[b,c]	Tax units (thousands)	Individual income tax			Combined individual income tax and payroll tax		
		Current law (%)	Clinton proposal (%)	Change (percentage points)	Current law (%)	Clinton proposal (%)	Change (percentage points)
Lowest quintile	48,335	2.3	2.9	0.6	16.2	16.8	0.6
Second quintile	38,629	15.6	15.8	0.2	29.4	29.6	0.2
Middle quintile	33,885	19.2	19.2	0.0	32.8	32.8	0.0
Fourth quintile	28,656	20.1	20.1	0.0	33.7	33.7	0.0
Top quintile	23,960	31.1	32.4	1.3	38.4	39.7	1.3
All	174,683	24.7	25.5	0.7	35.1	35.8	0.7
Addendum							
80–90	12,387	25.5	25.7	0.3	36.6	36.9	0.3
90–95	5,907	27.8	29.0	1.2	35.7	36.9	1.2
95–99	4,534	33.0	35.5	2.6	38.6	41.1	2.6
Top 1 percent	1,133	38.8	40.3	1.5	42.7	44.2	1.5
Top 0.1 percent	117	39.5	42.6	3.0	43.3	46.4	3.0

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0516-1).

[a] Projections are for calendar year 2017. Effective marginal tax rates are weighted by the wages and salaries.

[b] Includes both filing and nonfiling units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. For a description of expanded cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm.

[c] The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2016 dollars): 20% $24,800; 40% $48,400; 60% $83,300; 80% $143,100; 90% $208,800; 95% $292,100; 99% $699,000; 99.9% $3,749,600.

Long-Run Impact on Output and Revenues

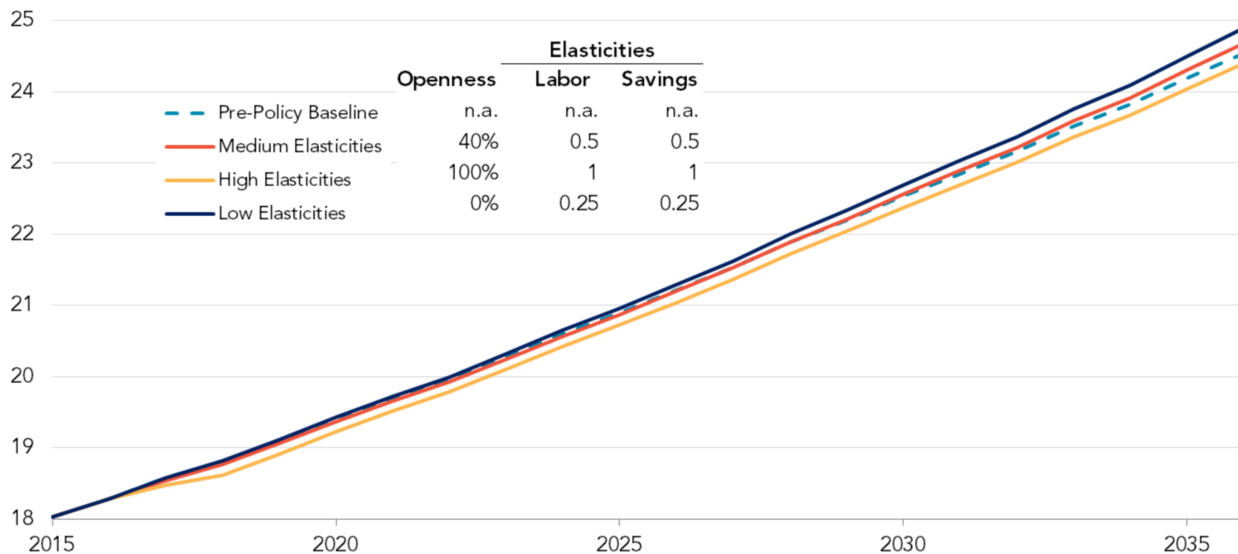
The PWBM estimates that the Clinton proposals' effect on investment and labor supply would reduce GDP by 0.1 percent in 2017 and by the same amount in 2026, but would increase GDP by 0.5 percent by 2036 (table 6). Those economic effects would in turn alter revenues, decreasing them by $94.7 billion between 2017 and 2026, but increasing revenues by $126.3 billion between 2027 and 2036 (table 2). Taking into account the dynamic effects on GDP and revenues from the PWBM, the plan would decrease debt by 5.3 percent of GDP by 2026 and by 13.0 percent of GDP by 2036 (table 3). These ratios of decreased debt to GDP are slightly lower than projected in TPC's conventional estimates. Clinton's spending proposals, which we did not model,

would likely negate most if not all of the budget savings from the tax increases, leaving only the effect of the tax changes on economic incentives.

Sensitivity of Macro Estimates to Assumptions

Macroeconomic models are sensitive to assumptions about how individuals respond to incentives, the operation of world capital markets, and other government policies. Different types of models also can produce very different estimates. The PWBM allows users to see how different assumptions change the model's estimates.[14] For example, compared with the baseline before incorporating macroeconomic response ("pre-policy baseline" in Figure 2), the PWBM's baseline estimates (labeled "medium elasticities") show GDP falling in the short run before eventually returning to the pre-policy level and then rising above the pre-policy baseline.

FIGURE 2
GDP under Clinton Tax Plan
Before and after macro response



Source: Penn Wharton Budget Model (PWBM) overlapping generations model, based on Urban-BrookingsTax Policy Center (TPC) simulations.

The "high elasticities" scenario would imply a sustained adverse supply-side response to tax increases; international capital markets are assumed to be completely open and US deficits do not affect the interest rates facing investors, which are instead solely determined on world markets.[15] That scenario also assumes that labor supply and savings are very responsive to after-tax wages and interest rates (represented by elasticities of 1, compared with 0.5 in the baseline). GDP under this set of assumptions initially falls by over 1 percent below the pre-policy level. The effect dampens over time, but in 2040, it is still down 0.5 percent.

The “low elasticities” scenario makes the opposite assumptions. It assumes that capital markets are closed (i.e., no borrowing abroad) and that workers and savers are relatively unresponsive to wages and interest rates. In this scenario, GDP rises slowly above the pre-policy baseline level, and is 2.2 percent above that level by 2040. GDP rises because reduced government borrowing pushes interest rates down which encourages more investment.

Thus, the macro forecasts exhibit a substantial range of uncertainty.

APPENDIX A. UNCLEAR DETAILS AND TPC'S ASSUMPTIONS ABOUT THE CLINTON PLAN

Because candidates' proposals rarely include all the details needed to model them accurately, we ask their staffs to clarify provisions or further specify details. We sent the following questions and working assumptions, based on Clinton's statements and campaign documents, to the Clinton campaign in March 2016.

This updated analysis includes several new proposals, including changes to the child tax credit, the estate tax, capital gains taxes, the NIIT, and small business taxes. These new proposals are detailed below.

A representative of the campaign reviewed all our assumptions and confirmed that most were consistent with Clinton's proposals. In a few instances noted below the campaign provided us with more information about the proposal and we revised our assumptions accordingly. A campaign's review of our questions and assumptions does not imply that the campaign agrees with or endorses our analysis.

1. INDIVIDUAL INCOME TAX

Q1. The documentation states that Secretary Clinton would enact a 4 percent surcharge on income greater than $5 million. What is the definition of the income base for this tax? Would the threshold be the same for all filing statuses and would it be indexed for inflation? Would the surcharge be included in ordinary income tax liability for purposes of determining alternative minimum tax liability? Would the surcharge be included in the definition of taxes for purposes of the Buffett Rule?

A1. We assume that: the income base for the tax would be adjusted gross income (AGI); the threshold would be adjusted for inflation after 2015; the threshold would be the same for all filing statuses (with the exception of married individuals filing a separate return for whom the threshold would be half that for others), the surcharge would not be considered in the calculation of alternative minimum tax liability; and the surcharge would not be included in the definition of taxes for the computation of the Buffett Rule.

NOTE: Using feedback from the campaign, we changed two of our assumptions. One, we assume that the threshold is not indexed for inflation. Two, we assume that the 4 percent surcharge is included in the definition of taxes for purposes of calculating the "Buffett Rule."

Q2. The documentation states that Secretary Clinton would propose the "Buffett Rule" to ensure that "millionaires must pay at least a 30 percent effective rate." Does Secretary Clinton's version of the Buffett Rule differ in any way from the version that was proposed in the Administration's FY2016 budget, described as follows in the Treasury Green Book (2015, 159).

The proposal would impose a new minimum tax, called the Fair Share Tax (FST), on high income taxpayers. The tentative FST would equal 30 percent of AGI less a credit for charitable contributions. The charitable credit would equal 28 percent of itemized charitable contributions allowed after the overall limitation on itemized deductions (so called Pease limitation). The final FST would be the excess, if any, of the tentative FST over the sum of the taxpayer's (1) regular income tax (after certain credits) including the 3.8-percent net investment income tax, (2) the alternative minimum tax, and (3) the employee portion of payroll taxes. The set of certain credits subtracted from regular income tax would exclude the foreign tax credit, the credit for tax withheld on wages, and the credit for certain uses of gasoline and special fuels. The amount of FST payable (i.e., the excess of tentative FST over regular tax) would be phased in linearly starting at $1 million of AGI ($500,000 in the case of a married individual filing separate return). The FST would be fully phased in at $2 million of AGI ($1 million in the case of a married individual filing a separate return).

A2. We assume the Secretary's version of the Buffett Rule would be the same as the Administration's proposal with the exceptions that the AGI thresholds would be indexed for inflation after 2015 and that the proposal would be effective January 1, 2017.

Q3. Are the following assumptions correct regarding Secretary Clinton's proposal to change the tax rates on realized capital gains?

A3. We will assume that realized capital gains that would otherwise be taxed at the top ordinary rate of 39.6 percent would instead be taxed at the following rates, depending on the holding period of the capital asset:

Top Tax Rate on Capital Gains by Holding Period
Clinton Proposal Versus Current Law

Holding Period (years)	Clinton		Present Law	
	Statutory	With Surtax	Statutory	With Surtax
<1 year	39.6%	43.4%	39.6%	43.4%
1-2	39.6%	43.4%	20.0%	23.8%
2-3	36.0%	39.8%	20.0%	23.8%
3-4	32.0%	35.8%	20.0%	23.8%
4-5	28.0%	31.8%	20.0%	23.8%
5-6	24.0%	27.8%	20.0%	23.8%
6+	20.0%	23.8%	20.0%	23.8%

We will assume that the same preferential rate structure would apply for purposes of the alternative minimum tax and that the taxation of qualified dividends would be unchanged from current law.

Q4. The documentation states that Secretary Clinton proposes "zero capital gains taxes on qualified small business stock held more than five years." The PATH Act (H.R. 2029) permanently extended the 100 percent exclusion of gain on certain small business stock. Does the Secretary's proposal differ in any way from the PATH Act provision?

A4. Absent further guidance, we assume the Secretary's proposal is the same as the provision in the PATH Act, and so is already enacted.

Q5. The documentation states that Secretary Clinton proposes "to eliminate capital gains taxes altogether for certain long-term investments in hard-hit communities." Can you provide any further specifications for this proposal?

A5. Without additional guidance, we will be unable to include this proposal.

NOTE: The campaign indicated that the proposal is similar to the zero capital gains rate available under prior law for investments in "Renewal Communities." We accordingly included this proposal in our analysis.

Q6. The documentation states that Secretary Clinton's "New College Compact" will be fully paid for "by limiting certain tax expenditures for high-income taxpayers." Which tax expenditures would be limited, how would they be limited, and what would be the income threshold(s) at which the limits would begin to apply?

A6. Absent further guidance, we will assume the proposal would be identical to the Obama administration's FY2016 budget proposal to reduce the value of certain tax expenditures described on pages 154-5 of the Treasury Green Book, with the exception that the proposal would be effective January 1, 2017.

NOTE: After discussing the proposal with the campaign, we modified our assumption and excluded charitable contributions from the limit.

Q7. The documentation states that Secretary Clinton will propose "a 20 percent tax credit to help family members offset up to $6,000 in caregiving costs for their elderly family members, allowing caregivers to claim up to $1,200 in tax relief each year." Would this provision differ in any way from the credit proposed by S.879, the Americans Giving Care to Elders (AGE) Act of 2015?

A7. We will assume the provision would be the same as the credit proposed in S.879 with the exception that the effective date would be January 1, 2017.

NOTE: The campaign clarified to us that the credit would be refundable. Because of data limitation, we were unable to include the caregiver credit in our estimates.

Q8. Does the plan make any individual income tax "extenders" permanent or allow them all to expire as scheduled?

A8. We assume that all income tax extenders that were recently made permanent will be retained, and that any provisions that were temporarily extended or that are otherwise scheduled to expire under current law will be allowed to expire as scheduled.

Q9. Are there any other changes to the individual income tax that are not specified in the plan description?

A9. We assume there are no other changes to the individual income tax (but see "Tax Expenditures or Loophole Closers," below).

NOTE: The Clinton campaign released a proposal for an expanded child tax credit (CTC) on October 11, 2016. Clinton proposes to increase the maximum credit to $2,000 and increase the phase-in rate from 15 percent to 45 percent for the refundable portion of the credit for families with children under age 5. For all families with eligible children, Clinton would eliminate the minimum earnings requirement (currently $3,000). Our updated estimates incorporate these provisions.

2. TAX EXPENDITURES OR "LOOPHOLE CLOSERS"

Q10. The documentation states that the Secretary's proposal would "[c]lose the "Romney Loophole" that allows sheltering multiple millions in retirement accounts." Would the proposal differ in any way from the administration's FY2016 budget provision to limit the total accrual of tax-favored retirement benefits?

A10. We assume the proposal would not differ in any way from the administration's FY2016 budget provision as described on pages 167-169 of the Treasury Green Book with the exception that the proposal would be effective January 1, 2017.

Q11. Does Secretary Clinton's proposal to "close the carried interest loophole" differ in any way from the Administration's FY2016 budget proposal to tax carried (profits) interests as ordinary income?

A11. We assume the proposal would not differ in any way from the Administration's FY2016 budget provision as described on pages 163-164 of the Treasury Green Book with the exception that the proposal would be effective January 1, 2017.

Q12. The documentation states that Secretary Clinton would end "tax gaming through complex derivative trading." Would the Secretary's proposal differ in any way from the Administration's FY2016 budget proposal to require that derivative contracts be marked to market with the resulting gain or loss treated as ordinary?

A12. We assume the proposal would not differ in any way from the Administration's FY2016 budget provision as described on pages 99-101 of the Treasury Green Book with the exception that the proposal would be effective January 1, 2017.

Q13. The documentation states that the Secretary would "[c]ommit to tax fairness beyond closing these specific loopholes – especially on capital income". Are there any other specific provisions in the plan to scale back or eliminate tax expenditures?

A13. Without additional guidance, we will be unable to include any other "loophole closers" or limits on tax expenditures.

NOTE: The Clinton campaign noted the proposal will limit step-up in basis. We modeled this as in the Treasury Green Book proposal, which would exempt $100,000 per person in capital gains from tax. The campaign said their threshold would be higher, but they have not decided on the exemption level. Clinton would also limit the use of "like-kind exchanges" to $1 million for property and deny for exchanges of artwork.

NOTE: Clinton would broaden the net investment income tax (NIIT) base to include all pass-through business income not subject to the self-employment payroll (SECA) tax.

3. ESTATE AND GIFT TAXES

Q14. The documentation states that Secretary Clinton would return the estate tax to 2009 parameters. Would any of those parameters be indexed for inflation after 2009?

A14. We assume the estate, gift, and generation-skipping transfer (GST) tax parameters would not be indexed for inflation after 2009. Thus, we assume the proposal would set an effective estate tax and GST exemption of $3.5 million and a lifetime gift tax exemption of $1 million, all unindexed for inflation. The top estate, gift, and GST rate would be 45 percent.

NOTE: Clinton's new estate tax proposal would create a new rate structure as follows:

- 45 percent for the value of an estate between $3.5 million and $10 million (between $7 million and $10 million for couples);
- 50 percent of the value of an estate between $10 million and $50 million; and
- 55 percent of the value of an estate in excess of $50 million.

A surtax of 10 percent would apply to estates valued at $500 million ($1 billion or more for couples).

Q15. The documentation states that the Secretary's proposal would also "crack down on loopholes in the Estate Tax, including methods that people can now use to make their estates appear to be worth less than they really are." Specifically, what other loopholes would the plan scale back or eliminate?

A15. We assume that the proposal would include the following two provisions from the Administration's FY2016 budget, as described on pages 195-199 of the Treasury Green Book: require consistency in value for transfer and income tax purposes; and modify transfer tax rules for GRATS and other grantor trusts. Without additional guidance, we will be unable to include any other changes to estate, gift, or GST taxes.

NOTE: Because a portion of the requirement for consistency between valuations for transfer and income tax purposes was enacted after the FY2016 budget proposals was made, we

assumed this provision was from the Administration's FY2017 proposals, as described on page 179 of the Treasury Green Book.

4. BUSINESS TAXES

Q16. The documentation states that Secretary Clinton proposes to "entirely block inversions…through a 50 percent merger threshold." Would the Secretary's proposal differ in any way from the Administration's FY2016 budget proposal to limit the ability of domestic entities to repatriate?

A16. We assume the proposal would not differ in any way from the Administration's FY2016 budget provision as described on pages 37-38 of the Treasury Green Book.

Q17. The documentation states that Secretary Clinton proposes to "ensure that companies leaving the U.S. pay an 'exit tax' on what they owe on their overseas earnings." Can you provide any specifications for this proposal?

A17. Without additional guidance, we will be unable to include this proposal.

Q18. The documentation states that Secretary Clinton proposes to "limit the ability of multinationals to engage in 'earnings stripping'." Would the Secretary's proposal differ in any way from the administration's FY2016 budget proposals to restrict deductions for excessive interest of members of financial reporting groups?

A18. We assume the proposal would not differ in any way from the Administration's FY2016 budget provision as described on pages 10-12 of the Treasury Green Book with the exception that the proposal would be effective January 1, 2017.

Q19. The documentation states that Secretary Clinton proposes to "impose a 'risk fee' on the largest financial institutions." Would the Secretary's proposal differ in any way from the Administration's FY2016 budget proposal to impose a financial fee?

A19. We assume the proposal would not differ in any way from the Administration's FY2016 budget provision as described on page 160 of the Treasury Green Book with the exception that the proposal would be effective January 1, 2017.

NOTE: We excluded this proposal from our analysis because the details are still being developed.

Q20. The documentation states that Secretary Clinton proposes to "impose a high-frequency trading tax." Can you provide details on this proposal, including the definition of "high-frequency trading," which securities, markets and traders would be covered, and the tax rate(s)?

A20. Without additional guidance, we will be unable to include the proposed high-frequency trading tax.

Q21. The documentation states that Secretary Clinton would "end the Bermuda reinsurance loophole." Would the Secretary's proposal differ in any way from the Administration's FY2016 budget proposal to disallow the deduction for excess non-taxed reinsurance premiums paid to affiliates?

A21. We assume the proposal would not differ in any way from the Administration's FY2016 budget provision as described on page 25 of the Treasury Green Book with the exception that the proposal would be effective January 1, 2017.

NOTE: The campaign indicated that the proposal also incorporates changes proposed by Senator Ron Wyden to also include hedge funds, so we expanded the base accordingly.

Q22. The documentation states that Secretary Clinton proposes to "reform the 'performance-based' tax deductions available to top public companies." Can you provide any specifications for this proposal?

A22. Without additional guidance, we will be unable to include this proposal.

Q23. The documentation states that Secretary Clinton will "call for improving and making permanent the Research and Experimentation Tax Credit." The PATH Act (H.R. 2029) permanently extended the R&E credit, in its prior form. What changes to the R&E credit would the Secretary make to improve it?

A23. Absent further guidance, we will be unable to include any changes to the R&E credit.

Q24. The documentation states that Secretary Clinton proposes a "permanent, revitalized and expanded New Markets Tax Credit." The documentation also states that the Secretary proposes a "Manufacturing Renaissance Tax Credit" that is "modeled on the New Markets Tax Credit." Is the Manufacturing Renaissance Tax Credit meant to be the "revitalized and expanded" NMTC, and if so what changes are contemplated to the NMTC?

A24. The PATH Act (H.R. 2029) extended the NMTC, in its prior form, through 2019. Absent further guidance, we assume the Secretary's proposal simply permanently extends the current NMTC after 2019.

NOTE: The campaign indicated that Clinton's proposal has two parts: 1) permanently extend and expand the NMTC; and 2) create a credit similar to the Manufacturing Communities Tax Credit (MCTC) proposed in the administration's FY2016 budget but with higher funding. We thus included the MCTC as proposed in the FY2016 budget in our analysis. We did not assume higher funding levels because the higher level has not been specified.

Q25. The documentation states that Secretary Clinton proposes a tax credit of $1,500 "for every apprentice hired through a bona fide apprenticeship program." The documentation indicates that "businesses should receive a bonus on that tax credit for providing opportunities for young people" and that "qualifying apprenticeship programs would have to meet rigorous federal and/or state standards and outcome measures." Can you provide

any further specifications for the provisions of the proposed credit cited in the preceding sentence?

A25. Without additional guidance, we will be unable to include the proposed apprenticeship tax credit.

NOTE: The representative of the Clinton campaign said this proposal is similar to several Senate proposals. However, we were still unable to include this proposal in our report because of a lack of detail.

Q26. The documentation states that Secretary Clinton proposes a two-year "rising incomes, sharing profits" tax credit with a basic rate of 15 percent of profits shared and a cap of 10 percent of an employee's current wages. The documentation also indicates that there would be a "higher credit for small businesses," that the credit would phase out for "higher-income workers," that "the benefit for any single company in a given year would be capped" and that "specific dimensions of the credit" would be determined after she became president. Can you provide any further specifications for the provisions of the proposed credit cited in the preceding sentence?

A26. Without additional guidance, we will be unable to include the proposed "rising incomes, sharing profits" tax credit.

Q27. The documentation states that Secretary Clinton proposes to "simplify tax filing and provide targeted tax relief for small businesses." Can you provide details on how tax filing would be simplified and the targeted tax relief?

A27. Without additional guidance, we will be unable to include these small business proposals.

NOTE: Clinton proposed creating a small business standard deduction, similar to the standard deduction used by most individual tax filers. However, we did not receive enough detail to model the proposal. Another proposal would allow firms with gross receipts of $1 million or less to assess their taxable profit or loss by comparing the balance at the end of the year with the balance at the start ("checkbook accounting"), and business with receipts up to $25 million would be able to elect cash accounting for tax purposes. Both of these proposals were included in our estimates. Clinton's proposals to increase the limit on expensing for small business and the deduction for start-up costs were also included.

Q28. The documentation states that Secretary Clinton proposes to "reauthorize the Build America Bonds program" and to create a national infrastructure bank that would "be empowered to authorize issuance of special, 'super' Build America Bonds." Can you provide any further specifications for the "super-BABs" proposal?

A28. Without additional guidance, we will be unable to include the "super-BABs" portion of the proposal.

NOTE: We assumed the proposal is the same as the administration's "America Fast Forward Bonds" proposal as described on pages 72-73 of the Treasury Green Book.

Q29. The documentation states that Secretary Clinton proposes "to extend federal clean energy [tax] incentives and make them more cost effective." The PATH Act (H.R. 2029) extended a number of tax incentives for renewable and alternative energy sources and investments for energy efficient homes and buildings through 2016. Would the Secretary's proposal make all of these energy tax incentives permanent? How would the proposed energy tax incentives be made more cost effective?

A29. Absent further guidance, we assume the Secretary's proposal simply permanently extends the various energy tax incentives included in the PATH Act beginning in 2017.

NOTE: The representative of the Clinton campaign said that Clinton has not called for extensions or expansions of these incentives beyond the extensions included in the PATH Act. We accordingly changed our assumption.

Q30. The documentation states that Secretary Clinton proposes to pay for her clean energy proposals by "closing tax loopholes for oil and gas companies." Would the Secretary's proposal differ in any way from the administration's FY2016 budget proposal to eliminate fossil fuel tax preferences (in particular, would preferences for coal and other hard-mineral fossil fuels be eliminated)?

A30. We assume the proposal would differ from the Administration's FY2016 budget provision as described on pages 92-98 of the Treasury Green Book by not applying to coal and other hard-mineral fossil fuels and by generally being effective January 1, 2017.

NOTE: The representative of the campaign said Clinton's proposal would apply to coal and other hard-mineral fossil fuels and would modify the rules for dual-capacity taxpayers. We accordingly changed our assumption.

Q31. The documentation states that Secretary Clinton proposes to "close the loophole that allows companies to ship oil sands crude without paying into the Oil Spill Liability Trust Fund." Would the Secretary make any other changes to the financing of the Oil Spill Liability Trust Fund (such as those proposed in the administration's FY2016 budget)?

A31. We assume the proposal would not make any other changes to the financing of the Oil Spill Liability Trust Fund.

Q32. The documentation states that the Secretary will "call for ending subsidies for industries that do not need them." Are there any specific provisions that the proposal would end?

A32. Without additional guidance, we will be unable to include the repeal of any of any business tax subsidies that are not covered by other questions and answers.

5. AFFORDABLE CARE ACT PROVISIONS

NOTE: Clinton would repeal the excise tax on high-cost health plans.

6. EFFECTIVE DATE

Q33. Are all provisions intended to go into effect in 2017? Are any assumed to be phased in, and, if so, over what time period?

A33. We assume the provisions would be effective beginning in 2017, after the presidential election, and that no provisions are phased in.

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APPENDIX B. MEASURING DISTRIBUTIONAL EFFECTS OF TAX CHANGES

Analysts use a variety of measures to assess the distributional effects of tax changes. There is no perfect measure—often a combination of measures is more informative than any single measure.

The Tax Policy Center generally focuses on the percentage change in after-tax income because it measures the gain or loss of income available to households to buy goods and services, relative to the amount available before the tax change. A tax change that raises or lowers after-tax income by the same percentage for all households leaves the progressivity of the tax unchanged.

Other measures used to assess a tax change's effects include shares of the tax cut going to different parts of the income distribution, the size of each group's cut measured in dollars, and the percentage change in tax liability. The first two measures poorly indicate the effects of a tax change because they ignore the initial distribution of taxes and thus do not assess changes in a tax's progressivity. The percentage change in tax liability can be particularly misleading because it relies too much on the initial distribution of taxes. Cutting the tax on a person making $1,000 from $50 to $10 is an 80 percent cut, whereas reducing taxes on a person making $1 million from $250,000 to $150,000 is just a 40 percent cut. But the tax savings boosts after-tax income by only about 4 percent for the poorer person, compared with a more than 13 percent increase for the higher-income person.

Table B1 shows several measures of the effects of the Clinton tax proposals on households at different income levels in 2017. The tax increases are significant as a share of after-tax income (column 1) only for the top 1 percent of taxpayers, as discussed above. Further, those tax units pay more than 90 percent of the increase in taxes (column 2), have the largest average federal tax increase (column 3), and have the largest percentage increase in tax liability (column 4). Finally, the share of federal tax burdens increases only for the top 1 percent and falls slightly for all others (column 5).

TABLE B1

Alternative Ways of Presenting Change in Distribution of Tax Burdens under the Clinton Tax Plan

By expanded cash income percentile, 2017[a]

Expanded cash income percentile[b,c]	Percent change in after-tax income[d] (%)	Share of total federal tax change (%)	Average federal tax change[e]		Share of federal taxes	
			Dollars	Percent	Change (% points)	Under the proposal (%)
Lowest quintile	0.7	-3.3	-100	-18.5	-0.2	0.6
Second quintile	0.4	-3.7	-140	-4.6	-0.3	3.4
Middle quintile	0.2	-2.6	-110	-1.2	-0.5	9.1
Fourth quintile	0.1	-0.9	-40	-0.2	-0.8	16.8
Top quintile	-2.6	110.7	6,690	7.5	1.9	70.0
All	-1.2	100.0	830	4.6	0.0	100.0
Addendum						
80–90	-0.1	0.8	100	0.3	-0.6	13.3
90–95	-0.4	3.1	750	1.4	-0.3	10.1
95–99	-1.5	14.7	4,690	4.5	0.0	15.1
Top 1 percent	-7.4	92.2	117,760	14.8	2.8	31.5
Top 0.1 percent	-10.8	64.9	805,250	20.4	2.2	16.8

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0516-1).

Note: Number of AMT taxpayers (millions): Baseline: 4.8; Proposal: 4.7.

[a] Calendar year. Baseline is current law. Proposal includes individual, payroll, corporate, excise, and estate provisions in the House GOP tax plan. http://www.taxpolicycenter.org/taxtopics/Baseline-Definitions.cfm.

[b] The percentile includes both filing and nonfiling units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. For a description of expanded cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm.

[c] The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2016 dollars): 20% $24,800; 40% $48,400; 60% $83,300; 80% $143,100; 90% $208,800; 95% $292,100; 99% $699,000; 99.9% $3,749,600.

[d] After-tax income is expanded cash income less individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate tax; and excise taxes.

[e] Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

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NOTES

[1] Auxier, et al. (2016).
[2] These estimates account for many microeconomic behavioral responses, such as reduced capital gains realizations when marginal tax rates on income and capital gains increase. The methodology we use in preparing these estimates follows the conventional approach used by the Joint Committee on Taxation (JCT) and the US Department of the Treasury to estimate revenue effects before considering the macroeconomic effects.
[3] See Page and Smetters (2016) for a description of the macroeconomic models used in TPC's analysis.
[4] See the Hillary Clinton campaign web pages "Issues" (https://www.hillaryclinton.com/issues/) and "The Briefing" (https://www.hillaryclinton.com/briefing/).
[5] The 28 percent limit would apply to: all itemized deductions (except for charitable contributions), tax-exempt state and local bond interest, employer-sponsored health insurance paid for by employers or with before-tax employee dollars, health insurance costs of self-employed individuals, employee contributions to defined contribution retirement plans and IRAs, the deduction for income attributable to domestic production activities, certain trade or business deductions of employees, moving expenses, contributions to health savings accounts and Archer MSAs, and interest on education loans.
[6] See Appendix A.
[7] We excluded this credit for consistency with our analyses of other candidates' proposals, which do not include their health-related proposals.
[8] See Appendix A.
[9] This distributional analysis (as well as most revenue analysis) is based on the Tax Policy Center's microsimulation tax model. A brief description of the model is available at http://www.taxpolicycenter.org/taxtopics/Brief-Description-of-the-Model-2015.cfm.
[10] The PWBM's tax estimates are available at http://www.budgetmodel.wharton.upenn.edu/tax-policy-2/
[11] TPC also plans to build a neoclassical model of potential output whose results could be integrated with those of the Keynesian model, but that work is still in process.
[12] Higher taxes have ambiguous theoretical effects on saving (and labor supply) because of counteracting income and substitution effects. Higher taxes lower the reward to saving, which makes people less inclined to postpone consumption since it produces less reward in the form of future consumption (the substitution effect). However, to the extent that people are saving for a particular purpose, higher taxes mean that more saving is required to meet a particular goal. The income effect of a tax increase tends to increase saving. Unfortunately, the empirical evidence is inconclusive. Our reading of the literature is that higher taxes result in less saving—but the overall response is very small.
[13] See Rosenberg and Marron (2015) for derivation and discussion of METRs.
[14] A user interface to the PWBM is available here: http://www.budgetmodel.wharton.upenn.edu/tax-policy-2/. Users may alter assumptions and see effects on GDP, employment, capital stock, etc.
[15] This is typically referred to as a "small open economy" model, where a nation's capital market activity is inconsequential to world markets. It is probably not appropriate for the US given how large we are relative to the world economy, but is shown as a point of comparison.

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