

Table T17-0162
Options for Taxing Pass-Through Income at Preferential Rates
Baseline: Current Law with Individual AMT Repealed and 12/25/33 Percent Individual Income Tax Rate Structure
Impact on Tax Revenue, 2018-27¹

Proposal	Fiscal Year										
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2018-27
15 Percent Top Rate on Qualifying Pass-Through Income											
Broad Definition of Qualifying Pass-Through Income²											
Without income shifting	-80.4	-112.4	-118.8	-125.1	-131.7	-139.0	-148.0	-158.1	-169.0	-180.6	-1,363.2
Income shifting ³	-8.4	-20.4	-33.3	-48.1	-64.4	-72.0	-77.0	-81.7	-86.7	-91.7	-583.7
Total including income shifting	-88.8	-132.7	-152.1	-173.2	-196.1	-211.1	-225.0	-239.9	-255.7	-272.4	-1,946.8
Narrow Definition of Qualifying Pass-Through Income⁴											
Without income shifting	-54.0	-75.9	-80.0	-84.0	-88.5	-93.3	-98.9	-105.7	-113.1	-120.9	-914.2
Income shifting ³	-1.9	-4.7	-7.6	-10.6	-13.8	-15.2	-16.1	-16.9	-17.9	-18.9	-123.6
Total including income shifting	-55.9	-80.6	-87.6	-94.6	-102.3	-108.5	-115.0	-122.6	-131.0	-139.7	-1,037.8
25 Percent Top Rate on Qualifying Pass-Through Income											
Broad Definition of Qualifying Pass-Through Income²											
Without income shifting	-32.6	-46.0	-48.7	-51.6	-54.7	-58.2	-62.4	-67.2	-72.5	-78.2	-572.3
Income shifting ³	-1.2	-3.1	-5.1	-7.3	-9.9	-11.1	-12.1	-13.1	-14.1	-15.3	-92.2
Total including income shifting	-33.8	-49.1	-53.8	-58.8	-64.6	-69.3	-74.6	-80.3	-86.6	-93.5	-664.4
Narrow Definition of Qualifying Pass-Through Income⁴											
Without income shifting	-22.3	-31.6	-33.4	-35.2	-37.4	-39.6	-42.3	-45.4	-48.9	-52.6	-388.6
Income shifting ³	-0.3	-0.7	-1.1	-1.5	-2.0	-2.2	-2.4	-2.5	-2.7	-2.9	-18.3
Total including income shifting	-22.5	-32.3	-34.5	-36.8	-39.4	-41.8	-44.6	-47.9	-51.5	-55.5	-406.8

Source: Urban-Brookings Microsimulation Model (version 0217-1).

(1) Fiscal years. Proposals are effective 01/01/2018. The baseline assumes that the individual alternative minimum tax (AMT) has been repealed and that the current individual income tax rate structure has been replaced with three rates of 12, 25, and 33 percent. We assume that, under the three-rate system, the tax bracket thresholds for the 25 and 33 percent brackets would match those under current law. Revenue estimates include the effects of microdynamic responses. Estimates assume a fiscal split of 75-25 (fiscal year revenue is estimated to be 25 percent of revenue from the previous calendar year and 75 percent of revenue from the current calendar year).

(2) The broad definition includes 100 percent of: Schedule C/F, partnership, and rental income; and 100 percent of S corporation profits.

(3) Assumes that some amount of wages and salaries would be recharacterized as qualifying pass-through income under the proposal.

(4) The narrow definition includes 30 percent of: schedule C/F, active partnership and rental income; and 100 percent of active S corporation profits.