Details and Analysis of Hillary Clinton's Tax Proposals

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Key Findings:

- Hillary Clinton would enact a number of tax policies that would raise taxes on individual and business income.
- Hillary Clinton's plan would raise tax revenue by $498 billion over the next decade on a static basis. However, the plan would end up collecting $191 billion over the next decade when accounting for decreased economic output in the long run.
- A majority of the revenue raised by Clinton's plan would come from a cap on itemized deductions, the Buffett Rule, and a 4 percent surtax on taxpayers with incomes over $5 million.
- Clinton's proposals to alter the long-term capital gains rate schedule would actually reduce revenue on both a static and dynamic basis due to increased incentives to delay capital gains realizations.
- According to the Tax Foundation's Taxes and Growth Model, the plan would reduce GDP by 1 percent over the long-term due to slightly higher marginal tax rates on capital and labor.
- On a static basis, the tax plan would lead to 0.7 percent lower after-tax income for the top 10 percent of taxpayers and 1.7 percent lower income for the top 1 percent. When accounting for reduced GDP, after-tax incomes of all taxpayers would fall by at least 0.9 percent.

Over the past few months, former Secretary of State and Senator Hillary Clinton has proposed a number of new and expanded government programs.[1] In order to pay for these new or expanded services, she has proposed raising and enacting a number of new taxes. Her plan would increase marginal tax rates for taxpayers with incomes over $5 million, enact a 30 percent minimum tax (the Buffett Rule), alter the long-term capital gains tax rate schedule, and limit itemized deductions to a tax value of 28 percent. Her plan would also restore the estate tax to its 2009 parameters and would limit or eliminate other deductions for individuals and corporations.

Our analysis finds that the plan would increase revenue by $498 billion over the next decade. The plan would also increase marginal tax rates on both labor and capital. As a result, the plan would reduce the size of gross domestic product (GDP) by 1 percent over the long term. This reduction in GDP would translate into 0.8 percent lower wages and 311,000 fewer full-time equivalent jobs. Accounting for the economic effects of the tax changes, the plan would end up increasing federal tax revenues by $191 billion over the next decade.

Details of the Plan

Individual Income Tax Changes

- Creates a 4 percent "surcharge" on high-income taxpayers, which effectively adds an additional marginal tax rate of 43.6 percent for taxable income over $5 million and a 24 percent top marginal tax rate for qualified dividend and long-term capital gain income (Table 1).[2]

Table 1. Tax Brackets under Hillary Clinton's Tax Plan

Ordinary Income	Capital Gains and Dividends	Single Filers	Married Filers	Head of Household
10%	0%	$0 to $9,275	$0 to $18,550	$0 to $13,250
15%	0%	$9,275 to $37,650	$18,550 to $75,300	$13,250 to $50,400
25%	15%	$37,650 to $91,150	$75,300 to $151,900	$50,400 to $130,150
28%	15%	$91,150 to $190,150	$151,900 to $231,450	$130,150 to $210,800
33%	15%	$190,150 to $413,350	$231,450 to $413,350	$210,800 to $413,350
35%	15%	$413,350 to $415,050	$413,350 to $466,950	$413,350 to $441,000
39.6%	20%	$415,050 to $5 million	$466,950 to $5 million	$441,000 to $5 million
43.6%	24%	$5 million and above	$5 million and above	$5 million and above

- Enacts the "Buffett Rule," which would establish a 30 percent minimum tax on taxpayers with adjusted gross income (AGI) over $1 million. The minimum tax would phase-in between $1 million and $2 million of AGI.
- Caps all itemized deductions at a tax value of 28 percent.
- Adjusts the schedule for long-term capital gains by raising rates on medium-term capital gains to between 27.8 percent and 47.4 percent (Table 2).

Table 2. Top Marginal Long-Term Capital Gains Tax Rate Schedule under Hillary Clinton's Tax Plan

Years Held	Marginal Tax Rate	Net Investment Income Tax	Surtax on incomes over $5 million	Combined Rate on Capital Gains
Less than One	39.6%	3.8%	4%	47.4%
One to Two	39.6%	3.8%	4%	47.4%
Two to Three	36%	3.8%	4%	43.8%
Three to Four	32%	3.8%	4%	39.8%
Four to Five	28%	3.8%	4%	35.8%
Five to Six	24%	3.8%	4%	31.8%
More than Six	20%	3.8%	4%	27.8%

- Limits the total value of tax-deferred and tax-free retirement accounts.*
- Taxes carried interest at ordinary income tax rates instead of capital gains and dividends tax rates.*
- Enacts a new $1,200 tax credit for caregiver expenses.*

Business Tax Changes

- Eliminates the deductibility of reinsurance premiums paid by corporations to foreign subsidiaries and provides an exclusion from income for reinsurance recovered for any arrangement where the deduction was disallowed.
- Establishes business tax credits for profit-sharing and apprenticeships.*

Other Changes

- Restores the federal estate tax to 2009 levels. This would increase the estate tax rate to 45 percent and reduce the exemption to $3.5 million.
- Enacts a tax on high-frequency trading, at an unspecified rate.*

Note: The asterisks (*) indicate provisions that were not modeled. For more information, see Modeling Notes, below.

Economic Impact

According to the Tax Foundation's Taxes and Growth Model, Hillary Clinton's tax plan would reduce the economy's size by 1 percent in the long run. The plan would lead to 0.8 percent lower wages, a 2.8 percent smaller capital stock, and 311,000 fewer full-time equivalent jobs. The smaller economy results from somewhat higher marginal tax rates on capital and labor income.

Table 3. Economic Impact of Hillary Clinton's Tax Proposals	
GDP	-1.0%
Capital Investment	-2.8%
Wage Rate	-0.8%
Full-time Equivalent Jobs (in thousands)	-311
Source: Tax Foundation Taxes and Growth Model, October 2015.	

Revenue Impact

Overall, the plan would increase federal revenue on a static basis by $498 billion over the next 10 years. Most of the revenue gain is due to increased individual income tax revenue, which we project to raise approximately $381 billion over the next decade. The changes to the estate tax will raise an additional $106 billion over the next decade. The remaining $11 billion would be raised through increased taxes on corporations.

If we account for the economic impact of the plan, it would end up raising $191 billion over the next decade. The slightly smaller economy would reduce wages, which would narrow the revenue gain from the individual income tax changes to about $173 billion and reduce payroll tax revenue by about $80 billion over the next decade.

Table 4. Ten-Year Revenue Impact of Hillary Clinton's Tax Proposals (Billions of Dollars)		
Tax	**Static Revenue Impact (2016-2025)**	**Dynamic Revenue Impact (2016-2025)**
Individual Income Taxes	$381	$173
Payroll Taxes	$0	-$80
Corporate Income Taxes	$11	$12

Excise Taxes	$0	-$7
Estate and Gift Taxes	$106	$102
Other Revenue	$0	-$8
Total	**$498**	**$191**
Note: Individual items may not sum to total due to rounding. Source: Tax Foundation Taxes and Growth Model, October 2015.		

The largest sources of revenue in the plan are the new taxes targeted at high-income taxpayers (Table 5). The introduction of the Buffett Rule, the 28 percent cap on itemized deductions, and the new 4 percent surtax on high-income taxpayers would raise about $755 billion on a static basis. On a dynamic basis they raise slightly less ($521 billion) due to their impact on the supply of labor and capital.

We estimate that Clinton's proposal to alter the schedule for long-term capital gains would end up losing $374 billion on a static basis. The higher rate for capital gains in the medium-term (assets held between two and five years) would push people to realize their capital gains later. Overall, this would reduce the number of realizations, and even with higher rates, the policy will lose revenue.[3] Dynamically, the policy would lose slightly more revenue ($409 billion) due to its small impact on the cost of capital.

Table 5. Ten-Year Revenue and Economic Impact of the Clinton Plan by Provision (Billions of Dollars, 2016-2025)			
Provision	**10-Year Static Revenue Impact**	**10-Year Change in Level of GDP**	**10-Year Dynamic Revenue Impact**
Enact "Buffett Rule" 30 Percent Minimum Tax on Millionaires	$321	-0.39%	$209
4 Percent Surtax on Taxpayers with Incomes over $5 Million	$141	-0.16%	$95
Restore Estate Tax to 2009 Parameters	$106	-0.10%	$76
Eliminate Deduction for Reinsurance Premiums Paid by Businesses	$11	-0.03%	$2
Cap the Tax Value of Itemized Deductions at 28 Percent	$293	-0.24%	$218
Adjusts the Schedule for Long-Term Capital Gains	-$374	-0.12%	-$409
Source: Tax Foundation Taxes and Growth Model, October 2015.			

Distributional Impact

On a static basis, Clinton's tax plan would only reduce the after-tax incomes of top-income taxpayers. Those in the top 10 percent would see a reduction in income of 0.7 percent. The top 1 percent of all taxpayers would see a 1.7 percent reduction in after-tax income.

On a dynamic basis, the plan would reduce after-tax incomes by an average of 1.3 percent. All deciles would see a reduction in after-tax income of at least 0.9 percent over the long-term. Taxpayers that fall in the bottom nine deciles would see their after-tax incomes decline by between 0.9 and 1 percent. The top 10 percent of taxpayers would see a reduction in after-tax income of 1.7 percent. The top 1 percent of all taxpayers would see the largest decline in after-tax income: 2.7 percent.

Table 6. Distributional Analysis for Hillary Clinton's Tax Plan		
Effect of Tax Reform on After Tax Income Compared to Current Law		
All Returns by Decile	**Static Distributional Analysis**	**Dynamic Distributional Analysis**
0% to 10%	0.0%	-1.0%
10% to 20%	0.0%	-0.9%
20% to 30%	0.0%	-0.9%
30% to 40%	0.0%	-1.0%
40% to 50%	0.0%	-1.0%
50% to 60%	0.0%	-1.0%
60% to 70%	0.0%	-1.0%
70% to 80%	0.0%	-1.0%
80% to 90%	0.0%	-0.9%

90% to 100%	-0.7%	-1.7%
99% to 100%	-1.7%	-2.7%
TOTAL FOR ALL	-0.3%	-1.3%
Source: Tax Foundation Taxes and Growth Model, October 2015.		

Conclusion

Hillary Clinton would enact a number of tax policies that would raise tax revenue over the next decade in order to fund new or expanded programs. Most of her policies raise tax revenue as designed, except for her capital gains policy, which would actually end up losing revenue both on a static and a dynamic basis due to the incentives it creates to hold on to assets longer. If enacted, her tax policies would impose slightly higher marginal tax rates on capital and labor income, which would result in a reduction in the size of the U.S. economy in the long run. This would decrease the revenue that the new tax policies would ultimately collect. The plan would lead to lower after-tax incomes for taxpayers at all income levels, but especially for taxpayers at the top.

Modeling Notes

The Taxes and Growth Model does not take into account the fiscal or economic effects of interest on debt. It also does not require budgets to balance over the long term, nor does it account for the potential macroeconomic or distributional effects of any changes to government spending that may accompany the tax plan.

We modeled the revenue and economic impacts of the tax provisions outlined above except for the taxation of carried interest at ordinary income tax rates,[4] the new tax credit for profit sharing, the new credit for caregiver expenses, the IRA limitation, and the new tax on high-frequency trading. The omissions were due to either data limitations or insufficient details from the candidate. We do not model any potential transitional costs associated with the plan.

The proposal to alter the long-term capital gains schedule was modeled by taking into account behavioral effects of shareholders, who react to the higher tax rates on mid-term capital gains by delaying their realizations. We used an elasticity derived from research by the Congressional Budget Office and Joint Committee on Taxation.[5] Consistent with the Clinton campaign's pledge not to raise taxes on households earning less than $250,000, we assumed that the new schedule for long-term gains only would apply to the top marginal tax rate of 20 percent.

We assumed that the 28 percent limitation on itemized deductions was consistent with the policy proposed by President Obama, which would limit the tax value of itemized deductions to 28 cents on the dollar.

We assumed that the reinsurance proposal was similar in content to legislation introduced by Representative Richard Neal and Senator Bob Menendez.

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

[2] This excludes the impact of the 3.8 percent Net Investment Income Tax. If that surtax is included, the top tax rate on ordinary taxable income would be 47.7 percent, and the top tax rate on qualified dividends and long-term capital gains would be 27.8 percent.

[3] Alan Cole, "The Details of Hillary Clinton's Capital Gains Tax Proposal." Tax Foundation. July 28, 2015. http://taxfoundation.org /blog/details-hillary-clinton-s-capital-gains-tax-proposal.

[4] This proposal would raise approximately $1.3 billion per year, according to other estimates. "Estimated Budget Effects Of The Revenue Provisions Contained In The President's Fiscal Year 2016 Budget Proposal." Joint Committee on Taxation. https://www.jct.gov/publications.html?func=startdown&id=4739.

[5] Dowd, Tim, Robert McClelland, and Athiphat Muthitacharoen. "New Evidence on the Tax Elasticity of Capital Gains." Joint Working Paper of the Joint Committee on Taxation and the Congressional Budget Office. June 2012. https://www.cbo.gov/sites/default/files /112th-congress-2011-2012/workingpaper/43334-TaxElasticityCapGains_0.pdf.

Tax Topic
Corporate Income Taxes, Federal Taxes, Income Taxes, Millionaires & High Income Earners, Reforming the Federal Tax Code, Tax Reform