

Assessing the House Republicans’ “A Better Way” Tax Reform

Alan Auerbach

University of California, Berkeley

Laurence Kotlikoff

Boston University

and

Darryl Koehler

The Fiscal Analysis Center

May 3, 2017

We thank The Goodman Institute, the Burch Center for Tax Policy and Public Finance, The Fiscal Analysis Center, Boston University, Economic Security Planning, Inc. and the Sloan Foundation for research support. All opinions are strictly those of the authors. We thank John Goodman, Jane Gravelle, Jack Mintz, Jeffrey Sachs, and Donald Schneider for very helpful comments.

Overview of the House Republican Tax Plan

The House Republican “A Better Way” tax reform¹ plan includes a significant redesign of our business tax system. It effectively would replace the corporate income tax with a 20 percent destination-based business cash-flow tax. Proprietorships, partnerships, S corporations and other pass-through entities would face a distinct schedule with a top rate of 25 percent on pass-through income, leading to a need for provisions to limit the ability of high-income households to move income from the new top 33 percent personal rate to the 25 percent rate.

The reform would also streamline and significantly simplify personal income taxation by eliminating the Alternative Minimum Tax, unifying the tax treatment of personal asset income (taxing half of personal asset income), eliminating exemptions, eliminating the deductibility of state income and property taxes, raising the standard deduction and modifying the child-tax credit. In addition, the plan moves from seven to three income-tax brackets, with the top rate lowered from 39.6 percent to 33 percent.

This paper examines the reform’s potential impact on revenues, inequality, and fiscal progressivity.² The plan’s proposed reform of business taxation is particularly significant for potential U.S. investment. Current net domestic investment is quite low -- just 5 percent of net national income. In 1950s it was roughly three times higher.³ Although it is formally a “worldwide” tax system, today’s U.S. corporation income tax primarily taxes U.S. and foreign corporations on income earned from investing in the United States.

There is a significant debate about the size of the marginal U.S. effective corporate tax rate both in absolute terms and relative to rates in other countries. Mintz and Chen (2014) suggest that the United States has one of the world’s highest marginal effective corporate tax rates. (See figure 1). Gravelle (2014, 2016) suggests otherwise. Mintz estimates that the comprehensive (federal, state, and local) marginal effective corporate tax (METR) on investing in the U.S. would fall from 34.6 percent to 16.1 percent as a result of the tax plan.⁴ The Tax Policy Center estimates the tax plan would lower the federal part of the METR from 24.0 percent to 8.8 percent.⁵

Gravelle sees a much smaller decline. Mintz’s estimate of the METR includes state corporate income, property, and other taxes. Gravelle measures only the federal METR. Gravelle estimates the current federal METR at 5.7 percent, falling to – 4.7 percent under the House tax plan.⁶

¹ https://abetterway.speaker.gov/_assets/pdf/ABetterWay-Tax-PolicyPaper.pdf

² We do not consider the plan’s proposed elimination of the estate and gift tax.

³ Our net national saving rate is also roughly one third of its average value in the 1950s. But domestic investment, while correlated with national saving, is not determined by national saving. This is clear from the historical record on current account deficits. In 2003, for example, foreign investment in the U.S. exceeded investment by Americans in the U.S. (i.e., it exceeded total net national saving). Recently, the current account deficit has shrunk.

⁴ See <https://taxfoundation.org/competitiveness-impact-of-tax-reform-for-the-united-states/>

⁵ See table 8 in https://taxlawjournal.columbia.edu/article/an-analysis-of-the-house-gop-tax-plan/#_Toc476651282.

⁶ This is Gravelle’s (2017) estimate.

Although the absolute values of their METRs differ dramatically, the implied percentage decline in the cost of capital are somewhat closer.⁷ Mintz foresees a 28.3 percent decline in the overall cost of capital. The TPC expects a 20 percent decline in the federal METR. And Gravelle estimates a 9.54 percent decline in the federal METR.⁸

If the highest of these estimates is on the mark, the tax plan could significantly increase U.S. investment and wages, with an eventual real wage increase possibly as high as 8 percent, according to dynamic simulation analysis based on the Global Gaidar Model.⁹ In our analysis we consider no dynamic feedback on U.S. wages as well as this optimistic 8 percent wage-increase dynamic feedback scenario, in order to explore the range of possible outcomes.¹⁰

The tax plan permits businesses to expense (immediately write off) the cost of their new investment. The proposed new corporate income tax also features border tax adjustments to ensure that companies no longer have an incentive to either move their operations or to shelter their profits abroad. The resulting tax is a *cash flow tax* because it taxes all revenues earned from

⁷ The percentage change in the cost of capital is calculated at the change in the METR divided by 1 minus the initial METR.

⁸ If inclusion of non-federal corporate components to the METR raised Gravelle's METR under the current system from 5.7 percent to 20.7 percent, her percentage fall in the cost of capital would be 11.35 percent, which is still far lower than the 28.3 percent decline estimated by Mintz.

⁹ An 8 percent increase is generated in the Global Gaidar Model by reducing the U.S. corporate tax by 53.5 ((34.6-16.1)/34.6) percent holding marginal taxes of other regions of the world constant and maintaining fixed U.S. debt to GDP during the transition. Development of the Global Gaidar Model represents joint work of Laurence Kotlikoff and a team of American and Russian economists. It is a 17-region, 90-period version of the original Auerbach-Kotlikoff dynamic life-cycle CGE model. The model covers all regions of the world, incorporates the latest United Nations demographic projections, and is calibrated to the most recent IMF data. Benzell, Kotlikoff, and Lagarda (forthcoming 2017) uses the Global Gaidar Model to study the dynamic impacts on the U.S. and other regions of the House tax plan. Unlike other studies of dynamic feedback arising under the House tax plan, the Gaidar Model captures the size of the U.S. economy relative to the global economy. This matters for properly assessing the magnitude of capital inflows to the U.S. in response to corporate tax reform.

¹⁰ We say "optimistic" for five reasons. First, other regions could respond to the U.S. move to a cash-flow tax by reducing their corporate tax rates or adopting the new U.S. business tax system. Second, Mintz's calculation of the reduction in the effective marginal corporate tax rate under the House tax plan may be overstating the change. While there is a standard method of calculating marginal effective corporate tax rates, researchers differ on their assumptions about weighting different types of capital goods as well as the degree of marginal debt finance. Third, the various modeling assumptions in the Global Gaidar Model might produce more sensitive capital flows than would result from alternative assumptions. Fourth, our estimate of an 8 percent rise in wages in the Gaidar model is predicated on the maintenance of the current U.S. debt to GDP ratio through time. If the Gaidar Model's assumption of a very quick transition to higher U.S. investment and, therefore, higher wages, with its associated addition to revenues, is inappropriate, U.S. debt to GDP could rise. If not reversed, this would produce a smaller than 8 percent increase in real wages in the Gaidar Model. We should add, though, that in at least one respect the model's assumptions might underestimate the growth of US domestic investment and hence real wages. The model excludes discrete location decisions regarding investments that yield rates of return in excess of the required returns. Empirical evidence (e.g., Devereux and Griffith, 1998) suggests that such decisions are responsive to international tax rate differentials, which would increase substantially in favor of the United States, which would impose a tax rate of zero on domestic-source income under the proposal. Fifth, if more investment entails more automation it could, as in Sachs and Kotlikoff (2012), lower, not raise wages.

sales within the U.S. less all costs.¹¹ Costs include outlays on goods, including investment goods, whether imported or produced locally, as well as all wages. Mathematically, this business cash flow tax is equivalent to imposing a subtraction-method, destination-based Value Added Tax (VAT) with an equal-rate subsidy to wages.¹²

Since a household's current and future consumption is financed by its current and future wages plus its current net worth, the combination of a VAT and a wage subsidy is effectively equivalent to taxing initial wealth as well as the future returns to capital in excess of the required market rate of return. This makes the business tax reform a significant progressive element of the overall tax plan, which offsets some regressive features of the tax plan's personal income tax reform, notably the reduction in the top rate from 39.6 percent to 33.0 percent.

This paper assesses the revenue effects, progressivity and work incentive effects of the Better Way tax plan. We also consider a modification of the tax plan, namely one that also eliminates the ceiling on Social Security's FICA payroll tax. We distinguish below between *the tax plan* (the House Republican tax plan) and *the modified plan*, which includes lifting the FICA ceiling.

Lifting the FICA ceiling would generate more revenues and raise progressivity relative to both the current system and the tax plan. It would help shore up Social Security's finances and, potentially, enhance political support. But it represents just one of many ways to modify the tax plan, and is in no way linked to the House Republican plan.

Methodology

To measure the effects of the tax plan as well our modified tax plan on revenue, inequality, progressivity, and work incentives we ran all households sampled in the Federal Reserve's 2013 Survey of Consumer Finances (SCF) through *The Fiscal Analyzer* (TFA). TFA is a detailed life-cycle consumption-smoothing program that incorporates both borrowing constraints and lifespan uncertainty as well as all major federal and state tax and transfer programs.¹³

In the course of doing its consumption smoothing, TFA determines each household's expected present value of remaining lifetime spending, where the term *expected* references averaging over different longevity outcomes and spending encompasses all expenditures, including terminal bequests net of estate taxes. The impetus for focusing on remaining lifetimes, rather than just the current year, comes from standard life cycle economic theory, which postulates that people care about the future, not just the present.

The lifetime budget constraint facing each household is given by

$$(1) S = R - T,$$

¹¹ The House business cash flow tax is similar in many respects to that proposed by Auerbach (2010) as well as The Growth and Investment Tax Plan proposed in 2005 by The President's Advisory Panel on Tax Reform (see <https://www.treasury.gov/resource-center/tax-policy/Documents/Report-Fix-Tax-System-2005.pdf>)

¹² The border adjustment can be implemented by having firms simply exclude revenues earned from exports and costs incurred from imports.

¹³ See Auerbach, Kotlikoff, and Koehler (2016).

where S references the present expected value of a household's remaining lifetime spending, R stands for remaining lifetime resources (the present expected value of remaining lifetime labor earnings plus its current net worth) and T stands for the present expected value of remaining lifetime taxes net of transfer payments received. The average net tax rate, t , is defined by

$$(2) t = T/R,$$

and the marginal net tax rate, m , is given by

$$(3) m = \Delta T/\Delta R,$$

where ΔT references the change in the present expected value of net taxes associated with an increase of ΔR in the present expected value of resources. Thus, if the expected present value of a household's spending is, for example, 65 percent of remaining lifetime resources, its average net tax rate, t , equals 35 percent. And if earning, say, another \$10,000 this year changes T by \$3,000, the marginal net tax rate is 30 percent.

Average remaining lifetime net tax rates tell us not only the net share of their resources that households surrender to the government. They also tell us about the progressivity of the fiscal system. If average net tax rates rise with the level of resources, the fiscal system is progressive. If they fall, the system is regressive. If they are independent of the level of resources, the system is proportional.

This paper, like our prior studies using TFA (Auerbach et. al., 2016, Auerbach et. al., 2017), calculates inequality and the progressivity of the fiscal system on a cohort-specific basis. Specifically, we consider inequality by looking within 10-year age cohorts at the share of total remaining lifetime spending attributable to households falling within different within-cohort percentiles of remaining lifetime resources, R . To measure progressivity, we again look within cohorts, but at average remaining lifetime net tax rates rather than at shares of the cohort's total remaining lifetime spending.

We use cohort-specific analysis to consider inequality and progressivity because failing to do so amounts to comparing apples with oranges. Ranked by remaining lifetime spending, older cohorts would look poorer than younger cohorts simply because they had shorter remaining lifespans. And remaining lifetime net tax rates of older cohorts would appear lower than those of younger cohorts simply because the elderly would receive no credit for net taxes paid in the past and appear to be subsidized because they are collecting or will start to collect Medicare, Medicaid, and Social Security benefits sooner than younger cohorts.

Modeling the Current Tax System

Auerbach et. al. (2016) and Auerbach et. al. (2017) discuss TFA's modeling of the current tax system. We take several steps here to match the Congressional Budget Office's 2017 revenue projections. First we inflate all dollar amounts reported in the 2013 SCF data by nominal average

wage growth between 2013 and 2017.¹⁴ Second, we inflate all wage and self-employment income by 9 percent to match the CBO's 2017 projected FICA tax receipts.

Third, we assume a corporate tax rate to match CBO's 2017 corporate revenue projections as closely as possible. We levy this corporate tax on the model's assumed pretax return to stock holdings. Stock values have risen faster than wages between 2013 and the present. In addition, the SCF respondents appear to underreport their stock holdings. Third, the CBO's makes various assumptions about corporate income-tax collections in reaching its 2017 projected total. Finally, not all corporate equity is held directly or indirectly by US households, but in our analysis we are assuming that there is no shifting of the corporate tax to others, either domestically (e.g., US workers) or abroad (e.g., foreign shareholders). To capture all of these factors, we simply set the corporate tax rate in the TFA to reproduce the CBO's 2017 corporate tax total.

Fourth, the SCF asks respondents what they specified as taxable capital gains, dividends, and interest income on their 2012 individual tax returns. We used these data (adjusted for wage growth) in calculating personal¹⁵ income taxes under both the current tax system and the House tax plan. In the case of taxable capital gains income, we formed, by cohort and resource decile, total reported (realized) capital gains divided by total stock holdings. We vary these capital-gains, income-realization rates through time as respondents move from one age cohort to another. We engage in an identical resource-specific decile procedure to determine respondents' shares, as they move from one age group to another, of stock holdings out of total financial assets.

Modeling the Better Way Tax Plan

As mentioned, the business tax part of the House Republican tax reform effectively implements a tax on wealth. According to Burman et al. (2017), based on estimates using the Tax Policy Center model, the plan's cash flow tax is close to revenue neutral ignoring changes in revenues arising during the transition from the current to the new business tax system.¹⁶ Since the Better Way tax plan leaves many transition details unresolved, it seemed best, to measure its long-run consequences, simply to ignore transition revenue effects and form our calculations assuming the cash flow tax generates the same revenues as the current corporate tax system.

Since the cash flow tax represents an implicit tax on consumption financed out of wealth, we capture its impact by introducing a one-time tax on wealth in TFA. This tax is assessed only on net financial wealth; i.e., its base excludes home equity since the tax plan, like the current tax system, does not treat the receipt of imputed rent on owned homes as business income. We set the rate for this net financial wealth tax at 13.6 percent. This tax rate was chosen because it

¹⁴ <https://www.ssa.gov/oact/cola/AWI.html#Series> reports Social Security's average wage index series through 2015. We assume the same growth rate for 2015 and 2016 as that reported for 2014.

¹⁵ In both procedures, we assume that respondents in resource decile j will remain in resource decile j as they move from one ten-year age bracket to another.

¹⁶ According to Table 2 in their paper, the corporate tax provisions would reduce revenues slightly, by a total of \$192.5 billion over the decade 2027-2036.

reduces TFA's 2017 total consumption spending by roughly \$315 billion, which is the amount of 2017 corporate tax revenues generated by TFA under the current tax system.

On the personal income tax side, we follow the tax plan with respect to all specified details. One detail that is not clearly specified is how the tax plan will prevent high tax-bracket households who receive pass-through self-employment and other income from declaring all their income as business income to permit its taxation at 25 percent. The Better Way tax reform document hints at the implementation of a limit on such behavior. Our guess of how this limit would be imposed is the implementation of a ceiling on the share of income that would otherwise be taxed at a rate above 25 percent that can be declared business income. We set the share of such income that cannot be claimed as business income at 25 percent. (Assuming a higher share would lower our estimated revenue loss from the proposal.)

TFA-Generated 2017 Revenues Under the Current Tax System

The CBO projects 2017 personal income tax, FICA tax, and corporate income tax revenues of \$1.651 trillion, \$1.150 trillion, and \$320 billion, respectively.¹⁷ TFA's corresponding 2017 tax revenues estimates are \$1.791 trillion, \$1.104 trillion, and \$330 billion, respectively. Thus, relative to the CBO, TFA is 8.48 percent high in estimating federal income taxes, 4.00 percent low in estimating FICA taxes, and 3.12 percent high in estimating corporate income taxes.

Findings

Revenues

Absent dynamic feedback (DF) effects, the House tax plan loses \$212 billion in revenue on an annual basis, according to our methodology. With DF effects, which we again stress appear to represent an upper bound for wage growth under the plan, there is an annual revenue gain of \$38 billion. With DF effects and the lifting of the FICA ceiling, there is a \$328 billion annual rise in revenues.¹⁸ These potential revenue changes need to be compared with our model's baseline total federal revenue (including just corporate and personal income taxes) of \$3.272 trillion. Absent DF, the tax plan produces 6.5 percent less federal revenue. With the posited DF response, the revenue gain is 1.2 percent. And with the modified tax plan, which includes elimination of Social Security's FICA taxable earnings ceiling, the revenue gain is 10.0 percent.

Spending Inequality

We present results for the 40-49 year-old cohort as the findings for other cohorts are quite similar. Figures 2 through 5 consider spending inequality under a) current law, b) the tax plan

¹⁷ <https://www.cbo.gov/about/products/budget-economic-data#7> provides the CBO's projections as of January 2017.

¹⁸ This last estimate is in a sense even more optimistic than the basic DF estimate and should be regarded with caution, as it assumes the same growth in wages even though individuals above the FICA ceiling face higher marginal tax rates on their labor earnings.

with no DF, c) the tax plan with DF, and d), the modified tax plan with DF. The figures also show inequality in net wealth.

As figure 2 shows, remaining lifetime spending is less unequal than is net wealth. This is due to a more equal distribution of human wealth as well as the progressivity of the fiscal system. Under the current system, the top 1 percent (measured in terms of R) of 40 year olds own 19.0 percent of the wealth, but account for only 11.5 percent of the spending. In contrast, the poorest 20 percent account for only 2.5 percent of total cohort wealth, but 6.3 percent of cohort spending.

As figure 3 indicates, the House tax plan, absent any DF increases in labor income, increases the spending share of the richest 20 percent from 51.0 percent to 51.6 percent. It raises the spending share of the top 1 percent from 11.5 percent to 11.7 percent. The poorest 20 percent experience a fall in their spending share from 6.3 percent to 6.2 percent. These are relatively small changes in the distribution of spending, although they do represent a small shift toward greater inequality.

An increase in wages by 8 percent, considered in figure 4, makes no difference to the spending share of the top quintile, which remains at 51.6 percent. But it reduces the spending share of the top 1 percent from 11.7 percent to 11.6 percent. The fact that higher labor income does so little to alter spending inequality may be surprising. But there is considerable inequality in labor income, especially when one considers the different labor income trajectories of labor income for those with different resource levels.

Figure 5 shows that our modified tax plan in the presence of DF reduces the spending share of the top 1 percent to 11.0 percent, a small decrease from its 11.5 percent value under the current system. The top 20 percent now get to spend 50.8 percent of total cohort spending, a bit less than the 51.0 percent share under the current system. The spending share of the bottom quintile falls slightly from 6.3 percent under current tax provisions to 6.2 percent.

Average Remaining Lifetime and Current-Year Net Tax Rates

Table 1 shows average remaining lifetime net tax rates under current law and the three tax reform cases.¹⁹ The fact that all rates are negative for the lowest quintile and rise sharply with the percentile levels of remaining lifetime resources indicates that the U.S. fiscal system is highly progressive. It remains highly progressive in each of the three reform cases. But the tax plan without DF lowers the average remaining lifetime net tax rate for the lowest quintile by .5 percentage points while lowering it by 3.0 percentage points for the top 1 percent. The second, third, and fourth quintiles experience cuts in their average remaining lifetime net tax rate, but these cuts are smaller than the 2.7 percentage-point cut experienced by the top quintile. Adding DF effects to the mix raises the average net tax rate dramatically for the lowest quintile – by 5.9 percentage points relative to the current system. At the same time, average net tax rates for other quintiles rise as well. For the top 1 percent, the reduction in the average net tax rate of the top 1 percent relative to the current system falls to 1.4 percentage points.

¹⁹ As discussed in Auerbach, et. al. (2016), traditional current-year tax rates are unreliable guides to either average or marginal net tax rates because they omit future net tax payments and resources.

The last row of table 1 presents average tax rates under the modified tax plan with DF. There is, as expected, no change to average tax rates at the bottom end of the resource distribution. But lifting the FICA tax ceiling raises average tax rates of the rich. Indeed, those in the top 20, top 5, and top 1 percent of the resource distribution end up with higher average remaining lifetime net tax rates than under the current tax system. For the top 1 percent, the increase in the average remaining lifetime net tax rate is 3.1 percentage points relative to the current system.

Remaining Lifetime Median Marginal Net Tax Rates

Table 2 considers median remaining lifetime marginal net tax rates for our four cases. The marginal net tax experiment we consider involves one-year increase in earnings of the household head by \$1,000. Recall, if the present value of remaining lifetime spending rises by, for example, \$700, we measure the marginal remaining lifetime net tax rate as 30 percent.

The House tax plan without DF significantly reduces median remaining lifetime marginal net tax rates for all five quintiles. For the poorest quintile, the median marginal tax falls by 3.4 percentage points. For the top 1 percent, the median rate falls by 9.6 percent points. Adding DF to the mix makes little difference to the median marginal net tax rates in the bottom two quintiles. But moving to the modified tax plan raises median marginal rates above their initial level for the third quintile and roughly back to their current values for the fourth quintile, top quintile, top 5 percent, and top 1 percent.

Impact on Spending

Table 3 shows the impact on percentile-specific average remaining lifetime spending of the tax plan. With no dynamic feedback, all percentile groups are better off, but the average spending increase is highest at the top – 4.56 percent for the top 1 percent compared with 0.33 percent for the bottom 20 percent. Adding DF effects produces more significant spending gains for all percentile groups, particularly for the highest resource groups. Now the bottom quintile experiences a 2.05 percent average spending increase. The top 1 percent see their average spending rise by 9.49 percent. These spending changes are more equitably distributed under the modified tax plan. The poorest 20 percent still experience, on average, a 2.05 percent spending increase. But for the top 1 percent average spending now rises by only 2.71 percent.

Why the House Tax Plan May Be More Progressive Than Our Calculations Suggest

In this analysis we've made a traditional assumption that owners of U.S. corporations bear 100 percent of the burden of the current corporate income tax. But given the mobility of capital, some of the burden of the corporate tax may fall on workers. Indeed, the Congressional Budget Office estimates this share at 25 percent in its own distributional calculations. And other studies (e.g., Fehr, et. al., 2013) suggest this share could be substantially higher, even potentially greater than 100 percent.²⁰ Were we to model the current corporate tax as falling in part or in full on workers, the tax plan would be more progressive than we've portrayed. Consequently, our results on the

²⁰ This possibility arises because the impact of the corporate tax on U.S. investment and, thus, real wages, depends on the marginal rate of corporate income taxation. In contrast, corporate revenues depend on the lower average rate of corporate income taxation.

tax plan's progressivity should be viewed as having at least one bias against our finding that the plan is somewhat less progressive than the current tax system.

Conclusion

The House tax plan represents a significant reform of our tax system and its business tax provisions have the potential to increase wages by encouraging domestic investment. The business tax reform effectively replaces a tax on asset income with a tax on wealth. On balance this is a progressive move that offsets certain regressive elements of the personal tax reform.

With no dynamic feedback effects, the House tax plan will, we estimate, reduce federal revenues by \$212 billion on an annual basis, ignoring the additional revenue costs of transition provisions. With a strong feedback to wages (an 8 percent wage increase), the reform will raise \$38 billion annually. One way to help ensure revenues don't fall is to couple the House tax plan with the lifting of the ceiling on Social Security's FICA tax.²¹ Ignoring any adverse behavioral response to higher tax rates on labor income, doing so will raise annual revenues by \$328 billion assuming wages rise by 8 percent. Eliminating the FICA ceiling would help shore up Social Security's finances. As things now stand, the system is 32 percent underfinanced and faces a \$32.1 trillion unfunded liability.²²

The House tax plan would slightly worsen U.S. inequality as measured by the share of cohort-spending done by the rich. Were the modified tax plan chosen, inequality in spending would remain close to where it is under current tax provisions.

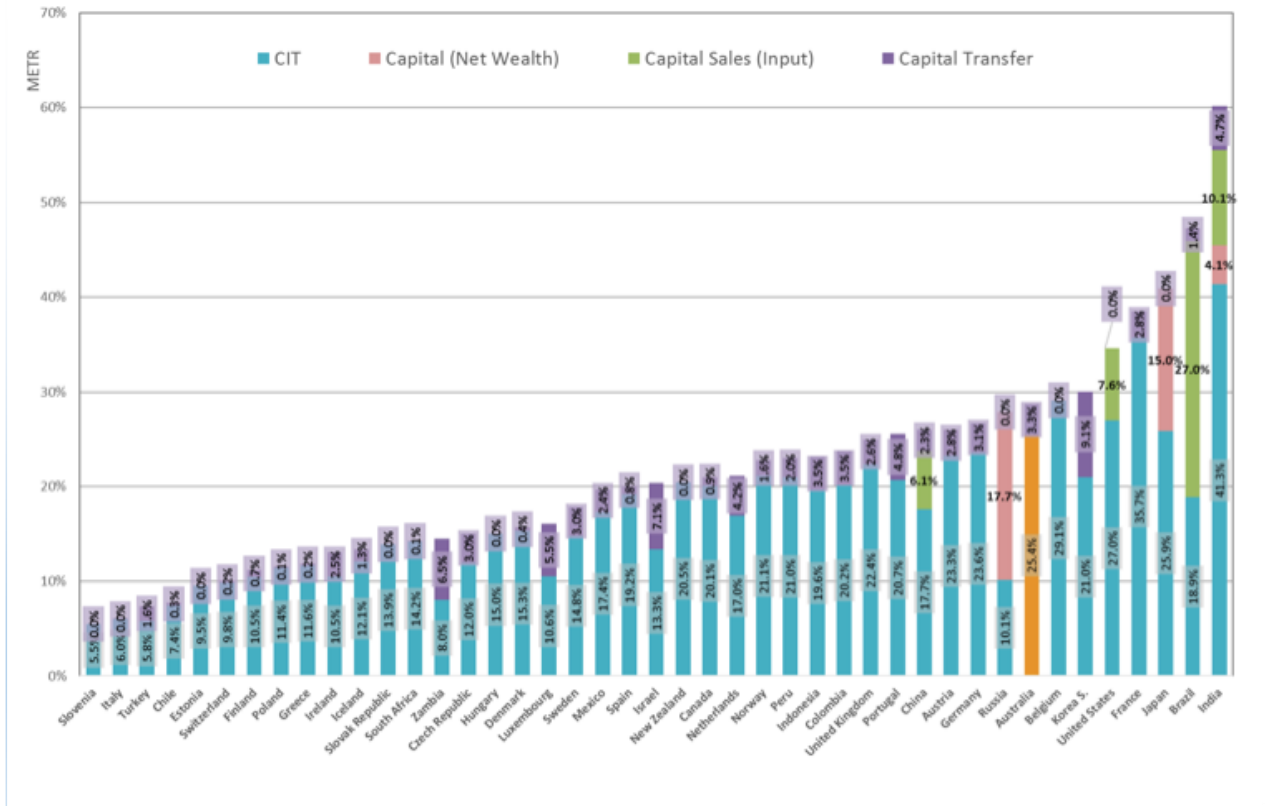
Work incentives would improve for all resource groups under the House plan, with the biggest improvement for the rich. However, given that the plan, absent sizable dynamic feedback, produces a revenue loss, one would want to take into account any incentive effects of whatever provisions are eventually adopted to offset a potential revenue loss. For example, the adoption of the modified tax plan would leave the rich facing roughly the same marginal net tax rates as under the current tax system.

The House tax plan represents a revenue gamble. If the economy responds as one might optimistically hope, revenues will be close to if not exceed their current values. Moreover, wages as well as GDP will be significantly higher. If the economy does not respond, the House tax plan will materially increase the federal deficit. One alternative, considered here, which greatly reduces the risk of lost revenues but retains the potential for significant economic growth, is to couple the House tax plan with the elimination of the ceiling on Social Security's FICA tax. In addition to raising revenues, this modification of the House tax plan would make the proposed tax reform more progressive.

²¹ An important caveat with respect to lifting the FICA tax ceiling is that doing so may reduce the labor supply and, thus, taxable labor income, of high earning workers.

²² https://www.ssa.gov/oact/tr/2016/VI_F_infinite.html

Figure 1
Marginal Effective Corporate Tax Rates Across Countries, 2017*



*Source: Jack Mintz, School of Public Policy, University of Calgary,
http://www.minerals.org.au/file_upload/files/publications/With_global_company_tax_reform_in_the_air%2C_will_Australia_finally_respond_FINAL.pdf

Figure 2 Current Law, Net Wealth and Lifetime Spending by Resource Percentile Range, Ages 40 - 49

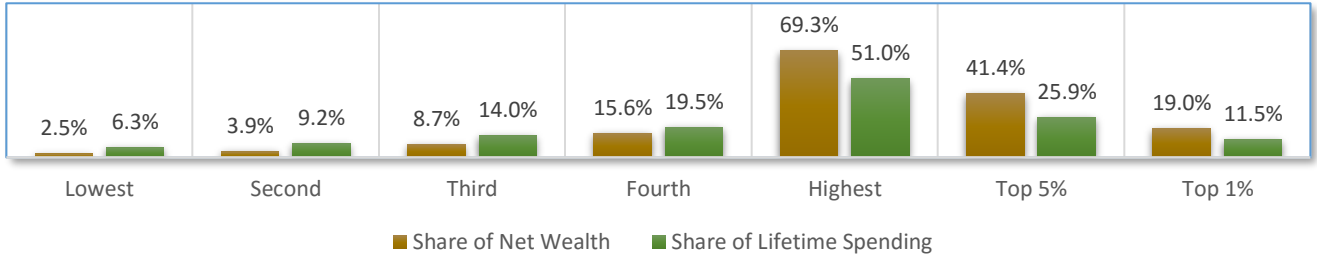


Figure 3, House Tax Plan, No Dynamic Feedback, Net Wealth and Lifetime Spending by Resource Percentile Range, Ages 40 - 49

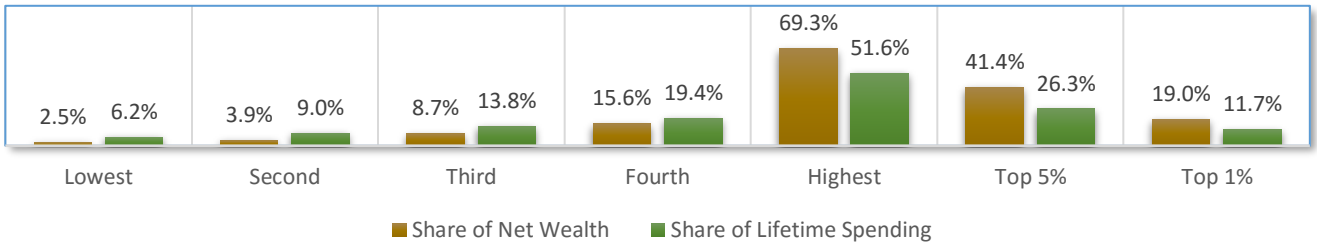


Figure 4 House Tax Plan with Dynamic Feedback, Net Wealth and Lifetime Spending by Resource Percentile Range, Ages 40 - 49

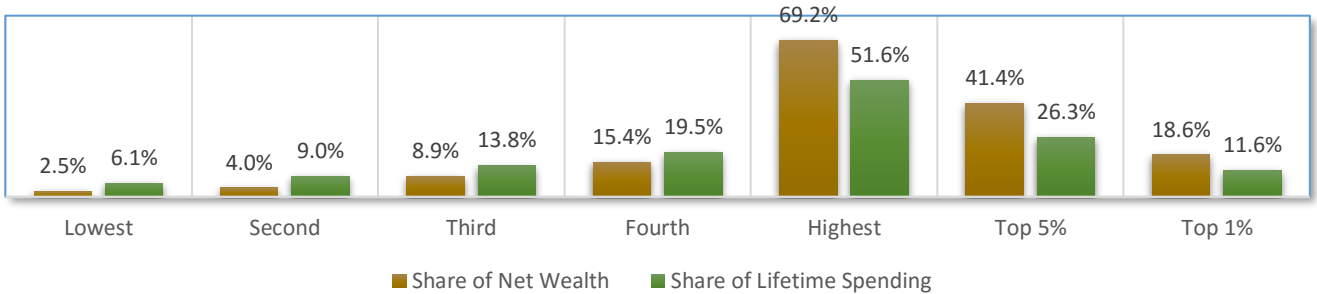


Figure 5 House Tax Plan with Dynamic Feedback and Elimination of FICA Tax Ceiling Net Wealth and Lifetime Spending by Resource Percentile Range, Ages 40 - 49

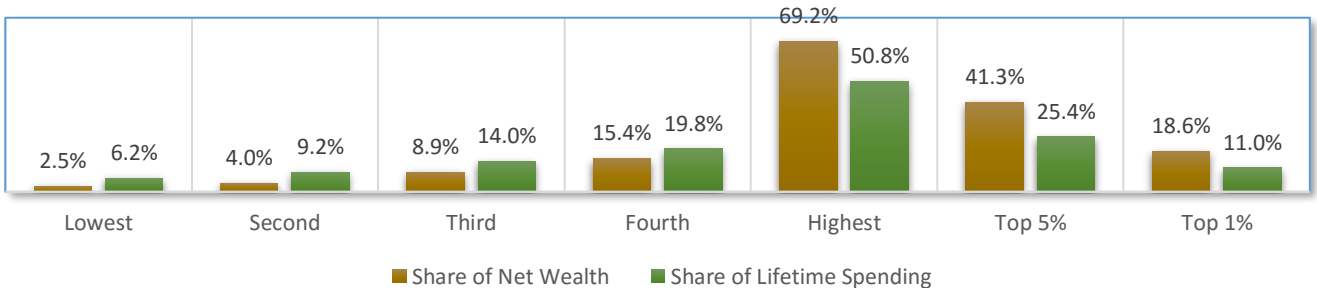


Table 1
Average Remaining Lifetime Net Tax Rates

	Bottom Quintile	Second Quintile	Third Quintile	Fourth Quintile	Top Quintile	Top 5%	Top 1%
Current Law	-52.7%	4.3%	12.1%	18.8%	28.2%	30.7%	33.9%
Tax Plan	-53.2%	3.2%	10.7%	17.1%	25.5%	27.8%	30.9%
Tax Plan with 8% Wage Increase	-47.3%	5.0%	12.1%	18.6%	26.3%	28.5%	31.5%
Modified Tax Plan* with 8% Wage Increase	-47.3%	5.0%	12.1%	18.7%	29.4%	32.9%	37.0%

*House Republican tax plan with no ceiling on Social Security's FICA tax.

Table 2
Median Marginal Remaining Lifetime Net Tax Rates

	Bottom Quintile	Second Quintile	Third Quintile	Fourth Quintile	Top Quintile	Top 5%	Top 1%
Current Law	37.4%	34.8%	36.7%	42.9%	44.8%	47.2%	50.7%
Tax Plan	34.0%	31.7%	33.9%	41.5%	40.9%	40.9%	41.1%
Tax Plan with 8% Wage Increase	33.2%	31.7%	37.7%	41.1%	40.4%	41.1%	41.3%
Modified Tax Plan* with 10% Wage Increase	33.2%	31.8%	38.9%	42.0%	44.6%	47.9%	49.8%

*House Republican tax plan with no ceiling on Social Security's FICA tax.

Table 3
Percent Increase in Average Present Value of Remaining Lifetime Spending
Relative to the Current Tax System

	Bottom Quintile	Second Quintile	Third Quintile	Fourth Quintile	Top Quintile	Top 5%	Top 1%
Tax Plan	0.33%	1.14%	1.58%	2.12%	3.76%	4.22%	4.56%
Tax Plan with 8% Wage Increase	2.05%	5.50%	5.35%	6.61%	8.28%	8.48%	9.49%
Modified Tax Plan* with 10% Wage Increase	2.05%	5.50%	5.31%	6.52%	4.92%	3.53%	2.71%

*House Republican tax plan with no ceiling on Social Security's FICA tax.

References

- Auerbach, Alan J. 2010. "A Modern Corporate Tax." Center for American Progress/The Hamilton Project.
- Auerbach, Alan J., and William G. Gale. 2017. "The Fiscal Outlook at the Beginning of the Trump Administration." Brookings Institution, January 31.
- Auerbach, Alan J., Laurence J. Kotlikoff, and Darryl Koehler. 2016. "U.S. Inequality, Fiscal Progressivity, and Work Disincentives." NBER working paper no. 22032.
- Auerbach, Alan J., Laurence J. Kotlikoff, Darryl Koehler and Manni Yu. 2017. "Is Uncle Sam Inducing the Elderly To Retire?" forthcoming in *Tax Policy and the Economy*. NBER volume.
- Burman, Leonard E., James R. Nunns, Benjamin R. Page, Jeffrey Rohaly, and Joseph Rosenberg. 2017. "An Analysis of the House GOP Tax Plan." forthcoming in *Columbia Journal of Tax Law*.
- Devereux, Michael P. and Rachel Griffith. 1998. "Taxes and the Location of Production: Evidence from a Panel of U.S. Multinationals." *Journal of Public Economics* 68.3, 335-367.
- Fehr, Hans, Sabine Jokisch, Ashwin Kambhampati and Laurence J. Kotlikoff, "Simulating the Elimination of the U.S. Corporate Income Tax." NBER working paper, no. 19757. December 2013.
- Gravelle, Jane. 2014. "International Corporate Tax Comparisons and Policy Implications." Congressional Research Service. January 6. <https://fas.org/sgp/crs/misc/R41743.pdf>
- Gravelle, Jane. 2016. "Corporate Tax Integration and Corporate Tax Reform." Congressional Research Service. September 16.
- Gravelle, Jane. 2017. "The 'Better Way' House Tax Plan: An Economic Analysis. April 25.
- Mintz, Jack and Duanjie Chen. 2014. "The U.S. Corporate Effective Tax Rate: Myth and the Fact." The Tax Foundation. Special Report no. 214. <https://files.taxfoundation.org/legacy/docs/SR214.pdf>
- Sachs, Jeffrey and Laurence Kotlikoff. 2012. "Smart Machines and Long-term Misery. National Bureau of Economic Research working paper no. 18629.