

## A little quiz

1. What % of Americans do not owe federal income tax?
2. For folks with income > 95% of all taxpayers, what % of income do they pay in federal taxes?
3. How much are federal tax revenues (from all sources) as a % of GDP?
4. How has that percentage changes over last 50 years?

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# The Current US Tax System and 2024 Presidential Candidate Proposals

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## Your questions

1. What are the tax proposals?
2. Do billionaires pay lower tax rates than people with lower incomes?
3. Policies on the child tax credit
4. Are candidates tax policies do-able? How will they impact the deficit?

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## Context

- Tax policy is set by Congress
- President has power over executive actions, including tariffs
  
- 2017 Tax Cuts expire in 2025
- Congress with need to extend or tax rates will revert to 2017 levels

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	Trump	Harris
Income taxes	#1. Shift to more tariffs instead of income taxes  #2. Retain 2017 rates	#2. Retain 2017 rates except top rate
Child and Earned Income Tax Credits	#3 Retain 2017 amounts	#3 Increase
Capital gains		#4 Increase for gains >\$1Mill
Corporate taxes	#5 Reduce top rate	#5 Increase top rate, but below 2017 rate

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## Tax proposal #1: Tariffs

### Trump:

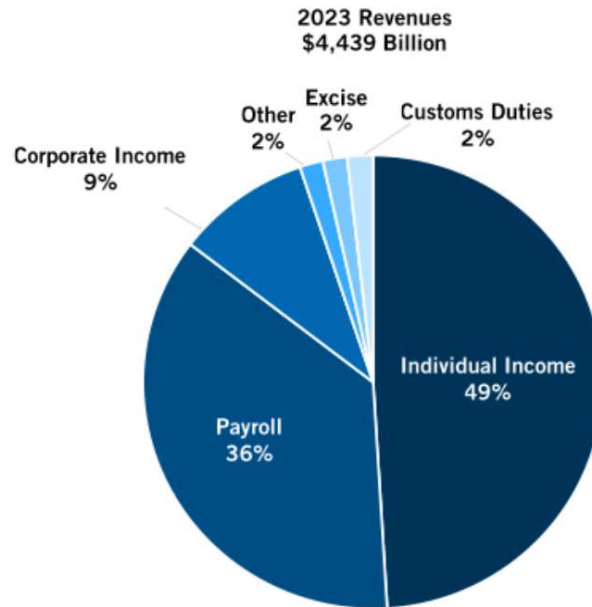
- Proposed tariffs of 10% on imports, 60% on China
- President has power to do this, but change to income tax would require Congressional action

### Harris

- No stated position. Note that Biden did continue some of the aluminum and steel tariffs introduced by Trump.

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What does the federal government tax?



SOURCE: Congressional Budget Office, *The Budget and Economic Outlook: 2024 to 2034*, February 2024.  
 NOTE: Other includes estate and gift taxes, income from the Federal Reserve, and miscellaneous fees and fines.  
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Who “pays” a tax?

2018 tariffs on steel and aluminum

→ Prices increased by full amount of tariff

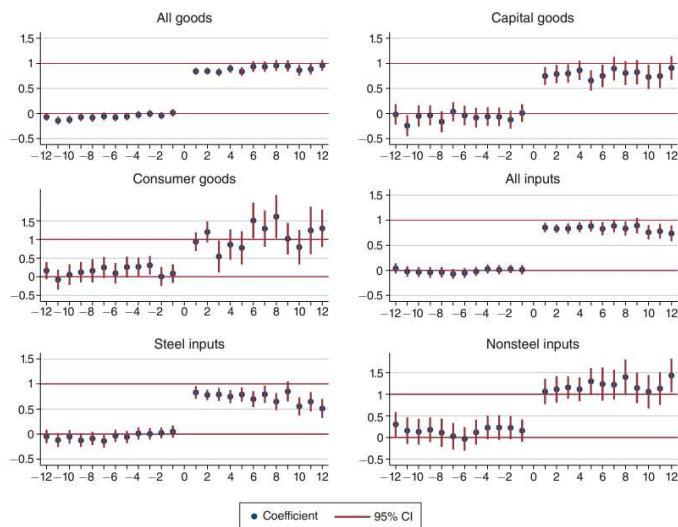


FIGURE 2. LOG IMPORT PRICES (INCLUSIVE OF TARIFFS)

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## Tax Proposal #2: Income tax rates

### Both

- Extend 2017 cuts for all groups except top
- Exempt tip income from taxes

### Harris

- Raise top income tax rate from 37% to 39.6% (pre- 2017 rate)

### Trump

- Extend 2017 tax rates
- Eliminate income taxes on Social Security benefits

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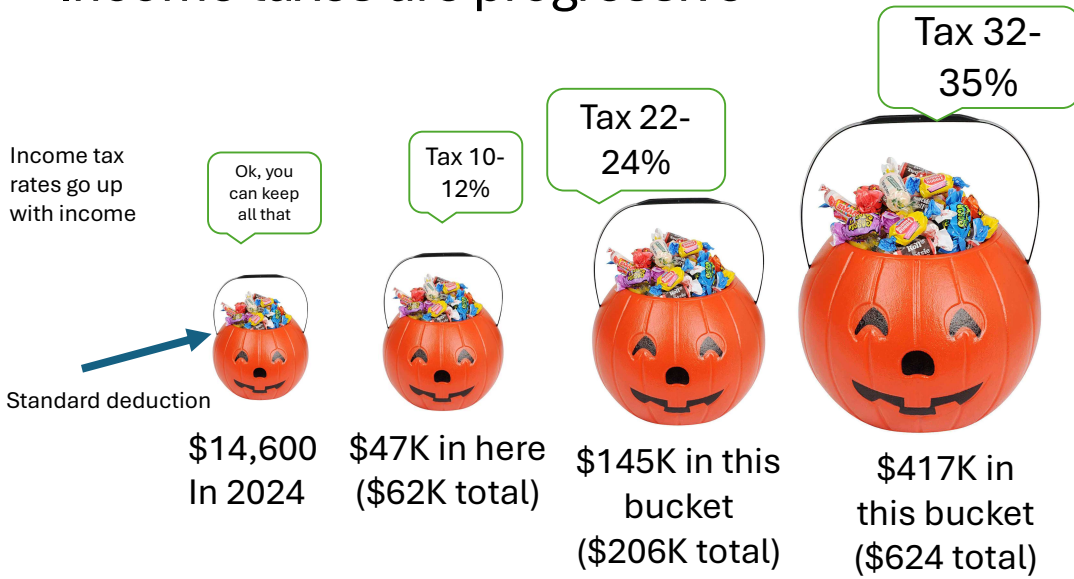
## Do billionaires pay less?

### How different dollars are taxed

1. Individual income taxes are progressive—marginal rates go up with income
2. Lowest income get refundable credits, especially with kids
3. Business income and income from capital gains are taxed at lower rates

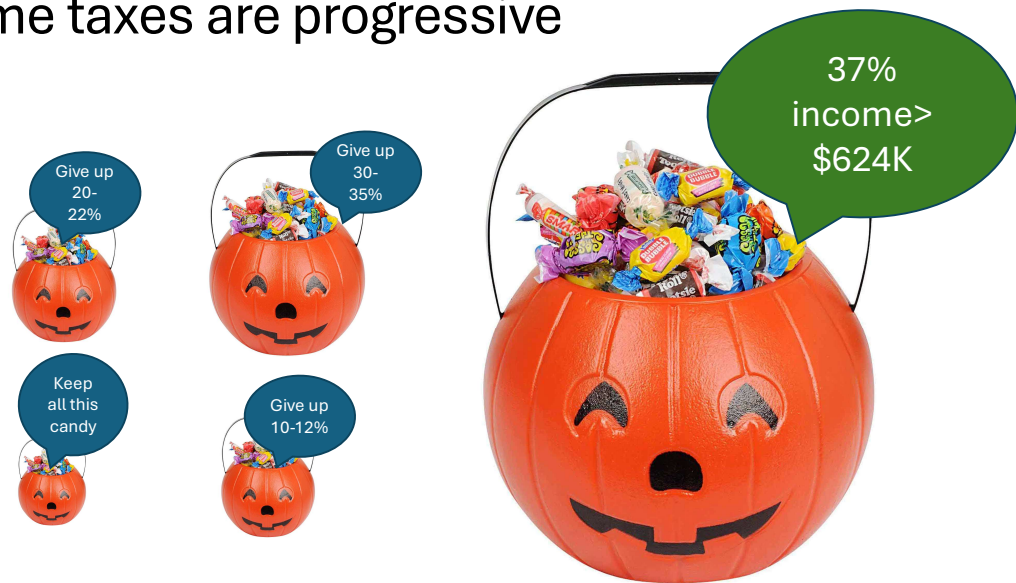
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# Income taxes are progressive



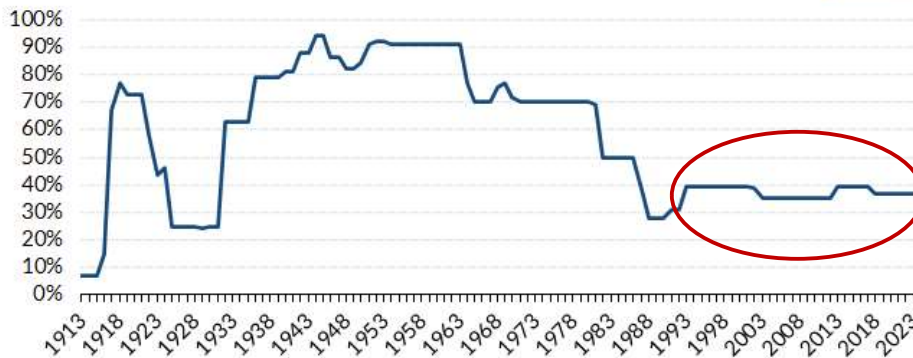
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# Income taxes are progressive



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## Top Federal Individual Income Tax Rate 1913-2023



Source: IRS Revenue Procedures, various years. Also, Eugene Steuerle, The Urban Institute; Joseph Pechman, Federal Tax Policy; Joint Committee on Taxation, Summary of Conference Agreement on the Jobs and Growth Tax Relief Reconciliation Act of 2003, JCX-54-03, May 22, 2003.  
Notes: This figure does not account for the amount of income and types of income subject to the top tax rate, nor the value of standard and itemized deductions.

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## Tax Proposal #3: Child and Earned Income Tax Credit

### Harris

- Increase CTC from \$2,000 to \$6,000 for <1; \$3,600 for 2-5, \$3,200 for 6-17.
- Lower EITC age to 19 (instead of 25-64); increase max to \$1500 for workers without kids

### Trump

- Retain the current amount of \$2,000 (pre-2017 was \$1,000)
- Vance has suggested increasing to \$5,000.

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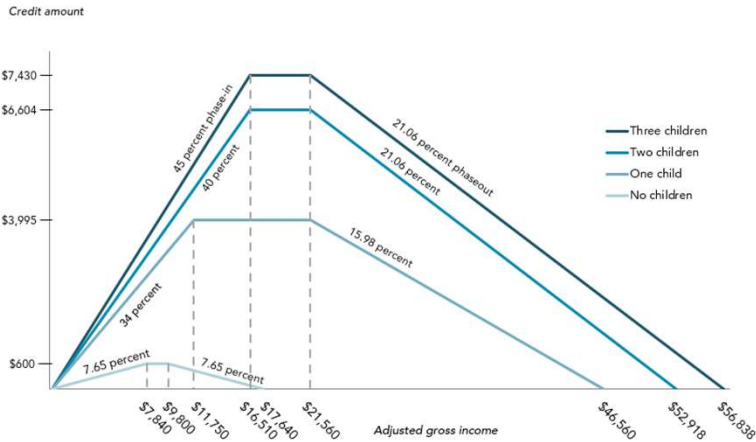
# Lowest income get refundable credits

Not only can you keep your candy, but you get extra,  
Especially if you have kids  
And only if you went out on Halloween



\$14,600

**FIGURE 1**  
Earned Income Tax Credit  
2023

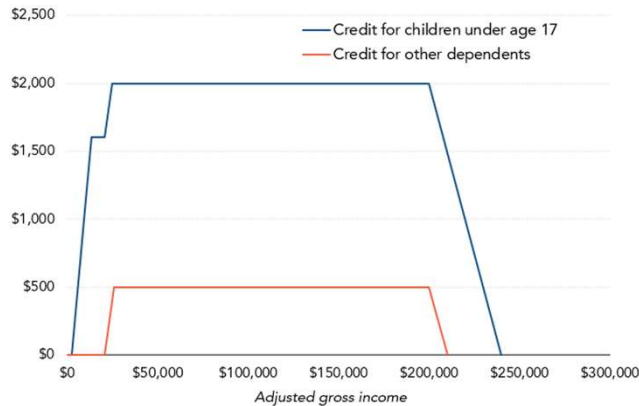


Source: Urban-Brookings Tax Policy Center (2023). Internal Revenue Procedure 2022-44, Internal Revenue Service.  
Notes: Assumes all income comes from earnings. Amounts are for taxpayers filing a single or head-of-household tax return. For married couples filing a joint tax return, the credit begins to phase out at income \$6,560 (\$6,570 for filers without custodial children) higher than shown.

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# Lowest income get refundable credits

**FIGURE 1**  
Child Tax Credit, Single Parent  
For one child, tax year 2023



Source: Urban-Brookings Tax Policy Center calculations.  
Notes: Assumes all income comes from earnings, and child meets all tests to be a CTC-qualifying dependent. Credit for married parents begins to phase out at \$400,000 of income. Only citizen children qualify for the \$2,000 CTC for children under 17. Noncitizens under age 17 who meet the dependency tests of eligibility can qualify for the credit for dependents over age 17.

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## Evidence on Child Tax Credit

Labor supply:

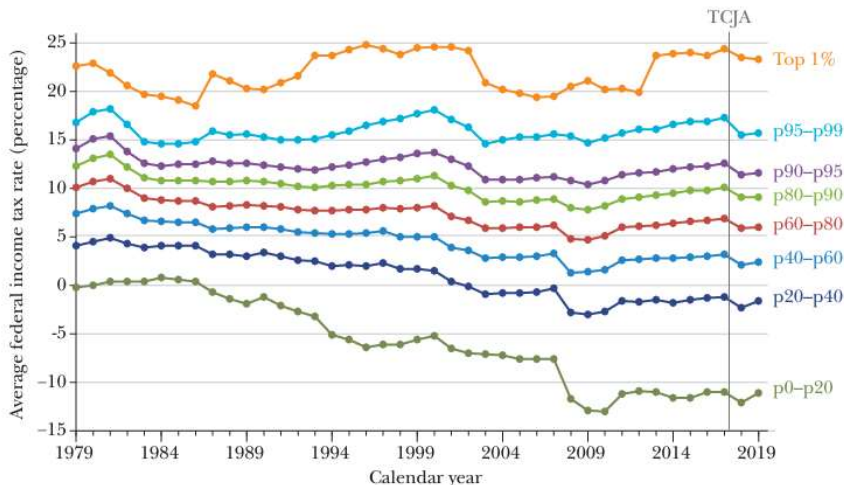
- “Ananat et al. (2023), Enriquez, Jones, and Tedeschi (2023), and Pac and Berger (2024) all find **no evidence of any impact of the 2021 changes to the child tax credit on labor supply**”

Kids outcomes:

- A large number of quasi-experimental studies [find] **transfers to disadvantaged families produce substantial positive long-range benefits to children** on outcomes such as future earnings, health, longevity, crime, and education (for an overview in this journal, see Aizer, Hoynes, and LlerasMuney 2022)."
- “Garfinkel et al. (2022) use this . . . to construct estimates of the benefits and costs of making the 2021 changes to the child tax credit permanent. They conclude that in the long-run such a policy change “would cost \$97 billion per year and generate social benefits of \$929 billion per year” (p. 335).”

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**Average Federal Individual Income Tax Rates Across the Income Distribution, 1979–2019**



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So—do billionaires pay more?

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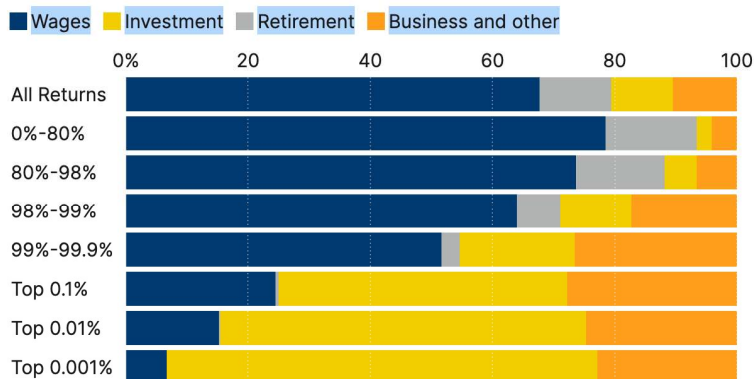
Incomes from different sources is taxed at different rates

- Top wage and retirement income rate = 37%
- Top business income rate = 21%
- Top capital gains rate = 20%

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## Incomes from different sources is taxed at different rates

Sources of income by AGI percentile



Top wage/retirement rate = 37%

Top capital gains rate = 20%

Top business income rate = 21%

Source: IRS Public Use Files and author's calculations  
 Note: Top 0.1%, 0.01%, and 0.001% are inclusive.

BROOKINGS

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## Tax proposal #4 Capital gains tax

Harris

- Tax capital gains >\$1M at income tax rate instead of 20%
- Tax unrealized gains >\$100M at 25% (~10,000 people in 2023)

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## Capital gains: taxes deferred are taxes saved

Jane's income is \$1,000,000 and her marginal tax rate is 37%. She puts \$100 in a savings account that gets 5% interest in 2020.

- In 2021, interest = \$5, but Jane pays  $.37 * 5 = 1.85$  in taxes
- Reinvest \$103.15
- Repeat for 10 years

→ Jane has \$136.36 in 2030

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## Capital gains: taxes deferred are taxes saved

Savings account

→ Jane has \$136.36 in 2030

Jane's marginal tax rate is 37%. She buys a stock with a 5% return for \$100 in 2020.

She doesn't pay taxes until she sells in 2030 for \$163

Her capital gains rate is 20% on the \$63.

→ Jane has \$150.40 in 2030

Harris—If Jane's income is \$1M, tax 63\$ at 37%  
Jane has \$139.69

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## Capital gains: taxes deferred are taxes saved

Savings account

→ Jane has  
\$136.36 in 2030

Stock

→ Jane has  
\$150.40 in 2030

Jane's marginal tax rate is 37%. She buys a stock with a 5% return for \$100 in 2020. She dies in 2029 when the stock is worth \$155.

Her heir holds in one year and then sells. It is now worth \$163.

Her family pays 20% on step up  $\$163 - 155 = \$1.6$

→ Jane's heir has \$161.40

Harris proposal: Heir has \$150.40

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## Evidence on capital gains

- Lower capital gains taxes encourages more efficient investment
  - less likely to stay in low performing assets to reduce tax burden
- Taxing unrealized gains does tax "ability to pay", improving equity
  - But—lots of practical hurdles in terms of implementation

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## Tax proposal #5 Corporate taxes

### Harris

- Increase top rate from 21% to 28%, but not all the way to pre-2017 35%

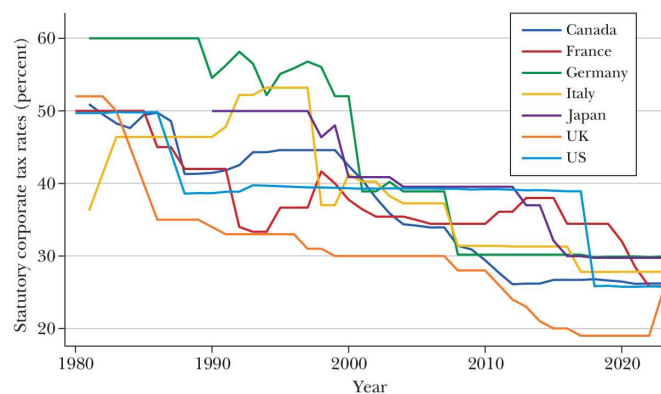
### Trump

- Reduce top rate from 21% to 15%

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## 2017 Cut put rates in line internationally

Time Series of Statutory Corporate Tax Rates in Some High-Income Countries



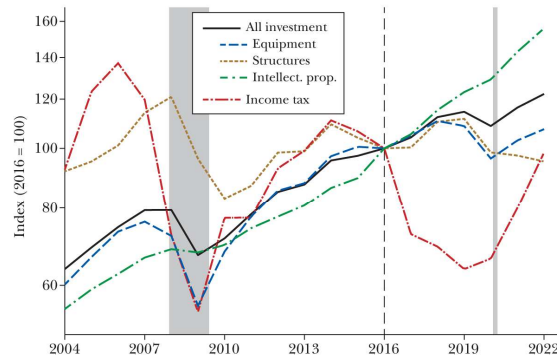
Source: Tax Foundation. Corporate Tax Rates Around the World, 2023, at <https://taxfoundation.org/data/all/global/corporate-tax-rates-by-country-2023/>.

Note: This figure plots the evolution of the statutory corporate tax rate for each country in the G7.

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# Revenues fell, Mixed evidence on investment

Corporate Income Tax Revenue and Investment Around the Tax Cuts and Jobs Act of 2017



Source: The series for investment and its components come from BEA (2024a) table 4.8 (lines 17–20) and include investment of both C and S corporations. The series for income tax comes from BEA (2024b) Table 3.2 (line 8) and includes only corporate income taxes and hence omits taxes paid by owners of S corporations.

Note: The BEA series assigns taxes to the year in which the income occurred and hence reassigns the Section 065 “roll tax” payments to previous years. Each line shows a series in constant prices, using own deflators for

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Finally, what about the deficit?

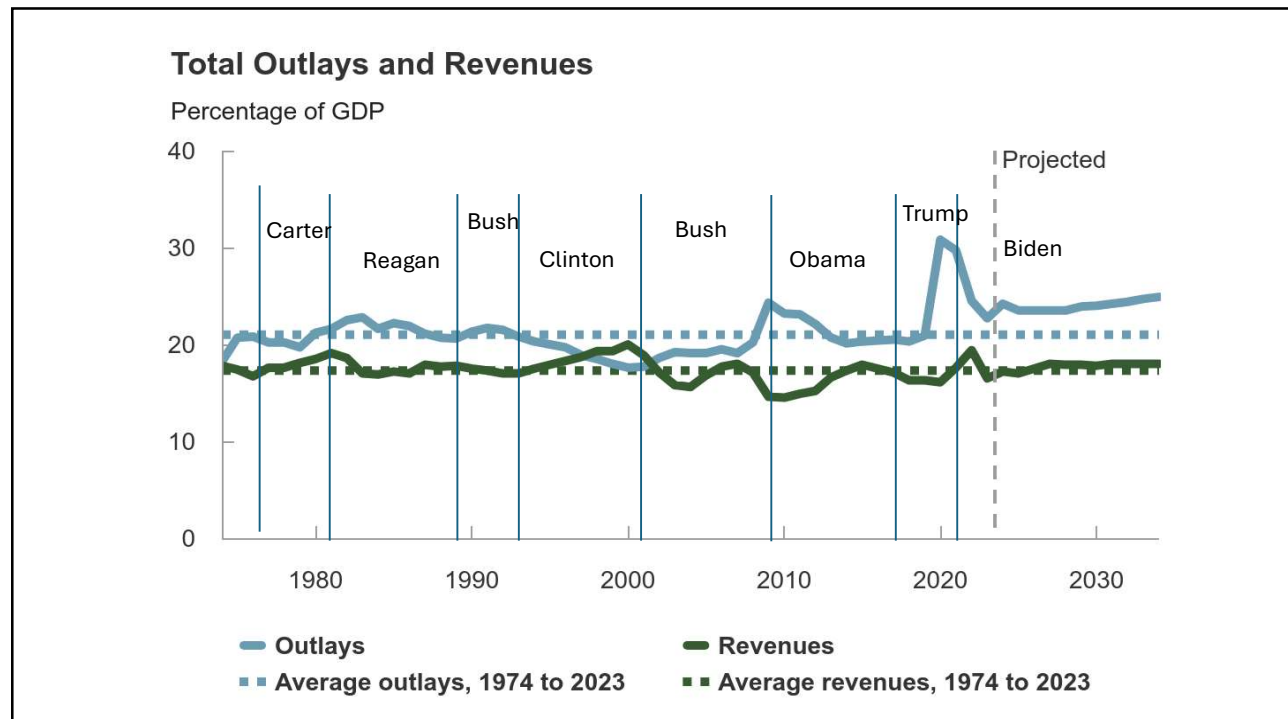
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## Why do deficits matter?

- Will government borrowing lead to higher interest rates?
- Will that crowd out borrowing by firms and households?

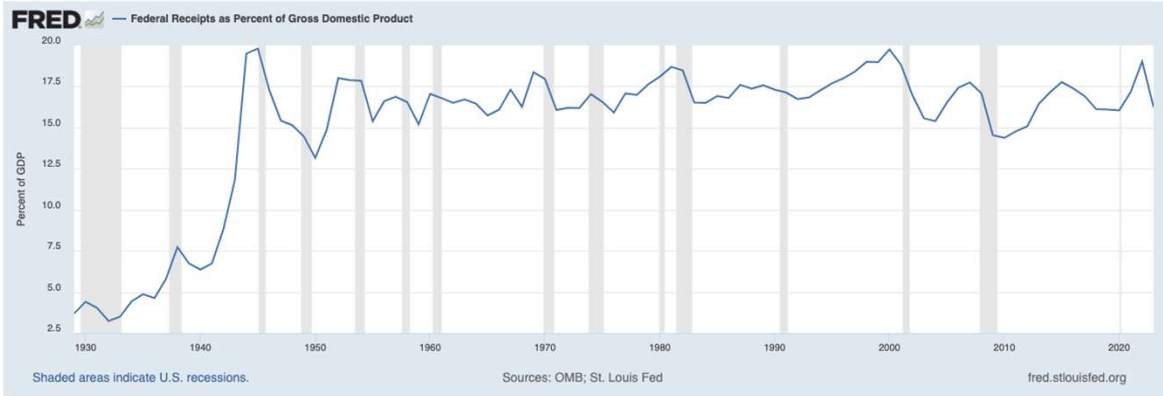
“the TCJA was passed during a period of exceptionally low interest rates, a regime from which the US economy appears to have since transitioned. The interest rate environment affects tax policy in several ways (Auerbach and Gale 2022). Deficit-financed tax cuts will crowd out investment more strongly when the Federal Reserve faces a sharper trade-off on its dual mandate of low inflation and full employment.”

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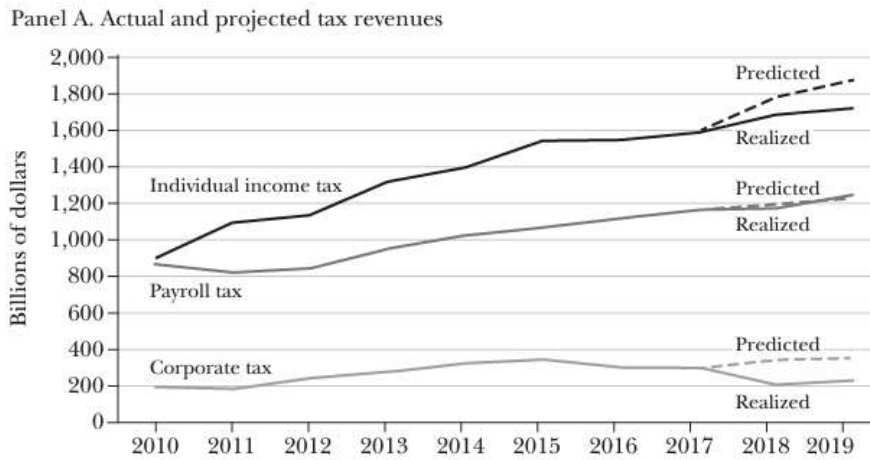
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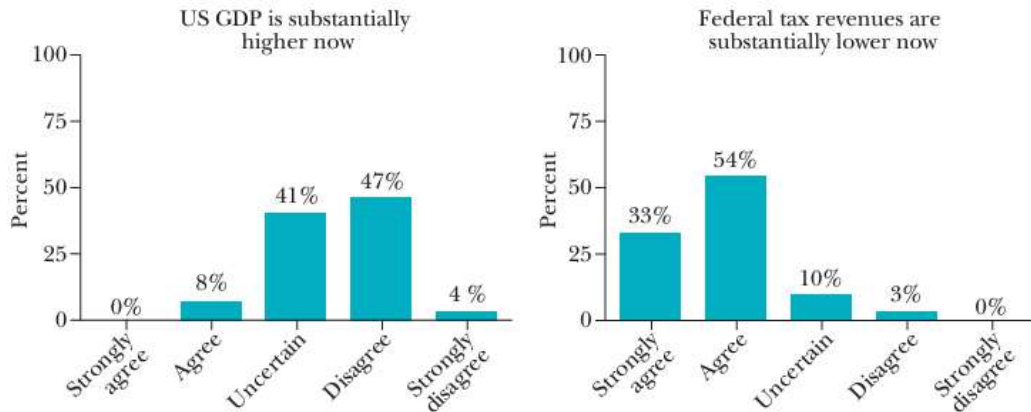
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*Figure 1*  
**Tax Revenues Before and After the Tax Cuts and Jobs Act**



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### US Economic Experts Panel on the Effects of the Tax Cuts and Jobs Act in 2023



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## Penn-Wharton estimates of candidate plans

**Trump:** We estimate that the Trump Campaign tax and spending proposals would

- Increase primary deficits by \$5.8 trillion over the next 10 years on a conventional basis
- Increase deficit by \$4.1 trillion on a dynamic basis.
- Households across all income groups benefit on a conventional basis.

**Harris:** We estimate that the Harris Campaign tax and spending proposals would

- Increase primary deficits by \$1.2 trillion over the next 10 years on a conventional basis
- Increase deficit by \$2.0 trillion on a dynamic basis.
- Lower and middle-income households generally benefit, while higher-income households are worse off.

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## A little quiz

1. What % of Americans do not owe federal income tax?  
**About 40%**
2. For folks with income > 95% of all taxpayers, what % of income do they pay in federal taxes? **About 15%**
3. How much are federal tax revenues (from all sources) as a % of GDP? **16.23%**
4. How has that percentage changes over last 50 years?  
**Average pretty constant around 17% since 1950**

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## Optimal Tax Systems

1. **PROVIDE RIGHT INCENTIVES**  
Efficient. Minimizes distortions to economic activity.
2. **Are FAIR**  
Similar taxpayers treated similarly, taxes related to ability to pay
3. **Are PREDICTABLE and SIMPLE**  
Low costs to comply/enforce
4. **Are SUFFICIENT**  
Deficits do not raise borrowing costs and crowd out investments in future economic activity.

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For more reading

<https://www.aea.org/issues/773>

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Perspectives  
Summer 2024

**SYMPOSIUM: THE TAX CUTS AND JOBS ACT OF 2017**

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**Sweeping Changes and an Uncertain Legacy: The Tax Cuts and Jobs Act of 2017**

by William G. Gale, Jeffrey L. Hoopes, and Kyle Pomerleau

(pp. 3–32)

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**The US Individual Income Tax: Recent Evolution and Evidence**

by Jon Bakija

(pp. 33–60)

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**Lessons from the Biggest Business Tax Cut in US History**

by Gabriel Chodorow-Reich, Owen Zidar, and Eric Zwick

(pp. 61–88)

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**US International Corporate Taxation after the Tax Cuts and Jobs Act**

by Kimberly A. Clausing

(pp. 89–112)