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AN ANALYSIS OF HILLARY CLINTON'S TAX PROPOSALS

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ABSTRACT

Hillary Clinton proposes raising taxes on high-income taxpayers, modifying taxation of multinational corporations, repealing fossil fuel tax incentives, and increasing estate and gift taxes. Her proposals would increase revenue by $1.1 trillion over the next decade. Nearly all of the tax increases would fall on the top 1 percent; the bottom 95 percent of taxpayers would see little or no change in their taxes. Marginal tax rates would increase, reducing incentives to work, save, and invest, and the tax code would become more complex. The analysis does not address a forthcoming proposal to cut taxes for low- and middle-income families.

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SUMMARY AND INTRODUCTION

Presidential candidate Hillary Clinton has proposed a series of tax changes that would increase taxes on high-income filers, reform international tax rules for corporations, repeal fossil fuel tax incentives, and increase estate and gift taxes. The Tax Policy Center estimates that the proposals would increase federal revenue by $1.1 trillion over the first decade and an additional $2.1 trillion over the subsequent 10 years, before considering macroeconomic feedback effects.[1] Most of the revenue gain would come from individual income tax changes that affect high-income taxpayers. The top 1 percent of households would pay more than three-fourths of Clinton's total tax increases.

Specifically, Clinton proposes a 4 percent surcharge on adjusted gross income (AGI) above $5 million, requiring filers with AGI greater than $1 million to pay a 30 percent effective tax rate (i.e., the "Buffett Rule"), limiting the tax value of specified exemptions and deductions to 28 percent, and increasing the estate tax. All of these proposals would increase taxes on high-income taxpayers. In 2017, taxpayers in the top 1 percent of the income distribution (those with incomes above $730,000 in 2015 dollars) would see their tax burdens increase more than $78,000, a reduction in after-tax income of 5 percent. Taxpayers outside the top 5 percent (those earning less than $300,000 in 2015 dollars) would see little change in average after-tax income.

The main elements of Clinton's announced tax proposals as of March 3, 2016 are presented in the following list. Representatives of the campaign told us that Clinton intends to propose a tax cut for low- and middle-income households later in the campaign, but the economic, revenue, and distributional effects of that proposal are not reflected in this analysis. Appendix A presents the assumptions the Tax Policy Center made in modeling the proposals, including changes in assumptions based on clarifications from the campaign. All estimates reflect the effects of the Protecting Americans from Tax Hikes Act of 2015 and the tax provisions in the Consolidated Appropriations Act of 2016 on current law baseline revenues as well as on the Clinton proposals.   Provisions that we did not model because of lack of data or information are marked by an asterisk.

Individual Income Tax

- Enact a 4 percent surcharge on AGI over $5 million.[2]
- Impose a 30 percent minimum tax on taxpayers with AGI above $1 million (i.e., the "Buffett Rule").
- Limit the tax value of specified deductions and exclusions to 28 percent.
- Create a new tax schedule for capital gains with rates declining with holding period. Assets held less than two years would be taxed as short-term gain at ordinary income tax rates. The 23.8 percent capital gains rate would only apply to assets held six or more years.

- Tax carried interest as ordinary income.
- Prevent taxpayers with very high balances in tax-favored retirement accounts from making additional contributions.
- Require that derivative contracts be marked-to-market annually, with the resulting gain or loss treated as ordinary income.
- Provide tax credits for caregiving expenses for elderly family members and high out-of-pocket health care expenses.*

Estate and Gift Taxes

- Permanently reduce the tax threshold for estates to $3.5 million ($7 million for married couples) with no adjustment for future inflation, increase the top tax rate to 45 percent, and set the lifetime gift tax exemption at $1 million.
- Require consistency between valuations for estate and gift taxes and those used for income tax purposes, and modify the rules for grantor trusts.

Business Taxes

- Increase the threshold for foreign ownership in an inversion transaction—before a US company can give up its US tax residence—from 20 percent to 50 percent of the combined company shares.
- Levy an "exit tax" on unrepatriated earnings.*
- Limit interest deductions for US affiliates of multinational companies to deter "earnings stripping."
- Assess a "risk fee" on the largest financial institutions.*
- Enact a tax on high-frequency trading.*
- Disallow the deduction for excess nontaxed reinsurance premiums paid to affiliates.
- Reform the "performance-based" tax deductions for compensation of highly-paid executives of top public companies.*
- Eliminate tax incentives for fossil fuels.
- Subject crude oil produced from tar sands to the excise tax levied to finance the Oil Spill Liability Trust Fund.
- Provide tax credits for businesses that invest in community development and infrastructure.
- Provide tax credits for businesses that hire apprentices or share profits with employees.*
- Reauthorize and expand Build America Bonds.

MAJOR ELEMENTS OF THE PROPOSAL

Clinton has proposed a series of tax changes tied to achieving specific policy goals.[3] For example, tax increases on high-income filers are meant to address income inequality, and revenue from the cap on specified exemptions and deductions is intended to pay for Clinton's college-affordability plan. Other proposals, such as new anti-inversion provisions and taxation of carried interest as ordinary income, are intended to deter tax avoidance. Many of these changes replicate or build on proposals from President Barack Obama (US Treasury 2015).

Individual Income Tax

Clinton has proposed several changes that would increase taxes on high-income households. She would enact a 4 percent surcharge on AGI in excess of $5 million ($2.5 million for married couples filing separately).

Clinton would also impose a minimum tax of 30 percent of AGI on filers with AGI greater than $1 million (i.e., the Buffett Rule). Taxes counted toward the new minimum tax requirement include: regular income taxes (after certain credits and including the Affordable Care Act surtax on net investment income), the alternative minimum tax (AMT), the 4 percent surcharge on AGI, and the employee portion of the payroll tax.[4] Taxpayers with AGI over $2 million would owe an additional tax on the difference between 30 percent of AGI and the sum of those taxes. The tax payment phases in ratably between $1 and $2 million of AGI.[5]

In addition, Clinton would limit the tax benefit from specified deductions and exclusions to 28 percent. This cap reduces the value of deductions and exclusions for taxpayers in the 33 percent and higher tax brackets. The cap applies to all itemized deductions (except for charitable contributions), tax-exempt interest, excluded employer-provided health insurance, deductible contributions to tax-preferred retirement accounts, and certain other deductions.[6]

Clinton would also make several changes to taxes on investment income. She proposes changing the taxation of realized capital gains in an effort to encourage investors to hold assets longer. Currently, an asset held for less than one year is taxed at ordinary income tax rates, with a top rate of 43.4 percent (the statutory 39.6 percent rate plus the 3.8 percent net investment income surtax), and assets held longer than one year have a top rate of 23.8 percent (a preferential 20 percent rate plus the 3.8 percent surtax). Clinton proposes taxing assets held less than two years at ordinary rates, reducing the rate roughly 4 percentage points for each additional year an asset is held, until a minimum 23.8 percent top rate is reached on assets held more than six years (table 1).

TABLE 1

Top Capital Gains Tax Rates by Holding Period

Holding period (years)	Clinton top rate[a] (%)	Current law top rate[a] (%)
<1	43.4	43.4
1–2	43.4	23.8
2–3	39.8	23.8
3–4	35.8	23.8
4–5	31.8	23.8
5–6	27.8	23.8
6+	23.8	23.8

Source: 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 proposes to tax "carried interest" as ordinary income. Under current law, general partners of an investment firm (e.g., private equity) who receive a portion of their compensation as a share of the firm's profits may report that portion as a long-term capital gain; thus they benefit from a lower income tax rate (23.8 percent) and avoid paying payroll taxes. Clinton would tax carried interest income as ordinary income (top tax rate of 43.4 percent) and require the partner to pay self-employment taxes on the income.

Further, Clinton proposes requiring derivative contracts to be marked-to-market annually. That is, derivative contracts would be treated as sold for their fair market value at the end of each year, and any unrecognized gain or loss would be reported on that year's tax return (Rosenthal and Price 1999).

Another proposal would limit contributions to tax-favored retirement accounts, including traditional and Roth IRAs, defined benefit plans, and to defined contribution plans such as 401(k), 403(b), and 457(b) accounts. Currently, limitations apply to annual contributions and benefits for each plan an individual holds. However, an individual with multiple retirement accounts may accumulate very large balances within those accounts.[7] The proposal would prohibit account holders from making additional contributions to any account once the sum of all account balances reaches a level adequate to finance the maximum annuity currently permitted for defined benefit plans. The account balance limit for an individual age 62 in 2015 would have been approximately $3.4 million under this rule (US Treasury 2015).

Most of these provisions target high-income taxpayers. Clinton also 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.[8] We also did not include the tax credit for out-of-pocket health care expenses.[9] Clinton's campaign says she will propose a package of additional tax cuts targeted at low- and middle-income families later in the campaign.

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 Clinton proposals are aimed at discouraging multinational corporations from avoiding or lowering their US taxes. One proposal would broaden the definition of an inversion transaction. An inversion occurs when a US firm combines with a foreign firm, with the former US shareholders acquiring shares in the foreign firm in exchange for their US stock. Current law treats the foreign firm as a US firm for tax purposes (which effectively eliminates any tax advantage from combining) only if the former US shareholders own 80 percent or more of the foreign firm. Clinton would reduce the 80 percent "inversion test" to 50 percent.

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 interest is deductible against the US firm's earnings and becomes taxable income for the foreign corporation. Thus, the US firm "strips" earnings from its US taxable income and sends it to the parent, which is located in a country with a much lower or zero tax rate. Clinton would limit a company's US interest deductions if the company's share of net interest expenses for US tax purposes exceeds its share on consolidated financial statements. These first two changes have been proposed by the Obama administration.

Clinton's third proposal would levy an "exit tax" on multinational companies that depart the US before recognizing earnings that were accumulated in their foreign subsidiaries—and thus are not yet subject to US taxes. The proposal would tax the accumulated untaxed earnings of the foreign subsidiaries of any US company that voluntarily leaves the US or is acquired by a foreign company..

Another proposal is intended to prevent insurance companies from artificially avoiding US taxes through reinsurance arrangements with foreign affiliates. This proposal would deny a deduction for reinsurance premiums paid to a foreign affiliate that is not subject to US income tax on those premiums.

Clinton would impose a high-frequency tax aimed at algorithmic traders who place and cancel millions of orders a year. The tax (the rate and other details of the proposal have not been specified) would be levied only on cancellations. The concept appears similar to France's "non-transaction tax"—a 0.01 percent tax on the value of stock orders that are modified or cancelled when such transactions make up more than 80 percent of all orders transmitted in a month (Rosenthal 2012). The goal of the French tax is to deter harmful activities rather than raise revenue.

Another Clinton goal is curbing excessive risk in the financial sector. She promises to "impose a 'risk fee' on the largest financial institutions." Clinton also has pledged to "reform the 'performance-based' tax deductions available for compensation of public company executives." which she argues offer "perverse incentives" to businesses. Details on both proposals have not yet been released.

Clinton would 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 also proposed a series of 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.

The Clinton campaign said it plans to announce further tax relief for small businesses but did not provide details.

Estate and Gift Taxes

In tax year 2015, the basic exclusion for the estate tax is $5,450,000 (twice that for couples) and the top tax rate is 40 percent. Clinton proposes lowering the exclusion to $3.5 million for individuals and $7 million for married couples, with no adjustments for inflation going forward, and raising the top rate to 45 percent. These changes would return the estate tax permanently to its 2009 parameters. Also, Clinton would establish an unindexed lifetime gift tax exemption of $1 million. The unindexed exemption levels will decline in real value over time meaning that more estates and gifts will become subject to tax. Clinton also 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 $1.1 trillion between 2016 and 2026 (assuming implementation in 2017, table 2).[10] The proposals would raise some revenues in 2016—before the next president is sworn in—because high-income taxpayers would speed up realization of capital gains and other kinds of income to avoid the expected tax increases (Burman, Clausing, and O'Hare 1994).

Nearly two-thirds of the revenue increase over the 10-year period would come from the three individual income tax provisions aimed at high-income taxpayers: the 28 percent cap on certain deductions and exclusions ($406 billion), the 4 percent surtax ($126 billion), and the 30 percent minimum tax ($119 billion). The new capital gains tax rates would increase revenue $84 billion over the decade. (Revenues from capital gains taxes would be lower in 2017, 2018, and 2019 than under current law as taxpayers delay realizations in response to the higher rates on shorter-term gains, but would then increase relative to current law as some of those delayed gains are realized.) The other individual income tax changes would increase revenues by $45 billion over the 10-year period, and the corporate income tax changes by $136 billion. The estate tax's lower threshold, higher rate, and other reforms would boost revenues $161 billion.

TABLE 2

Estimated Effects of Clinton Tax Proposals on Tax Receipts

$ billions, FY 2016–36

Provision	Fiscal Year							
	2016	2017	2018	2019	2020	2021	2016–26	2027–36
Individual income tax								
Limit value of certain tax expenditures (other than charitable) to 28 percent	0.0	23.1	32.7	35.4	38.0	40.3	406.0	717.1
Four percent surcharge on AGI greater than $5 million, unindexed	2.2	0.7	2.6	9.6	12.9	13.6	126.3	328.1
Fair Share Tax ("Buffet Rule")	2.1	2.4	4.7	10.2	12.5	12.8	118.9	198.1
Increase capital gains rates based on holding period of capital	3.2	-6.0	-4.7	-1.5	2.1	7.4	84.2	250.5
Incentives for community development and infrastructure	0.0	0.0	0.0	-0.1	-0.2	-0.3	-3.2	-13.4
Eliminate fossil fuel tax incentives	0.0	0.6	1.1	1.1	1.2	1.1	8.8	7.8
Repeal carried interest, mark derivatives to market, and limit deferral in retirement accounts	0.0	1.1	6.4	5.7	5.0	4.5	39.7	30.3
Other provisions	---------- Insufficient data for analysis ----------							
Total for individual income tax revenues	**7.5**	**21.8**	**42.7**	**60.4**	**71.4**	**79.4**	**780.7**	**1,518.5**
Corporate income tax								
International reforms	0.0	3.4	6.9	7.5	8.2	8.9	91.7	178.9
Incentives for community development and infrastructure	0.0	0.0	0.0	-0.1	-0.2	-0.4	-5.5	-17.3
Eliminate fossil fuel tax incentives	0.0	3.4	5.7	5.7	5.6	5.5	49.6	49.2
Other provisions	---------- Insufficient data for analysis ----------							
Total for corporate income tax revenues	**0.0**	**6.8**	**12.5**	**13.1**	**13.6**	**14.0**	**135.9**	**210.8**
Estate and gift taxes								
Restore 2009 estate and gift parameters; reform grantor trust and valuation rules	0.0	1.8	7.9	10.0	13.4	17.3	160.5	354.9
Total for estate and gift tax revenues	**0.0**	**1.8**	**7.9**	**10.0**	**13.4**	**17.3**	**160.5**	**354.9**
Excise taxes								
Impose the oil spill liability excise tax 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	**7.5**	**30.4**	**63.1**	**83.5**	**98.3**	**110.6**	**1,077.1**	**2,084.2**
As a percentage of GDP	**0.0**	**0.2**	**0.3**	**0.4**	**0.4**	**0.5**	**0.5**	**0.6**

Sources: Urban-Brookings Tax Policy Center Microsimulation Model (version 0515-4); TPC estimates.
Note: AGI = adjusted gross income; GDP = gross domestic product; * = less than $0.05 billion.

Including interest savings from reducing the federal debt, Clinton's proposals would reduce the federal debt by over $1.2 trillion over the 10-year budget window (table 3). Clinton's proposals would increase revenue $2.1 trillion in the following decade (2027-2036). Overall, from 2016 to 2036, Clinton's tax proposals—not counting the effect of new spending initiatives, additional tax changes, or any macroeconomic feedback effects—would decrease the federal debt by $4.3 trillion, or 10.0 percent of GDP in 2036.

TABLE 3

Effects of Clinton Tax Proposals on Federal Revenues, Deficits, and the Debt

FY 2016–36

$ billions

	Fiscal Year												
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2016–26	2027–36
Revenue loss	-7.5	-30.4	-63.1	-83.5	-98.3	-110.6	-122.0	-129.9	-137.0	-142.8	-152.0	-1,077.1	-2,084.2
Additional interest	-0.1	-0.4	-1.8	-4.5	-8.0	-12.3	-17.2	-22.8	-28.8	-35.3	-42.6	-173.7	-954.2
Increase in deficit	-7.6	-30.8	-64.9	-88.0	-106.4	-122.9	-139.2	-152.7	-165.8	-178.1	-194.6	-1,250.8	-3,038.4
Increase in debt[a]	-7.6	-38.3	-103.2	-191.2	-297.6	-420.5	-559.7	-712.4	-878.2	-1,056.3	-1,250.8	-1,250.8	-4,289.3
Cumulative increase in debt relative to GDP (%)	**0.0**	**-0.2**	**-0.5**	**-0.9**	**-1.3**	**-1.8**	**-2.3**	**-2.8**	**-3.3**	**-3.8**	**-4.4**	**-4.4**	**-10.0**
Addendum: GDP (end of period)	18,831.9	19,701.4	20,558.3	21,403.7	22,314.7	23,271.0	24,261.5	25,287.4	26,352.1	27,455.5	28,600.0	28,600.0	42,800.0

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0515-4); Congressional Budget Office (2015a, 2015b).

Note: GDP = gross domestic product.

[a] Increase in debt equals the cumulative increase in deficit plus additional interest on the debt.

Effects on Distribution[11]

Clinton's proposals would increase taxes on the highest-income filers and have little effect on those with less than about $300,000 in income (table 4). Overall, filers in the top quintile would bear 94 percent of the net tax increase. More than half of the tax increase would fall on the highest-income 0.1 percent of filers and more than three-fourths would hit the top 1 percent.

TABLE 4

Distribution of Federal Tax Change under Clinton Tax Proposals

By expanded cash income percentile, 2017

Expanded cash income percentile[a]	Percent change in after-tax income[b] (%)	Share of total federal tax change (%)	Average federal tax change ($)	Average federal tax rate[c]	
				Change (percentage points)	Under the proposal (%)
Lowest quintile	0.0	0.2	4	0.0	4.1
Second quintile	-0.1	0.5	15	0.0	8.1
Middle quintile	-0.1	1.3	44	0.1	13.5
Fourth quintile	-0.2	3.6	143	0.1	17.1
Top quintile	-1.7	94.2	4,527	1.3	26.8
All	-0.9	100.0	657	0.7	20.5
Addendum					
80–90	-0.2	2.6	246	0.1	19.9
90–95	-0.3	3.3	642	0.3	21.9
95–99	-0.8	10.5	2,673	0.6	25.7
Top 1 percent	-5.0	77.8	78,284	3.4	36.2
Top 0.1 percent	-7.6	52.9	519,741	5.0	39.2

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0515-4).

Notes: Number of alternative minimum tax (AMT) taxpayers (millions). Baseline: 4.5; Proposal: 4.5. Projections are for calendar year 2017; baseline is current law (including provisions in the Protecting Americans from Tax Hikes Act of 2015 and the Consolidated Appropriations Act of 2016). The proposal includes all individual, payroll, corporate, and estate tax provisions. http://www.taxpolicycenter.org/taxtopics/Baseline-Definitions.cfm.

[a] The percentile includes both filing and non-filing units but excludes units that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class, but they are included in the totals. For a description of expanded cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm. 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 2015 dollars) 20%, $23,099; 40%, $45,153; 60%, $80,760; 80%, $142,601; 90%, $209,113; 95%, $295,756; 99%, $732,323; 99.9%, $3,769,396.

[b] 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.

[c] 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.

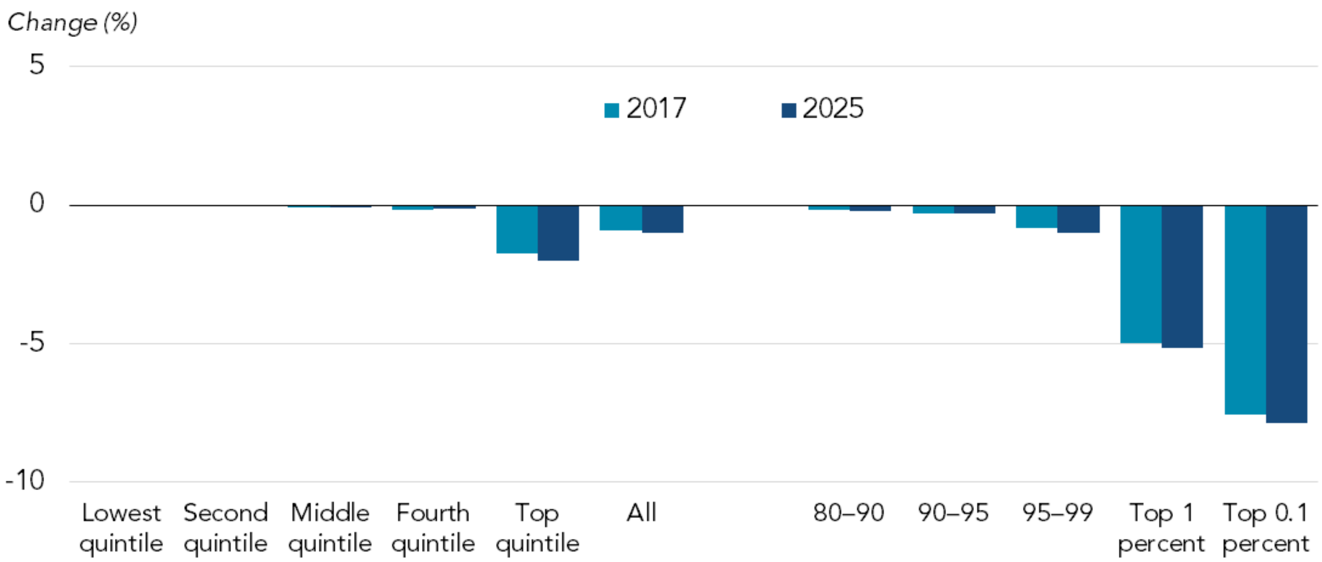
Filers in the top income quintile would have an average tax increase of $4,527 (1.7 percent reduction in after-tax income). The tax increases would be concentrated among the highest earners. Tax units between the 80th and 95th percentiles (with income between about $143,000 and about $295,000) would have relatively modest tax increases (averaging no more than 0.3 percent of after-tax income). Filers with income between $295,000 and $732,000 (highest 95 percent to 99 percent) would incur an average tax increase of about $2,700 (0.8 percent of after-tax income). Among the top 0.1 percent—filers with income greater than $3.8 million—the average tax increase would be nearly $520,000 (7.6 percent of after-tax income).

The effect of Clinton's proposals on all other taxpayers would be relatively modest compared with current law (figure 1). On average, filers in the bottom three quintiles would have small tax increases, reducing after-tax income by no more than 0.1 percent. These small tax increases primarily result from the business and corporate tax provisions, which we assume would translate into slightly lower wages and slightly lower returns to saving.

FIGURE 1

Change in After-Tax Income under Clinton Tax Proposals

By expanded cash income percentile, 2017 and 2025



Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0515-4).

Clinton's tax proposals would have roughly the same distributional effects in 2025 (table 5). The decrease in after-tax income would be slightly larger than in 2017 for both the top quintile as a group (an average loss of 2.0 percent) and for the top 0.1 percent of filers (an average loss of 7.8 percent). On average, the bottom 95 percent of tax units would continue to see little change in their after-tax incomes.

TABLE 5

Distribution of Federal Tax Change under Clinton Tax Proposals

By expanded cash income percentile, 2025

Expanded cash income percentile[a]	Percent change in after-tax income[b] (%)	Share of total federal tax change (%)	Average federal tax change ($)	Average Federal Tax Rate[c]	
				Change (percentage points)	Under the proposal (%)
Lowest quintile	0.0	0.2	6	0.0	4.5
Second quintile	0.0	0.4	18	0.0	8.7
Middle quintile	-0.1	1.3	60	0.1	14.3
Fourth quintile	-0.1	2.7	155	0.1	17.4
Top quintile	-2.0	95.3	6,739	1.5	27.7
All	-1.0	100.0	971	0.8	21.1
Addendum					
80–90	-0.2	2.7	365	0.2	20.3
90–95	-0.3	2.5	699	0.2	21.9
95–99	-1.0	10.7	4,037	0.8	25.8
Top 1 percent	-5.2	79.6	119,905	3.4	36.9
Top 0.1 percent	-7.8	52.4	763,585	5.2	39.5

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0515-4).

Notes: Number of alternative minimum tax (AMT) taxpayers (millions). Baseline: 5; Proposal: 5. Projections are for calendar year 2017; baseline is current law (including provisions in the Protecting Americans from Tax Hikes Act of 2015 and the Consolidated Appropriations Act of 2016). The proposal includes all individual, payroll, corporate, and estate tax provisions. http://www.taxpolicycenter.org/taxtopics/Baseline-Definitions.cfm.

[a] The percentile includes both filing and non-filing units but excludes units that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class, but they are included in the totals. For a description of expanded cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm. 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 2015 dollars) 20%, $26,101; 40%, $51,178; 60%, $87,777; 80%, $148,458; 90%, $217,212; 95%, $289,677; 99%, $846,843; 99.9%, $5,205,348.

[b] 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.

[c] 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

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. Specifically, higher-income filers would need to compute their income tax liability with and without various excluded forms of income—including the value of employer contributions to health insurance, contributions to retirement plans, and tax-exempt bond interest—plus itemized deductions other than charitable contributions and certain other deductions added to taxable income. If the difference is greater than 28 percent of the value of those items, they would add the difference to tax liability. In addition, very high-income households would have to compute the add-on 4 percent AGI surtax. Tax preparation software makes such calculations manageable, but they would still make the already murky individual income tax even more opaque.

Furthermore, the goals of these provisions—raising revenue in a progressive way and, in the case of the 28 percent limit on deductions and exclusions, to better target the subsidies for various tax expenditures—could be attained much more simply by explicitly increasing marginal tax rates for high-income filers and converting selected deductions and exclusions into tax credits (Batchelder, Goldberg, and Orszag 2006). For example, the goals of the Buffett Rule could largely be met by creating a 30 percent tax bracket for long-term capital gains and dividends for filers with incomes over $1 million.[12]

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 new tax documentation and 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.

ECONOMIC EFFECTS

Impact on Saving and Investment

Clinton's proposals would decrease incentives to save and invest, but only for filers in the top decile (table 6). However, these filers receive most investment income. The 4 percent surtax on AGI over $5 million and the new 30 percent minimum tax would push up marginal tax rates on all forms of capital income for high-income filers. The average marginal tax rate on interest income would rise 4 percentage points—from 36.8 to 40.7 percent—among the top 0.1 percent of filers. The effective marginal tax rate on dividends would rise even more—from 24.0 to 30.3 percent (barely above the Buffett Rule threshold) for very high-income taxpayers.

TABLE 6

Effective Marginal Individual Income Tax Rates on Capital Income

By expanded cash income percentile, 2017

Expanded cash income percentile[a]	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	47,879	0.8	0.8	0.0	0.3	0.3	0.0	2.8	2.8	0.0
Second quintile	37,990	1.3	1.3	0.0	0.9	0.9	0.0	6.1	6.1	0.0
Middle quintile	34,343	6.3	6.3	0.0	7.5	7.5	0.0	18.3	18.3	0.0
Fourth quintile	28,544	9.8	9.8	0.0	11.0	11.0	0.0	21.9	21.9	0.0
Top quintile	23,785	22.6	30.4	7.8	22.0	25.9	3.9	34.7	37.1	2.4
All	173,829	20.7	27.6	6.9	18.8	21.9	3.0	27.4	28.9	1.5
Addendum										
80–90	12,240	12.2	12.2	0.0	14.1	14.1	0.0	25.1	25.1	0.0
90–95	5,942	14.2	14.2	0.0	16.4	16.4	0.0	28.1	28.5	0.4
95–99	4,467	19.6	21.8	2.2	22.6	23.4	0.8	35.5	37.4	1.9
Top 1 percent	1,136	23.9	33.2	9.3	24.0	29.8	5.8	37.5	40.8	3.3
Top 0.1 percent	116	24.1	34.0	9.9	24.0	30.3	6.4	36.8	40.7	4.0

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0515-4).

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

[a] Includes both filing and non-filing units but excludes units that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class, but they are included in the totals. For a description of expanded cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm. 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 2015 dollars) 20%, $23,099; 40%, $45,153; 60%, $80,760; 80%, $142,601; 90%, $209,113; 95%, $295,756; 99%, $732,323; 99.9%, $3,769,396.

Average effective marginal tax rates on long-term capital gains (those held for more than one year—the current threshold) would rise the most—by almost 10 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.[13]

Overall, Clinton's proposals would reduce saving and investment. However, some provisions such as the new tax on cancelled transactions might improve the efficiency of capital allocation by discouraging unproductive activities such as front-running using high-frequency trading.

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.[14] We compare the METR on different investments under the Clinton proposal with the METR under current law, including the provisions of the Protecting Americans from Tax Hikes

Act of 2015 and the tax provisions in the Consolidated Appropriations Act of 2016. The Clinton proposal would raise METRs compared with current law (table 7).

TABLE 7

Marginal Effective Tax Rates on New Investment

Percent, 2017

Category	Current law	Clinton proposal	Change (percentage points)
Business investment	**23.2**	**24.9**	**1.7**
Corporate	25.7	28.0	2.3
Equipment	21.6	24.0	2.4
Structures	29.5	31.7	2.2
Intellectual property products	1.3	4.3	3.0
Inventories	39.8	41.6	1.8
Pass-through	19.1	19.9	0.8
Equipment	15.8	16.5	0.7
Structures	22.4	23.3	0.9
Intellectual property products	-3.3	-3.2	0.1
Inventories	31.9	33.0	1.1
Addendum			
Corporate (equity financed)	32.5	34.9	2.4
Corporate (debt financed)	-6.2	-4.3	1.9
Variation (s.d.) across assets	12.8	12.7	
Variation (s.d.) across industries	6.4	6.4	

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 and includes the effect of provisions passed as part of the Protecting Americans from Tax Hikes Act of 2015 and the Consolidated Appropriations Act of 2016.

The Clinton proposal would raise the overall METR on nonresidential business investment by 1.7 percentage points, from 23.2 to 24.9 percent, an increase of 7.0 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 2.3 percentage points to 28.0 percent, while METRs for pass-through businesses would increase 0.8 percentage points to 19.9 percent. For corporations, METRs on equity-financed investments would increase 2.4 percentage points (from 32.5 to 34.9 percent), while the METRs on debt-financed investments would increase 1.9 percentage points (from −6.2 to −4.3 percent). The variation of METRs across assets and industries would change little under Clinton's proposals.

Our estimates of effects on investment incentives assume the Clinton proposals would not affect the overall level of interest rates. Reductions in federal deficits could put downward pressure on interest rates, offsetting some of the increase in the cost of capital arising from the tax changes (Gale and Orszag 2005). However, given that interest rates are extremely low by historical standards and are expected to stay modest, any effect of the proposal on borrowing costs is likely to be small or negligible.

The new capital gains tax rate schedule is intended to encourage more long-term investment, but it has several defects (Burman 2015). First, the campaign's diagnosis of the problem—that "activist investors" siphon away cash that firms would otherwise direct to investment (and more jobs)—may not be a compelling rationale for policy intervention. Second, even if it were, it is not clear whether Clinton's tax-based prescription would cure the problem. Much corporate stock is held by entities not subject to capital gains taxation (e.g., insurance companies, pension funds, nonprofits, and foreigners) and that are therefore unaffected by the changes (Austin, Burman, and Rosenthal, forthcoming). In addition, higher tax rates on intermediate-term investments (those with holding periods less than six years) could translate into a higher cost of capital for businesses and thus discourage those investments.

Impact on Labor Supply

As with rates on capital income, Clinton's proposals would raise effective tax rates on labor income (i.e. wages and salaries for employees and self-employment income for others) for the highest earners. Overall, the proposal would increase effective tax rates on labor income by an average of 0.5 percentage points—from 24.6 to 25.1 percent (table 8). The average increase for the top quintile would be 1.0 percentage point, while for the top 0.1 percent it would be 3.1 percentage points. Research suggests that taxes play a small or negligible role in labor supply decisions for most workers. When tax rates increase, some workers choose to work less because the reward for working falls, but others choose to work more because they must work harder to meet their consumption goals with less take-home pay.

Second earners—lower-earning spouses—are more sensitive to taxes, however. A person married to a high earner might face a very high marginal tax rate on the first dollar of earnings, which, when combined with the costs of working (e.g., paying for child care), can make working seem especially unappealing. By increasing marginal tax rates, the proposal would increase the disincentive for potential second earners in high-income households to enter the workforce.[15]

TABLE 8

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

By expanded cash income percentile, 2017

Expanded cash income percentile[a]	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	47,879	1.7	1.7	0.0	15.6	15.6	0.0
Second quintile	37,990	15.7	15.7	0.0	29.5	29.5	0.0
Middle quintile	34,343	19.0	19.0	0.0	32.6	32.6	0.0
Fourth quintile	28,544	19.9	19.9	0.0	33.4	33.4	0.0
Top quintile	23,785	31.0	32.0	1.0	38.1	39.1	1.0
All	173,829	24.6	25.1	0.5	34.8	35.3	0.5
Addendum							
80–90	12,240	25.3	25.4	0.0	35.9	35.9	0.0
90–95	5,942	27.6	28.1	0.4	35.4	35.8	0.4
95–99	4,467	33.2	35.2	2.0	38.6	40.6	2.0
Top 1 percent	1,136	39.0	40.8	1.8	42.9	44.7	1.8
Top 0.1 percent	116	39.3	42.4	3.1	43.1	46.1	3.1

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0515-4).

Notes: Projections are for calendar year 2017. Effective marginal tax rates are weighted by wages and salaries.

[a] Includes both filing and non-filing units but excludes units that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class, but they are included in the totals. For a description of expanded cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm. 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 2015 dollars) 20%, $23,099; 40%, $45,153; 60%, $80,760; 80%, $142,601; 90%, $209,113; 95%, $295,756; 99%, $732,323; 99.9%, $3,769,396.

Macroeconomic Effects

Gale and Samwick (2014) discuss the effect of income tax changes on the long-term growth rate of the economy. They suggest that the potential effects of a change in the individual income tax can be broken into four parts. With Clinton's proposals, the first effect—known as the substitution effect—is that higher marginal tax rates on high-income filers decrease their incentives to work, save, and invest.

The second effect—the income effect—tends to work in the opposite direction of the first. Tax hikes lower the after-tax return to labor, saving, and investment, making it more difficult to reach consumption targets, such as paying for college or retirement. To the extent that taxpayers feel poorer, they will decide to work and save more, spend less on leisure, and consume fewer goods.

Where the new tax revenue goes determines the third effect. Is the new revenue used to pay down the federal debt or is it spent on government programs and if so what type of programs? Using the revenue to decrease the debt would increase net national saving. Lower federal borrowing could reduce interest rates and the cost of capital and thus increase investment and economic growth. And even if lower federal borrowing does not reduce interest rates, it will reduce capital inflows, reducing the extent to which the US has to pay back foreign creditors in the future. But if the revenue gain from a tax increase is spent then the type of spending determines economic effects. Well-targeted spending on education and infrastructure, for example, may boost growth over time. Some safety net programs such as unemployment insurance and SNAP (formerly food stamps) serve as "built-in stabilizers" by boosting spending when the economy weakens, which may increase GDP in the short run (although not in the long run). Other spending may distort resource allocation in much the same way that poorly designed tax expenditures do.

The fourth effect stems from base broadening. Clinton's proposals broaden the tax base somewhat by closing various loopholes and eliminating some subsidies for particular industries (especially fossil fuels). The tax on canceled financial market orders could reduce or eliminate a form of inefficient rent-seeking behavior, allowing resources to be allocated to more productive uses. Also, the carried interest loophole favors labor earnings of workers in hedge funds and private equity partnerships over workers engaged in other activities. Eliminating it could lead to more productive allocation of valuable human capital.

Nonetheless, distortionary tax expenditures remain, and taxation continues to play a part in determining the allocation of resources across the economy, which, in turn, can decrease economic output. Moreover, higher tax rates magnify the value of existing tax expenditures and their resulting economic distortions. In addition, certain tax expenditure limits can indirectly raise marginal tax rates. Gravelle and Marples (2015) point out that some tax expenditures—such as deductibility of state and local taxes—tend to increase with income. By capping the value of these tax expenditures, Clinton would indirectly increase the marginal effective tax rate on an additional dollar of earnings.

The actual effect of tax changes is an empirical question, and researchers have applied many methods to estimate the effect.[16] Examination of particular historical examples of tax reform, including shifts between the pre– and post–World War II periods, and the tax changes that occurred in 1981, 1986, 2001, and 2003, suggests that taxes have little effect on growth. Simulation models suggest that deficit-financed tax cuts or tax cuts financed by cutting productive government spending are less effective at promoting long-term growth than tax cuts that are financed by cutting unproductive government spending (Auerbach and Slemrod 1997; Dennis et al. 2004; Desai and Goolsbee 2004; Gale and Potter 2002).

Because Clinton's proposals would increase taxes almost exclusively on high-income households, empirical evidence on the effect of top tax rates on economic growth is particularly relevant. Gruber and Saez (2002) find that reported incomes of high earners are particularly sensitive to marginal tax rates. However, Piketty, Saez, and Stantcheva (2014), using evidence from 18 countries in the Organisation for Economic Co-operation and Development for 1960-2010, find no evidence of a correlation between changes in top marginal tax rates and growth in real GDP per capita.

One challenge in estimating the effect of taxes on the economy is the endogenous nature of tax changes: for example, policymakers may choose to enact tax cuts when the economy is weak, which would lead to large apparent growth responses, or they might cut taxes when the economy is strong and revenues are surging, which would produce the opposite response. Romer and Romer (2010) identified plausibly exogenous US tax reforms in time-series data and measured a positive effect of net tax cuts on economic activity. Although Romer and Romer could not distinguish short-term demand-side responses from more permanent supply-side responses, some recent research (Barro and Redlick 2011 and Mertens 2015) finds evidence that the response is a supply-side effect.[17]

Clinton's tax proposals would raise taxes on high-earners and thus could negatively affect economic activity. However, tax increases were enacted several times in recent history: Ronald Reagan raised taxes in 1982 and 1984; George H. W. Bush raised them in 1990; Bill Clinton raised them in 1993; and Barack Obama raised them in 2012. With the exception of Reagan's tax increases, all of these tax changes included significant increases in top marginal tax rates. The economic effects of these tax increases were not uniform and certainly not universally negative.

Furthermore, Clinton's proposed tax increases would decrease the federal debt by over $1.2 trillion over the next decade. The Tax Policy Center estimates that by 2036, with no change in spending or interest rates, the proposal would decrease the national debt by 10.0 percent of GDP. Slower macroeconomic growth in response to higher marginal tax rates could reduce the net revenue gain and the decline in debt. However, if interest rates fall below the (low) baseline projections as government borrows less, the decline in the debt could be greater. The reduction in deficits and debt would be offset to the extent that any or all of the new revenue is earmarked to pay for new spending or tax cuts (which the Clinton campaign says are forthcoming).

The plan is still a work in progress so our current analysis cannot determine the overall effect of Clinton policies on the nation's unsustainable long-term fiscal path (Auerbach and Gale 2016). However, the set of provisions specified so far would reduce the national debt.

CONCLUSIONS

Hillary Clinton has proposed a number of tax changes that would raise revenues and make the tax system more progressive, primarily by raising taxes on higher-income individuals. The proposals would tighten the system of international taxation by reducing avenues for tax avoidance, which contrasts with other prominent proposals that would eliminate taxation of foreign income. The proposals also include various incremental reforms that are mostly aimed at closing loopholes and eliminating subsidies for fossil fuels.

However, the proposals would make the tax system more complex—most notably by adding three variants of a minimum tax to the already complex individual alternative minimum tax. And the proposals would raise marginal tax rates on labor and capital, thus reducing incentives to work, save, and invest among high-income households.

The proposals would increase federal revenues by $1.1 trillion over the next 10 years and would therefore reduce future deficits and slow, somewhat, the accumulation of public debt. However, the campaign has indicated that it plans to announce other proposals including a tax cut for low- and middle-income households, so the overall effect of Clinton's proposals on the deficit, the distribution of tax burdens, and the economy are yet to be determined.

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. A representative of the campaign kindly 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 (available at https://www.treasury.gov/resource-center/tax-policy/Documents/General-Explanations-FY2016.pdf):

> *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 01/01/2017.

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, 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 01/01/2017.

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 01/01/2017.

NOTE: The campaign clarified to us that the credit would be refundable. Because of data limitations, 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/loophole closers” section below).

NOTE: The Clinton campaign plans to propose significant additional tax relief for middle-class and working families. However, without further details we could not change our assumption.

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 167-9 of the Treasury Green Book with the exception that the proposal would be effective 01/01/2017.

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 163-4 of the Treasury Green Book with the exception that the proposal would be effective 01/01/2017.

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 01/01/2017.

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 address step up in basis, but details are not yet finalized. We did not change our assumption.

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 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.

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% 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 01/01/2017.

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 01/01/2017.

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 01/01/2017.

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 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.

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 01/01/2017.

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. 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.

APPENDIX B. COMPARISON OF TAX POLICY CENTER REVENUE ESTIMATES WITH OTHER PUBLISHED ESTIMATES

Our revenue estimates differ from another published estimate of the revenue cost of Clinton's tax proposals (table B1). The Tax Policy Center's (TPC's) estimated 10-year revenue increase ($1.1 trillion) is larger than the $498 billion estimate released by the Tax Foundation (Pomerleau and Schuyler 2016).

TABLE B1

Tax Policy Center Revenue Estimates for the Clinton Tax Proposals Compared with Other Published Estimates

$ billions

	Tax Foundation 2016–25	Tax Policy Center 2016–26
Individual	381	781
Corporate	11	136
Estate	106	161
Total	**498**	**1,077**

Sources: Pomerleau and Schuyler (2016); Urban-Brookings Tax Policy Center calculations.

A comparison of TPC and Tax Foundation revenue estimates across type of tax indicates substantial differences on three major individual income tax provisions. The largest difference is on Clinton's proposal to change capital gains tax rates based on holding period. The Tax Foundation estimated that this change would lose $374 billion in revenue over 10 years, whereas TPC estimated that it would raise $84 billion. The Tax Foundation assumed the higher rates would reduce realizations so much that revenue would decline compared with current law. TPC's assumptions produced a lengthening of holding periods on average, along with a modest increase in revenues from taxing capital gains at higher average tax rates.

A second difference comes from Clinton's proposed 28 percent cap on specific exemptions and deductions. The Tax Foundation estimated that this provision would raise $293 billion in revenue over 10 years, whereas TPC estimated that it would raise $406 billion. TPC assumed the proposal would cap the deductions and exclusions as described in the Obama administration's FY 2016 budget proposal (but excluding charitable contributions). The Tax Foundation report does not explicitly list its assumptions of what is and what is not affected by the cap.

A third difference stems from the new 30 percent minimum tax (the Buffett Rule). The Tax Foundation estimated that this would raise $321 billion over 10 years, compared with TPC's estimate of $119 billion.

The Tax Foundation estimated that Clinton's corporate tax proposals would raise $11 billion compared with TPC's estimate of $136 billion. The Tax Foundation modeled only the proposal to disallow the deduction for excess non-taxed reinsurance premiums paid to affiliates. In contrast, TPC included Clinton's international tax proposals and her plan to eliminate tax incentives for fossil fuels.

Differences could also arise from different baselines or modeling differences, such as alternative assumptions about how responsive taxpayers are to changes in tax rates. The TPC baseline is calibrated to match the Congressional Budget Office (2015a, 2015b) projections, and its estimates of the responsiveness of taxpayers to changes in tax rates are designed to match as closely as possible the official congressional estimates produced by the Joint Committee on Taxation.

APPENDIX C. 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 C1 shows several different 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. Furthermore, those households pay nearly three-quarters of the increase in taxes (column 2), have the largest average federal tax increase (column 3), and 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 C1

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

By expanded cash income percentile, 2017

Expanded cash income percentile[a]	Percent change in after-tax income[b] (%)	Share of total federal tax change (%)	Average federal tax change[c]		Share of federal taxes	
			Dollars	Percent	Change (% points)	Under the proposal (%)
Lowest quintile	0.0	0.2	4	0.7	0.0	0.9
Second quintile	-0.1	0.5	15	0.5	-0.1	3.3
Middle quintile	-0.1	1.3	44	0.5	-0.3	9.3
Fourth quintile	-0.2	3.6	143	0.8	-0.5	16.9
Top quintile	-1.7	94.2	4,527	5.1	0.9	69.4
All	-0.9	100.0	657	3.7	0.0	100.0
Addendum						
80–90	-0.2	2.6	246	0.7	-0.4	13.6
90–95	-0.3	3.3	642	1.2	-0.3	10.4
95–99	-0.8	10.5	2,673	2.5	-0.2	15.5
Top 1 percent	-5.0	77.8	78,284	10.2	1.8	30.0
Top 0.1 percent	-7.6	52.9	519,741	14.5	1.4	14.9

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0515-4).

Notes: Number of alternative minimum tax (AMT) taxpayers (millions). Baseline: 4.5; Proposal: 4.5. Projections are for calendar year 2017; baseline is current law (including provisions in the Protecting Americans from Tax Hikes Act of 2015 and the Consolidated Appropriations Act of 2016). The proposal includes all individual, payroll, corporate, and estate tax provisions. http://www.taxpolicycenter.org/taxtopics/Baseline-Definitions.cfm.

[a] The percentile includes both filing and non-filing units but excludes units that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class, but they are included in the totals. For a description of expanded cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm. 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 2015 dollars) 20%, $23,099; 40%, $45,153; 60%, $80,760; 80%, $142,601; 90%, $209,113; 95%, $295,756; 99%, $732,323; 99.9%,

[b] 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.

[c] Average federal tax includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes.

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NOTES

[1] Our estimates account for microeconomic behavioral responses, such as reduced use of tax preferences and increased capital gains realizations when marginal tax rates on income and capital gains decline. Our estimating methodology generally follows the conventional approach used by the Joint Committee on Taxation and the US Treasury to eliminate revenue effects before considering the macroeconomic effects

[2] The surcharge threshold ($5 million) is not indexed to inflation and applies to all filing types except for married couples filing separately ($2.5 million).

[3] See the Hillary Clinton campaign web pages "Issues" (https://www.hillaryclinton.com/issues/) and "The Briefing" (https://www.hillaryclinton.com/briefing/).

[4] The proposal excludes from its calculation the foreign tax credit, the credit for taxes withheld on wages, and the credit for certain uses of gasoline or special fuels.

[5] The minimum tax would phase in for taxpayers with an AGI between $1 million and $2 million—the taxpayer would owe a proportionate share of the difference (e.g., a taxpayer with $1.25 million would owe the difference times 0.25). Taxpayers with an AGI of $2 million or greater would pay the full difference. The phase in thresholds would be half as large for married couples filing separately. See Treasury (2015, 158–59).

[6] 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.

[7] The Government Accountability Office (2014) reported that 8,000 taxpayers had IRAs with balances in excess of $5 million in 2011.

[8] See Appendix A.

[9] We excluded this credit for consistency with our analyses of other candidates' proposals, which do not include their health-related proposals.

[10] Appendix B compares our revenue estimates with other published estimates.

[11] 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.

[12] Better yet, the complex alternate rate schedule on capital gains and dividends could be replaced by a partial exclusion—e.g., 40 percent of long-term gains would be subtracted from AGI. This automatically makes the capital gains schedule mirror the progressivity of the ordinary income tax, while conveying a lower effective tax rate on gains and qualified dividends. The individual alternative minimum tax could be made superfluous by including some or all of the AMT "preference items" in ordinary income.

[13] 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 saving responds to taxes in the way one would expect—that is, higher taxes result in less saving—but the overall response is very small.

[14] See Rosenberg and Marron (2015) for derivation and discussion of METRs.

[15] The proposal could also create some very large new marriage penalties for very high-income couples. Both the 4-percent surcharge and the Buffett rule have thresholds that do not depend on filing status. For example, two individuals earning $1 million each would not be affected by the Buffett Rule, whereas they would owe a minimum tax of 30 percent of AGI if they married. They could end up having a very large tax increase if their income primarily comes from lightly taxed or untaxed sources (such as long-term capital gains or tax-exempt bonds). The threshold for the 4-percent surcharge is $5 million. Two single people with AGI of $5 million each would owe no surcharge, but if they combined their incomes, they would be assessed $200,000 in surtax.

[16] See Gale and Samwick (2014) for a recent review of the literature.

[17] If the economy is operating below capacity, deficit-financed tax cuts can boost the economy in the short run by increasing aggregate demand, assuming that individuals decide to spend their tax cuts (rather than saving them or paying down debt) or that investment tax incentives encourage companies to boost purchases of machines and other equipment. However, deficit-financed tax cuts can overheat an economy that is at full employment, an action that can lead to inflation and, ultimately, a recession if the Federal Reserve responds to the inflationary pressures by raising interest rates.

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