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Vice President Harris releases partial economic plan that includes tax proposals

Vice President and Democratic presidential nominee Kamala Harris today released details of elements of her economic plan. Among other items, Harris proposed several new tax incentives and preferences, including the following:

- A tax incentive for builders of homes sold to first time homebuyers
- An expansion of existing tax incentives for builders of affordable rental housing
- A tax credit for first time homebuyers
- A restoration of the American Rescue Plan Act version of the child tax credit (CTC) providing up to $3,600 per child
- A new expansion of the CTC providing a $6,000 tax credit for children in the first year of life
- A $1,500 expansion of the earned income tax credit available to lower income individuals
- A tax cut for Affordable Care Act premiums

The plan does not include specifics on whether the revenue cost of these items would be offset, though it does state that Harris will ask "the wealthiest Americans and largest corporations to pay their fair share" and that the plan will reduce the deficit.

Harris also calls for Congress to pass the Stop Predatory Investing Act, which would eliminate certain tax benefits for investors who own large numbers of single-family homes.

KPMG observation

Notably, with regard to President Biden's oft-stated pledge not to increase taxes on those making less than $400,000, "Vice President Harris is committed to ensuring no one earning less than $400,000 a year will pay more in new taxes."

This pledge suggests that, for the $4 trillion of "tax cliff" items scheduled to expire at the end of 2025, Harris appears committed to extending those tax cuts for individuals making $400,000 or less. Though it is worth noting that use of the word "new" raises some uncertainty as to how the pledge will be applied.

Harris does not in today's release endorse, or otherwise mention, the official tax plan of the Biden-Harris Administration, the so-called Green Book. Her vow to raise taxes on large corporations and the wealthy, however, is consistent with many of the proposals included in the Administration's plan. Among other things, that plan calls for a 7% increase in the corporate tax rate, a number of new taxes on multinational businesses, and new taxes on high-earning individuals. For more information on the FY2025 Green Book, read KPMG report: Tax proposals in FY 2025 budget.

Absent from today's release is a proposal to exempt tip income from taxation. Harris has previously indicated that she (along with Republican nominee Donald Trump) supports this idea.

Finally, it should be noted that the sum total cost of all these proposals is several trillion dollars. Pursuing all of these ideas is likely to put significant pressure on finding new tax increases to offset the cost of these items.

TAX FOUNDATION

Trump's Tax and Tariff Ideas: Details & Analysis

July 10, 2024 • 6 min read

By: Erica York

Former President Donald Trump has not released a fully detailed tax plan as part of his current bid for reelection, but he has floated several tax policy ideas. Among the various ideas, he has made it clear he seeks to extend the expiring 2017 Tax Cuts and Jobs Act (TCJA) changes, further reduce the corporate income tax rate, impose a 10 percent or higher universal baseline tariff on all imports, and lift current tariffs on China to at least 60 percent. He has also discussed a host of other tariff increases and additional tax cuts, which we do not model due to lack of detail.

We estimate that if the two major tariff increases are implemented and met with in-kind retaliation from all trading partners, it would more than offset the entire benefit of the major tax cuts for economic output and jobs, resulting in a net loss for the US economy.

A New Trade War Could Wipe Out the Growth from Tax Reform

Cumulative Change in Long-Run GDP from Tax and Tariff Policies

Make TCJA Individual Changes Permanent, +0.5% GDP	0.5%
Make TCJA Estate Tax Changes Permanent, +0.1% GDP	0.6%
Make TCJA Business Changes Permanent, +0.5% GDP	1.1%
Lower the Corporate Tax Rate from 21% to 20%, +0.1% GDP	1.2%
Increase Tariffs on China to 60%, Impose a 10% Universal Tariff on All Goods, -0.8% GDP	0.4%
Foreign Countries Retaliate, -0.4% GDP	-0.1%

Totals may not sum due to rounding.
Source: Tax Foundation General Equilibrium Model, June 2024.

Modeling the Major Trump Tax Proposals

Using the Tax Foundation's Taxes and Growth model, we estimate the five major tax changes proposed by Trump would reduce US output by 0.1 percent, employment by 121,000 full-time equivalent jobs, and federal revenue by $1.7 trillion on a conventional basis and by $1.6 trillion on a dynamic basis. The capital stock and wages would be slightly larger, as the lower tax burden on business investment would not be entirely offset by tariffs. American incomes, as measured by GNP, would be 0.4 percent lower, as the increased budget deficit and national debt would require higher interest payments to foreigners.

While the major tax provisions would be pro-growth, a global trade war would threaten to undermine all the potential growth from better tax policy.

We estimate making the TCJA permanent and further reducing the corporate income tax rate would be pro-growth, boosting long-run GDP by 1.2 percent, the capital stock by 1.1 percent, wages by 0.4 percent, and employment by 926,000 full-time equivalent jobs.

The tax cuts would decrease federal tax revenue by $4.3 trillion on a conventional basis and by $3.6 on a dynamic basis. That reduction in revenue would come over a decade when the federal government is already projected to run deficits totaling $22 trillion.

Accordingly, a deficit-financed extension of the TCJA, plus additional deficit-financed tax cuts, would not be fiscally responsible. Finding offsets, whether reductions in spending or tax increases elsewhere, will entail tough but necessary trade-offs.

Those trade-offs, however, do not mean that pro-growth tax reform is out of reach. If policymakers focus on the *least distortionary* offsets to pay for the *most pro-growth tax changes*, it is absolutely possible to craft a pro-growth and fiscally responsible tax reform package.

Unfortunately, Trump has proposed a *highly distortionary* way to raise additional tax revenue through worldwide tariffs.

We estimate the proposed tariffs would reduce long-run GDP by 0.8 percent, the capital stock by 0.6 percent, and hours worked by 685,000 full-time equivalent jobs. In other words, the new tariffs alone—absent foreign retaliation—would threaten more than two-thirds of the increased output from the tax cuts (69 percent), while covering less than two-thirds of the cost (60 percent). Tariffs have no impact on pre-tax wages in our estimates because, in the long run, the capital stock shrinks in proportion to the reduction in hours worked. The capital-to-labor ratio, and thus the level of pre-tax wages, remains unchanged.

We estimate the US-imposed tariffs would increase revenue by nearly $2.6 trillion over the 10-year budget window. Our revenue estimates include noncompliance and changes in the level of imports based on a price elasticity of imports of -0.997, both of which reduce the tax base, and offsets for income and payroll taxes, which reduce the overall revenue raised from higher tariffs.

If the tariffs are met with in-kind retaliation, matching the increases on all goods exports plus additional tariffs on goods exports to China, we estimate they would reduce US GDP by an additional 0.4 percent in the long run while raising no additional revenue for the US government. Because foreign retaliation would reduce US output and incomes, it would lead to a drop in tax revenues on a dynamic basis.

While Trump's proposals would cut taxes overall, they would raise revenue in a more distortive way, resulting in a smaller economy with fewer jobs. Further, the increase in the budget deficit would lead to higher interest payments made to foreigners, resulting in a reduction in American income (GNP) of 0.4 percent.

Trump has discussed other, smaller tax policies as part of his campaign, but due to the lack of details and small magnitude of the proposals, we exclude them from our revenue and macroeconomic estimates. For instance, he has proposed excluding tips from taxation, but whether that would include income and payroll taxes, or just income taxes, has not been specified. If the exclusion was just for income taxes, we estimate a lower bound for the revenue reduction would be about $107 billion from 2025 through 2034. Such a policy has no clear rationale and would worsen distortions in the tax code, providing a carveout for one industry and type of labor compensation but not others.

The major policies outlined by Trump would reduce distortions in one part of the tax system only to replace them with new distortions in another part of the tax system, which risks shrinking the economy and growing the debt. If anything, our modeling likely understates the potential downsides of a global trade war, as the tariffs may threaten the broader economic benefits of a globalized economy.

Table 1. Economic and Revenue Effects of Trump's Major Tax and Tariff Ideas

Provision	GDP	GNP	Capital Stock	Wages	Full-Time Equivalent Employment	Conventional Revenue, 2025-2034	Dynamic Revenue, 2025-2034
Lower Rates and Brackets	1.2%	1.3%	1.2%	0.0%	1.4 million	-$2,669.3	-$1,932.8

Provision	GDP	GNP	Capital Stock	Wages	Full-Time Equivalent Employment	Conventional Revenue, 2025-2034	Dynamic Revenue, 2025-2034
Larger Standard Deduction	Less than +0.05%	0.1%	-0.2%	-0.1%	119,000	-$1,267.5	-$1,231.9
Personal Exemption Elimination	-0.2%	-0.2%	-0.2%	0.0%	-194,000	$1,989.4	$1,895.6
$2,000 CTC, Phases In at $2,500 in Earned Income, up to $1,800 Refundable (Inflation Adjusted), Phases Out at $200k/$400k, $500 ODC	0.0%	0.0%	0.0%	0.0%	39,000	-$831.4	-$813.1
$10,000 SALT Cap, $750,000 HMID Cap, Eliminate Miscellaneous Itemized Deductions, and Pease Repeal	-0.4%	-0.3%	-1.0%	-0.2%	-286,000	$1,126.2	$940.3
Pass-Through Deduction	0.2%	0.2%	0.4%	0.2%	56,000	-$696.8	-$624.1
Noncorporate Loss Limitation	Less than -0.05%	Less than -0.05%	Less than -0.05%	Less than -0.05%	-2,000	$20.9	$20.9
Increase AMT Exemption and Phaseout Threshold	-0.3%	-0.3%	-0.3%	0.0%	-340,000	-$1,063.7	-$1,221.3
Subtotal, TCJA Individual Permanence	**0.5%**	**0.8%**	**-0.1%**	**-0.1%**	**789,000**	**-$3,392.1**	**-$2,966.2**

Provision	GDP	GNP	Capital Stock	Wages	Full-Time Equivalent Employment	Conventional Revenue, 2025-2034	Dynamic Revenue, 2025-2034
Increase Estate Tax Exclusion	**0.1%**	**0.1%**	**0.1%**	**0.0%**	**10,000**	**-$205.6**	**-$185.9**
R&D Expensing	0.1%	0.1%	0.2%	0.1%	17,000	-$162.2	-$122.2
100 Percent Bonus Depreciation	0.4%	0.3%	0.7%	0.3%	82,000	-$381.6	-$228.0
EBITDA Interest Limitation	0.1%	0.0%	0.1%	0.1%	17,000	-$63.8	-$29.4
Subtotal, TCJA Business Permanence	**0.5%**	**0.5%**	**1.0%**	**0.5%**	**116,000**	**-$607.6**	**-$379.6**
Increase Tariffs on China to 60% and Impose an Additional 10% Universal Tariff on All Goods	**-0.8%**	**-0.9%**	**-0.6%**	**0.0%**	**-685,000**	**$2,565.7**	**$2,245.3**
Lower the Corporate Tax Rate from 21% to 20%	**0.1%**	**0.1%**	**0.1%**	**0.1%**	**11,000**	**-$96.1**	**-$73.2**
Foreign Retaliation to US Tariffs	**-0.4%**	**-0.5%**	**-0.4%**	**0.0%**	**-362,000**	**$0.0**	**-$223.5**
Impact of Change in the Deficit	**0.0%**	**-0.4%**	**0.0%**	**0.0%**	**0**	**$0.0**	**$0.0**

Provision	GDP	GNP	Capital Stock	Wages	Full-Time Equivalent Employment	Conventional Revenue, 2025-2034	Dynamic Revenue, 2025-2034
Total	-0.1%	-0.4%	0.1%	0.4%	-121,000	-$1,735.7	-$1,583.1

Note: Conventional revenue estimate for tariffs includes a 15% noncompliance rate, an elasticity of import demand with respect to price of -0.997, and income and payroll tax offsets of approximately 29%. Dynamic revenue estimate for tariffs incorporates negative impact on US tax revenues from foreign retaliation.
Source: Tax Foundation General Equilibrium Model, June 2024, and Author calculations.

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Modeling Notes

We assume TCJA permanence entails the following changes, described here in our recent publication:

- Lower rates and reconfigured brackets
- Larger standard deduction
- Eliminated personal exemption
- Larger child tax credit
- Limited itemized deductions, including for state and local taxes paid, home mortgage interest, and miscellaneous
- Eliminated Pease limitation
- Larger AMT exemption and exemption phaseout thresholds
- 20 percent deduction for pass-through business income and limitation on noncorporate losses
- Larger estate tax exemption
- 100 percent bonus depreciation
- Expensing for research and development (R&D)
- Deduction for net interest limitation based on EBITDA

To model the economic effects of tariffs, we treat them as an excise tax. As an excise tax, tariffs create a wedge between the price a consumer pays and the price a producer receives. In Tax Foundation's modeling, we hold the price level constant, passing tariffs back to the factors of production. In other words, tariffs reduce the amount of revenue businesses have to compensate their workers and shareholders, resulting in a reduction in real incomes.

To model the revenue effects of US-imposed tariffs, we first take the affected imports based on 2023 levels multiplied by the inclusive tariff rate (consistent with the revenue estimating convention that the price level remains constant). We then apply a noncompliance rate of 15 percent, based on the average tax gap, an elasticity of import demand with respect to price of -0.997, and income and payroll tax offsets of approximately 29 percent. On a dynamic basis, revenue falls further as tariffs result in a reduction in real incomes and output.