An Analysis of the Biden Tax Policy:

What to Expect if the Proposal is Approved?

Introduction

President Joseph R. Biden proposed a tax plan that essentially focuses on reducing the wealth gap, increasing equality and increasing government spending to fund its various programs. This tax proposition has not become a law. It is still debated in Congress. Although the Biden Tax Plan may sound morally fair because it will help low-income families, the repercussions of the proposal will be far greater than the positive effect that it aims to achieve. The Biden tax plan will have numerous effects on the American people. It will have an economic effect, a revenue effect, and a distributional effect. In this essay, I argue that the Biden Tax Plan, if implemented will not only decrease national economic output, it will also disincentivize entrepreneurs to strive for innovation, it will make it harder for businesses to retain more profits, and it will negatively impact the flow of capital gain.

I – Understanding the Biden Tax Plan

According to the Biden Tax Plan, the purpose of the proposal is to raise revenue, to improve tax administration, and to make the tax system more equitable and efficient.[1] The Biden Administration wants to fix the wealth gap, and the way to do so, according to President Biden is to change the tax law to provide more tax credits and incentives for people who meet certain criteria.

The Biden Administration seeks to raise revenue over 9 years. If implemented, the tax plan will raise about $2.4 trillion.[2] To raise these revenues, the tax plan targets corporations and the wealthy to contribute $3.6 trillion in new revenue over the next 9 years. 65% of net revenue will come from corporations and businesses and 35% from the wealthy.[3] If implemented the wealthy would pay almost all the new taxes under the plan. 73% will be paid by the top 1% (household income over $858,000), about 47% will be paid by the top 0.1% (income over $4 million).

The Biden Tax Plan seeks to raise corporate taxes from 21% to 28%, and enact a 15% minimum tax on book income of large companies that report high profits, but have little taxable income. According to the Biden Administration, this would replace the flawed incentives that reward excess profits from intangible assets with more generous incentives for new research and development.

For the Biden Administration, raising corporate taxes is one way for the rich CEOs, wealthy people, and businesses to pay their fair share. In addition to raising revenue to fund urgent fiscal priorities, raising the corporate income tax rate would also help attenuate inequality.[4] The Biden Administration sees the corporate tax rate as an essential lever for taxing capital in general, which serves as a critical backstop to ensure that capital is taxed at least once, in absence of the corporate

---

[1] Biden Administration. "The Made in America Tax Plan." *U.S. Department of Treasury.* April 2021.
[2] "Joe Biden's Tax Plan." *Americans for Tax Fairness.*
[3] Ibid.
[4] U.S. Department of Treasury. (2021)

tax.[5] The major question to ask ourselves is how the Biden Tax Plan will affect the American people?

II – Distributional Effect

How is the Biden Tax Plan going to affect the American people from different income bracket? The hard data from the Tax Foundation as of June 2021 show that those in income group from the bottom 0% to 20% will have a 15.9% gain in their income while those on the 95% to 99% of income bracket will have a -1.6% loss in their income and those in the 99% to 100% will have a 4.5% loss in the income. But this is just for the year 2022. By 2031, if the tax plan is still enforced, the income gain for the bottom 20% will be reduced to 6.4% because the government will still keep taxes high to fund its program. Consequently, those in the bottom 20% will have less in their income than at the beginning of the policy implementation. Hence, in the long-run, the Biden tax plan will eventually reduce the level of disposal income for all income brackets, including the bottom 20%. In any circumstances, over the 9 years of its implementation, top-earners will suffer as these rates will sharply decrease their level of disposal income, which could lead into a discouragement to invest and innovate.

Distributional Effect of Biden's 2022 Budget Tax Proposals
(Percent change in After-Tax Income)

Income Group	Conventional, 2022	Conventional, 2031	Dynamic, long-run
0% to 20%	15.90%	6.40%	5.30%
20% to 40%	4.70%	1.50%	0.40%
40% to 60%	1.10%	-0.30%	-1.40%
60% to 80%	0.10%	-0.70%	-1.70%
80% to 90%	-0.60%	-0.80%	-1.80%
90% to 95%	-1.10%	-1.00%	-2.00%
95% to 99%	-1.60%	-1.50%	-2.60%
99% to 100%	-4.50%	-5.10%	-6.30%

Table 1. Source: Tax Foundation General Equilibrium Model, June 2021.

III – Revenue Effect

The Biden Tax Plan will have a major effect on American families and household income. Indeed, the plan seeks to raise the top marginal tax rate from 37% to 39.6%, which would apply to income over $452,700 for single filers, $481,000 for head of household filers, and $509,300 for joint filers.[6]

The Biden Tax Plan aims to tax long-term capital gains as ordinary income for taxpayers with adjusted gross income above $1 million, resulting in a top marginal rate of 43.4 percent when including the new top marginal rate of 39.6 percent and the 3.8 percent Net Investment Income Tax (NIIT).[7] Furthermore, the Biden Tax Plan will enforce a tax unrealized capital gains at death

[5] U.S. Department of Treasury. (2021)
[6] Li, Huaqun; McBride, William; Watson, Garrett. "Details and Analysis of President Biden's FY 2022 Budget Proposals." *Fiscal Fact*. No. 768, June 2021. Tax Foundation. pp. 1-8.
[7] Tax Foundation, June 2021.

for unrealized gains above $1 million.[8] The unrealized gain is an increase in the value of an asset or investment that an investor holds but has not yet sold for cash. The unrealized capital gain tax is a form of wealth tax. The policy though excludes gains on tangible personal property and the existing exclusion for capital gain on certain small business stock.[9] In addition to taxing unrealized capital gains at death at ordinary income tax rates, large estates would also be subject to the current estate tax of 40% above an exemption of $11.7 million per person.[10]

IV – Economic Effect

The Biden Tax Plan will overall decrease economic output. According to the Tax Foundation General Equilibrium Model, the tax proposals impacting individuals and businesses would increase federal revenue by about $1.3 trillion conventionally over 10 years but it would reduce U.S. GDP in the long-run by 0.9%, which will result in a loss of 165,000 jobs.[11]

Combined Long-Run Effects on Changes in Tax and Spending under Biden's FY2022 Budget Proposals

Indicators	Rates
Long-run GDP	-0.90%
Long-run GNP	-1.00%
Capital Stock	-2.50%
Wage Rate	-0.80%
Full-time Equivalent Jobs	-165,000

Table 2. Source: Tax Foundation General Equilibrium Model, June 2021

Increasing the corporate income tax from 21% to 28% has the largest negative impact on long-run GDP, followed by imposing a 15% minimum corporate book tax, raising capital gains tax rates, and increasing taxes on pass-through business income.[12] This will impact the ability of businessowners to create jobs and to increase economic output. Since corporate income tax will increase, businesses and corporation will have to increase the price of their services or products in order to maintain a revenue and profit threshold. In addition to raising the price of their products or services, businesses who revenues are limited will be compelled to reduce their staff, which will increase unemployment. In short, the Biden Tax Plan will create a negative supply-shock on the economy if implemented.

[8] Ibid. p. 3
[9] Ibid. p. 3
[10] Hodge, Scott; Watson, Garrett. "Joe Biden's 61 Percent Tax on Wealth." *Tax Foundation*. April 2021.
[11] *Fiscal Fact*. p. 4. Tax Foundation
[12] Ibid. p. 4

Effect of Biden Tax Plan on the Economy

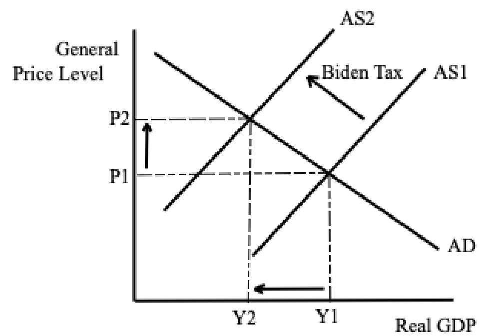

Figure 1

Conclusion

The hard data showed overall that the Biden tax plan, if implemented, will have a long-run negative impact on the U.S. economy. Even those that the tax policy was supposed to help will eventually lose more of their after-tax income in the long-run than at the initial stage of the implementation. Economic output will decrease due to a negative supply shock, and capital gains will also decrease due to the unrealized capital gain tax and the Net Investment Income Tax. In short, in its quest to promoting equality and fairness, the Biden Tax Plan will not thoroughly reduce the wealth gap and give more opportunities to working-class families to increase their investment and capital gains. The only positive aspect of this tax plan will be that the federal government will have more revenues and this will increase its expenditures.