Hillary's Tax Plan Will Cost Everybody, Not Just the Rich

by Pamela Villarreal

Presidential candidate Hillary Clinton has proposed a number of changes to the income tax code, targeted mainly at high-income earners. The tax changes would have little impact on 90 percent of the population in terms of tax liability. However, households in the top ten percent of the income distribution, who currently pay 53 percent of all federal taxes, would pay *80 percent* of the additional tax collected.

What would affect other income deciles is the fall in income due to recessionary effects of the income tax hikes [see the table]. Our dynamic analysis shows:

- The top 10 percent of earners would lose nearly 2 percent of broadly measured income in 2017 alone.
- This is not surprising considering Hillary's motive for taxing the rich, but what is particularly startling is that incomes in all other deciles except for one would also fall.
- In fact, the poorest 10 percent would lose 0.7 percent of their broadly measured income. This is the largest loss among the bottom 90 percent of deciles!

Selected Measures of the Distributional Effects of the Clinton Tax Proposals, 2017

	CBO: forecast revenue	Share of Federal tax paid	Share of income per adult equivalent	Clinton: forecast revenue (dynamic)	Clinton: tax change per capita	Clinton: broad net income per adult equivalent	Change in broad net income per adult equivalent
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	$bn	%	%	$bn	%	$ p.a.	%
Deciles							
1 (poor)	9.5	0.3	1.2	10.3	11.2	6,897	-0.70
2	5.4	0.2	2.6	5.2	-2.7	16,600	0.06
3	43.1	1.2	3.7	43.0	-0.9	21,627	-0.01
4	78.2	2.2	4.8	78.3	0.5	26,298	-0.07
5	127.6	3.6	6.0	127.9	11.0	31,271	-0.10
6	190.8	5.4	7.5	191.2	13.2	37,011	-0.15
7	270.3	7.7	9.4	271.1	22.6	44,054	-0.21
8	386.0	11.0	11.8	387.1	26.1	52,888	-0.22
9	547.8	15.6	15.7	549.3	35.1	68,354	-0.24
10 (rich)	1,849.3	52.7	37.3	1,884.5	714.7	129,568	-1.91
Total/Avg	3,508.1	100.0	100.0	3,547.9	83.1	44,076	-0.71

Sources: See Tables 4.3, 4.4, and 4.5.

In the NCPA's distributional analysis, broadly measured income includes adjusted gross income and then adds some tax-exempt sources of income, and employer contributions to health insurance, among other adjustments. We divide this by the square root of the number of household members to arrive at a measure of *broad income per adult equivalent*, and then divide the individuals in our dataset into ten equal-sized deciles based on this measure.

- By this measure, those in the top 10 percent of earners receive 37.3 percent of all income (per adult equivalent), but pay 52.7 percent of all federal taxes [see the table].
- The bottom half of the population accounts for 18.3 percent of all broad income per adult equivalent, but pays just 7.5 percent of federal taxes.

The most important proposed changes in Hillary's plan are:

- Add a surcharge of 4 percent on adjusted gross annual income above $5 million.

- Limit the value of deductions (except for contributions to charity) to no more than 28 percent of tax liability.

- Ensure that all taxpayers with a modified adjusted gross income of $1 million or more would pay at least 30 percent of their income in taxes (the "Buffett Rule").

- Increase the tax rates applicable to capital gains for those in the top income tax bracket, by applying the standard tax rate to capital gains on assets held less than two years (rather than the current one year), and phasing in the preferential capital gains rates gradually so that they would apply completely only to assets held for six or more years.

- Repeal carried interest, which is a provision that allows general partners in some businesses to book most of their earnings as (low-taxed) capital gains rather than earned income.

- The Clinton proposals would reduce the estate tax threshold to $3.5 million, and add a new top statutory rate of 45 percent, which would return the tax structure to the one in effect in 2009.

- The Clinton proposal would also make modest changes to the tax code that applies to *corporations* – eliminating some tax incentives for fossil fuels, and making it harder to avoid U.S. taxes by holding profits overseas.

In a companion study, we estimate that these changes would eventually lower real GDP by about 0.8 percent relative to what it would otherwise have been according to Congressional Budget Office baseline estimates. This obviously has an effect on households of all income levels.