

Presidential Candidates Tax Plans (January 20, 2020)

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We have updated our initial October 2019 modeling of the leading candidates in the democratic primary. We have refined the proposals by Biden and Sanders, incorporated the new proposed taxes by Warren to fund Medicare for All and added the tax plans of Buttigieg (all as of January 20, 2020).

Current tax system. The starting point is the US tax system of 2018, the year following President Trump's tax reform. When taking into account all taxes (individual income taxes, corporate taxes, payroll taxes, consumption taxes, etc.) at all levels of governments (federal, state, and local), all groups of the population pay around 28% of their income in taxes, except the top 400 richest Americans who pay 23%. When treating mandatory private health insurance premiums as taxes, the US tax system is in fact highly regressive, with tax rates of about 40% for the middle income groups, falling to 23% for billionaires. Private insurance premiums are best analyzed as a large privatized poll tax on covered workers: a tax because they're mandatory (employers with 50+ workers have to offer insurance) while most other groups get highly subsidized insurance (medicaid, medicare, ACA exchanges); privatized because they're managed by employers; and a poll tax because they are essentially a fixed amount per covered worker (the secretary pays the same amount as the executive).

Proposed plans. The attached figure contrasts the average tax rate paid by each income group today to the rates that would prevail under the plans of Biden, Buttigieg, Sanders, and Warren, and compare them to the existing tax system (Trump) as well as the Obama tax system (i.e., repealing the Trump tax cut). This is based on the main elements of the candidates proposed tax plans, summarized in the attached table. Some of the proposals are not yet fully specified, in which case we do not model them (unless there is a prior plan to draw upon or the candidates have made clear statements about their intentions). We include private health insurance contributions through employers (7% of national income) as a tax currently paid by the corresponding covered workers. Both Warren and Sanders plan to abolish this private poll tax and replace it with public funding through new taxes. Because the new proposed taxes are more progressive than the existing private poll tax, this effectively lowers the tax rate on the bottom 90%. The Biden and Buttigieg plans leave tax rates pretty much intact on the bottom 90% (very slight increase due to higher corporate taxes that reduce profits from corporate stocks owned by the bottom 90% primarily through pension funds).

Tax rates at the top. All plans increase tax rates on the rich but to very different degrees. The Biden plan is the most moderate but is still significantly more progressive than just repealing the Trump tax cut (the key additional progressive element is taxing realized capital gains at ordinary rates and at death, total tax rates on the top .1% increase by about 7-8 points). The Buttigieg plan increases tax progressivity more significantly (the key additional element is the extra 12.4% social security tax at the top on both labor and capital income, total tax rates on the top .1% increase by about 16 points to about 50%). The Sanders and Warren plans increase very sharply tax progressivity (the key additional element is the very progressive wealth tax particularly on billionaires, 6% marginal tax on billionaires for Warren, and graduated wealth tax of 5% to 8% on billionaires for Sanders).

Revenue raised. The Biden plan raises 1.5% of national income extra in taxes (relative to current system). The Buttigieg plan raises 3.9% of national income extra in taxes (relative to current system). The Warren tax plan raises 3.2% of national income extra in taxes (over and above funding all existing private health insurance contributions, which is 7% of national income). The Sanders tax plan raises 2.6% of national income extra (over and above funding all existing private health insurance contributions, which is 7% of national income). Importantly, the figure displays only taxes and not the extra government spending outlays that candidates are proposing with their extra tax revenue (such as higher social security benefits, lower education costs, insuring more people with more generous health plans, etc.). Our scoring is quantitatively close to the tax scoring numbers released by campaigns.

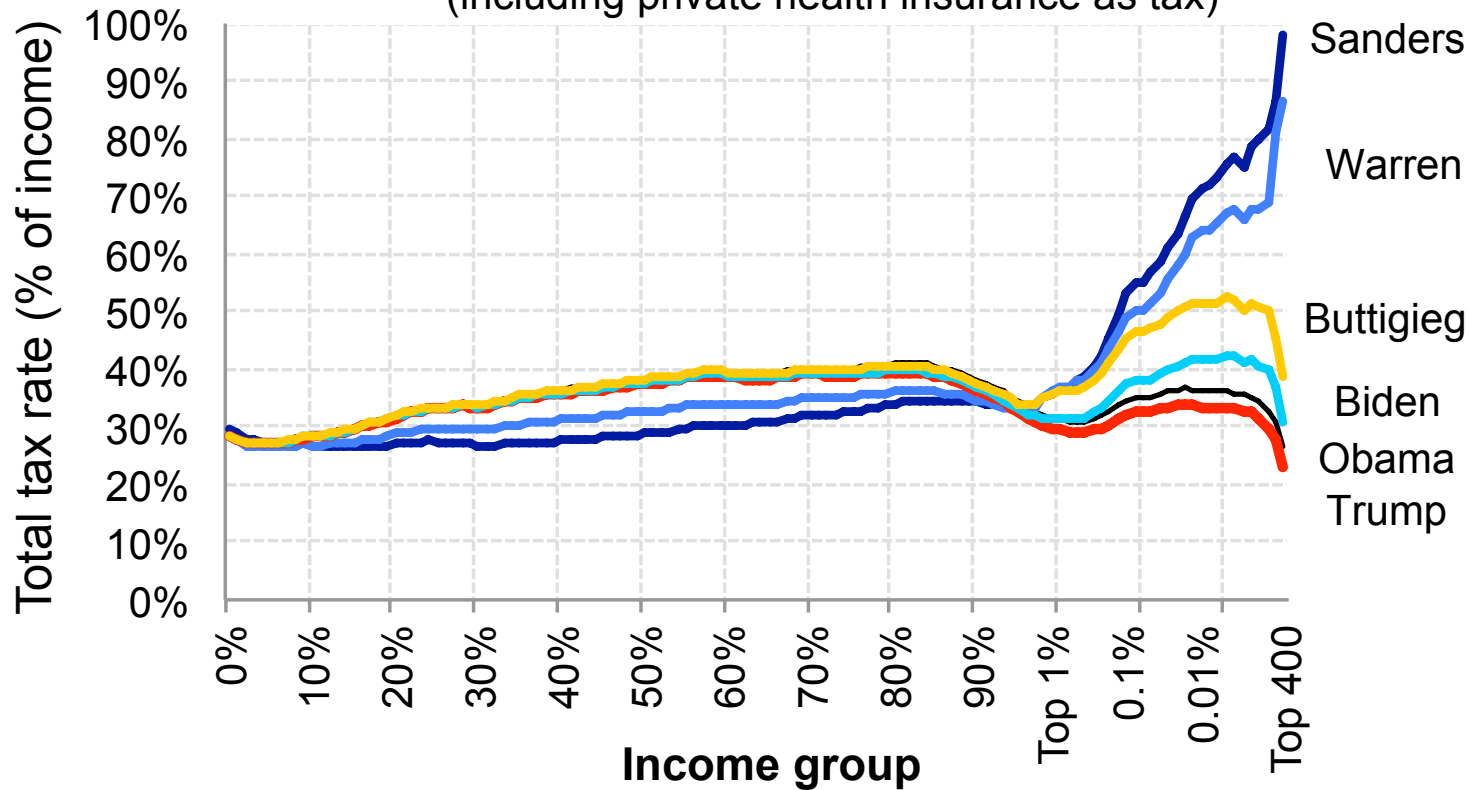
All the computations are available in the companion excel file and have been added our online tax simulator Taxjusticenow.org so that users can interactively explore and modify the proposed plans.

Table 1: Modeling of Candidates' Tax Plans (revised January 20, 2020)

	Trump (2018) Current tax system	Joe Biden	Pete Buttigieg	Bernie Sanders	Elizabeth Warren
Wealth tax	None			Graduated tax: 1% above \$32m, 2% above \$50m, ..., up to 8% above \$10bn Strong enforcement: 15% evasion rate	Graduated tax: 2% above \$50m, 6% above \$1bn Strong enforcement: 15% evasion rate
Plan status				Released	Released
Corporate tax	Federal nominal tax rate 21% => Effective fed+state corporate tax rate of 16% on US profits	Federal nominal tax rate up to 28% [halfway between Obama's 35% and Trump 21%] => Effective fed+state corporate tax rate increased to 21%.	Federal nominal tax rate back to 35% => Effective fed+state corporate tax rate up to 25% (Obama level)	Federal nominal tax rate back to 35% => Effective fed+state corporate tax rate up to 25% (Obama level) + extra surtax when CEO pay excessive	Federal nominal tax rate back to 35% + 7% tax on book profits of large corporations => Effective fed+state corporate tax rate up to 30%
	Negligible tax on foreign profits made by US multinationals	Slightly better taxation of multinationals (apply 21% on foreign profits + 15% min tax on book income)	Better taxation of multinationals (intent but no detailed release)	Better taxation of multinationals (apply 35% on foreign profits with no deferral)	Better taxation of multinationals (apply 35% on foreign profits with no deferral)
Plan status		Released	Partly released	Released	Released
Individual income tax	Graduated rates up to 37%	Top rate only increases back to 39.6% (as under Obama) and 28% limit on tax expenditures	Top 2 tax rates up to 39.6%+new 12.4% high income social security surtax	Graduated rates up to 52% +12.4% high income social security surtax+4% income surtax	Graduated rates up to 39.6%+new 14.8% high income social security surtax Dividends / capital gains taxed at ordinary rates (taxed by social security surtax and mark-to-market taxation for the graduated income tax) + eliminate the step-up in basis at death for all taxpayers
	Dividends / capital gains taxed at 20% max	Dividends / capital gains taxed at ordinary rates (for incomes above \$1m) + eliminate the step-up in basis at death for all taxpayers	Capital gains taxed at ordinary rates (with accrual tax) + eliminate the step-up in basis at death for all taxpayers	Dividends / capital gains taxed at ordinary rates + eliminate the step-up in basis at death for all taxpayers	
Plan status		Released	Released	Released partly	Released
Private health insurance contributions through employers	Workers insured through employer pay full cost regardless of earnings	No change	No change	Private insurance contributions (employer+employee) become extra wages	Private insurance contributions of employees (but not employers) become extra wages Transforms current private employer contributions to health insurance into an employer payroll tax (flat amount per worker)
Extra tax for funding (over and above other items)				4% income surtax (in individual income tax above) and new employer 7.5% payroll tax	
Plan status				No detailed release yet	Released
Estate tax	Tax rate of 40% above \$11m with weak enforcement		Increase in estate tax progressivity and enforcement (modeled approximately)	Increase in estate tax progressivity and enforcement (modeled approximately)	Increase in estate tax progressivity and enforcement (modeled approximately)
Financial transactions tax			.1% tax on financial transactions (CBO option)	.1% tax on financial transactions (.5% on stocks, .005% on derivatives)	.1% tax on financial transactions (CBO option)
Other tax plans not modeled		Subject high-income wages to the normal payroll tax rates (no sufficient details yet to model)	Carbon tax rebated immediately as dividend		Tax on lobbying (revenue effects small)
Net tax revenue surplus (% of national income):		1.5%	3.9%	2.9%	3.2%
(relative to current tax system, taking into account only the parts we modeled based on existing statements and announcements)					

Notes: The table lists the tax proposals made by the campaigns for each tax rubric. We have tried to approximate these proposals using our tax simulator (complete details in the technical appendix online). Some of the proposals are not yet fully specified (in which case we do not model them unless there is a prior plan to draw upon or the candidates have made salient statements about their intentions). The row "plan status" for each rubric indicates how advanced each proposal is. Sanders and Warren will replace the existing private insurance health care contributions through employers (=7% of national income) by public funding. In this case, current private health insurance contributions become extra cash wage income for workers and extra taxes fund health insurance. Revenue estimates in the bottom row are based on the parts we modeled and the best approximation we could make using our tax simulator. Note that we do not include in this computation any new outlays (such as higher social security benefits or providing health insurance to more or higher transfers through refundable tax credits) as our focus is on taxes only (we view existing private health insurance contributions as a privatized tax on covered workers). New outlays would benefit the working class and middle class but are not modeled here. The high income social security surtaxes of Buttigieg, Warren and Sanders are modeled approximately as higher tax rates in top brackets for the individual income tax. The Sanders 7.5% employer payroll tax and excessive CEO pay corporate surtax is modeled as a 2% national income tax (on labor income and corporate profits) that raises approximately the same revenue. The financial transaction taxes are modeled as a wealth tax of .1% (.05% below \$1m in wealth) that raises approximately the same as the CBO projection (.34% of national income). The candidates tax plans are not yet finalized (and hence our analysis may not reflect fully the campaigns' goals). We will update the figure as proposals are refined, completed, or expanded. This understanding, modeling, and analysis are our own (not the campaigns).

Proposed tax plans (as of January 20, 2020)
 (including private health insurance as tax)



Notes: The figure depicts the average tax rate by income groups in 2018 after the Trump tax cut (red line) and under the four leading candidates for the democratic presidential primary: Joe Biden (light blue), Pete Buttigieg (yellow), Elizabeth Warren (blue), and Bernie Sanders (dark blue). It also depicts tax progressivity if the Trump tax cut were repealed and the federal tax system reverted to Obama (black line). All federal, state, and local taxes are included. We also include private health insurance contributions (7% of national income) as an extra tax paid by insured workers as Warren and Sanders plan to replace these private contributions by public funding. In this case, current private health insurance contributions become extra cash wage income for workers and extra taxes fund health insurance. The candidates tax plans are not necessarily finalized (and hence may not reflect fully the campaigns goals). The Biden plan raises 1.5% of national income extra in taxes (relative to current system). The Buttigieg plan raises 3.9% of national income extra in taxes (relative to current system) The Warren tax plan raises 3.2% of national income extra in taxes (over and above funding all existing private health insurance contributions). The Sanders tax plan raises 2.6% of national income extra (over and above funding all existing private health insurance contributions). The Obama line (repealing the Trump tax cut) raises 1.6% of national income extra. Such surplus can be used for new outlays that ultimately benefit people (and are not modeled here). Our scoring is quantitatively close to the tax scoring numbers released by campaigns. Taxes are expressed as a fraction of pre-tax income. Pre-tax income is comprehensive (it includes all labor and capital income including fringe benefits, retained earnings of corporations, etc.) and sums up to national income as described in Piketty, Saez, and Zucman (2018). Individual adults are divided into percentiles with finer breakdown within the top 1%. Incomes within married couples are split equally. The sample is limited to adults with pre-tax income above \$7,500 (half-time work at federal minimum wage) as taxes become large relative to pre-tax income for very low incomes. This sample includes 90% of adults and virtually 100% of national income. All results can be reproduced and explored at taxjusticenow.org and in the excel file