

REMI ELECTION 2020: FEDERAL TAX & FISCAL POLICY

Agenda



- Overview: Biden, Federal Tax Policy, and the Economy
- REMI Analysis of Biden Policy
 - Tax Hikes in a Weak Economy: REMI Model Simulation
 - Case Study: Losing the Full Deductibility of SALT in New York
 - Fiscal Tax-PI Simulation: Dynamic State-Level Effects of Cut to State and Local Spending

Overview of Biden Fiscal Policy



- Tax the Rich: (3 Trillion over 10 years)
 - Personal taxes: increases for over 400K of the payroll tax, income tax, capital gains tax; higher estate taxes on large estates
 - Business taxes: raise corporate rate to 28%; 15% minimum tax on corporate book income

- Increase Government Support (5 Trillion over 10 years)
 - Healthcare, education, infrastructure.

Whither Fiscal Policy?



- Yellen and Obama-era Appointees Signal Center-Left Policy Direction

New taxes about 10% of Federal Budget;
3 Trillion Equivalent to CARES Act
Significant Legislative Obstacles

Tax Hikes in a Weak Economy



- Yellen: Opposed Trump Cut since “the economy was already at or close to full employment and did not need a boost”
- Yellen urges fiscal support in the pandemic, “following our advice would further increase the already record-level federal budget deficit. ...we do not believe that concerns about the deficit and debt should prevent the Congress from responding robustly to this emergency.” (Bernanke and Yellen, Brookings, July 17, 2020.
- Raising taxes in a weak economy falls outside of mainstream macroeconomic thinking.

Scenario: Tax Increase in a Weak Economy



- Assumptions:

- Scenario 1: Increase in Taxes

- Economic slowdown in short-term

- Scenario 2: Increase in Taxes and Spending
(revenue-neutral)

Tax Increase & Transfers



Revenue Effect of Biden's Tax Plans (Billions of Dollars)

Proposal	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2021-2030
1. Apply a Social Security payroll tax of 12.4% to earnings above \$400,000	\$73.20	\$78.50	\$81.30	\$80.70	\$79.50	\$80.80	\$83.90	\$87.10	\$88.10	\$86.80	\$819.90
2. Raise the top ordinary income tax rate from 37% to 39.6%	\$25.10	\$29.00	\$30.40	\$31.10	\$32.50	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$148.10
3. Reactivate the Pease limitation for income above \$400,000	\$16.20	\$18.80	\$19.70	\$20.40	\$21.40	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$96.60
4. Tax capital gains and dividends at 39.6 percent on income over \$1 million and repeal step-up in basis	\$14.20	\$27.10	\$39.50	\$42.10	\$45.80	\$49.50	\$56.90	\$61.80	\$64.80	\$67.60	\$469.40
5. Limit the tax benefit of itemized deductions at 28% of value for those earning over \$400,000	\$23.70	\$27.70	\$28.90	\$29.70	\$31.20	\$25.30	\$27.70	\$28.70	\$29.70	\$31.00	\$283.50
6. Phase out qualified business income deductions for income over \$400,000	\$29.90	\$34.40	\$35.80	\$37.30	\$39.60	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$177.10
7. Expand the Child Tax Credit (CTC) to \$3,000 maximum value, \$600 bonus for children under 6, and make the CTC fully refundable with no phase-in thresholds	(\$105.50)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	(\$105.50)
8. Expand the Child and Dependent Care Tax Credit (CDCTC) to a maximum value of \$8,000 and increase the refundability percentage to a maximum of 50 percent	(\$6.00)	(\$7.00)	(\$7.20)	(\$7.50)	(\$7.90)	(\$8.30)	(\$8.70)	(\$9.00)	(\$9.40)	(\$9.70)	(\$80.70)
9. Provide a First-Time Homebuyer Credit up to \$15,000 in value	(\$12.00)	(\$14.00)	(\$14.50)	(\$15.00)	(\$15.90)	(\$16.90)	(\$17.80)	(\$18.80)	(\$19.40)	(\$20.20)	(\$164.60)
10. Restore the gift and estate tax to 2009 levels	\$26.50	\$28.30	\$30.00	\$30.90	\$32.40	\$31.10	\$25.50	\$24.10	\$25.50	\$26.50	\$280.70
11. Raise the corporate income tax rate to 28%	\$40.90	\$78.00	\$96.00	\$106.30	\$115.80	\$117.40	\$118.50	\$122.70	\$125.80	\$128.90	\$1,050.80
12. Impose a 15 percent corporate minimum tax on book income	\$7.90	\$15.10	\$18.60	\$20.50	\$22.30	\$22.70	\$22.90	\$23.70	\$24.30	\$24.90	\$202.70
13. Double the tax rate on GILTI, eliminate the exemption for deemed returns to QBAI, and impose GILTI on a country-by-country basis	\$16.00	\$29.50	\$34.70	\$39.20	\$43.10	\$28.50	\$26.90	\$26.30	\$24.30	\$21.20	\$289.70
14. Miscellaneous credits	(\$6.60)	(\$9.10)	(\$11.00)	(\$11.80)	(\$12.90)	(\$14.70)	(\$15.70)	(\$16.60)	(\$17.50)	(\$18.40)	(\$134.30)
Total Conventional Revenue	\$143	\$336	\$382	\$404	\$427	\$315	\$320	\$330	\$336	\$339	\$3,333
Total Dynamic Revenue	\$129	\$284	\$314	\$343	\$358	\$306	\$267	\$260	\$262	\$259	\$2,782

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Source: [Tax Foundation](#)

Total Revenue-Personal Income Tax(1-10,14)	\$78.70	\$213.70	\$232.90	\$237.90	\$245.70	\$146.80	\$151.80	\$157.30	\$161.80	\$163.60
Total Revenue-Corporate Tax(11-13)	\$64.80	\$122.60	\$149.30	\$166.00	\$181.20	\$168.60	\$168.30	\$172.70	\$174.40	\$175.00
Total Conv Revenue	\$143.50	\$336.30	\$382.20	\$403.90	\$426.90	\$315.40	\$320.10	\$330.00	\$336.20	\$338.60

Tax Increase & Transfers



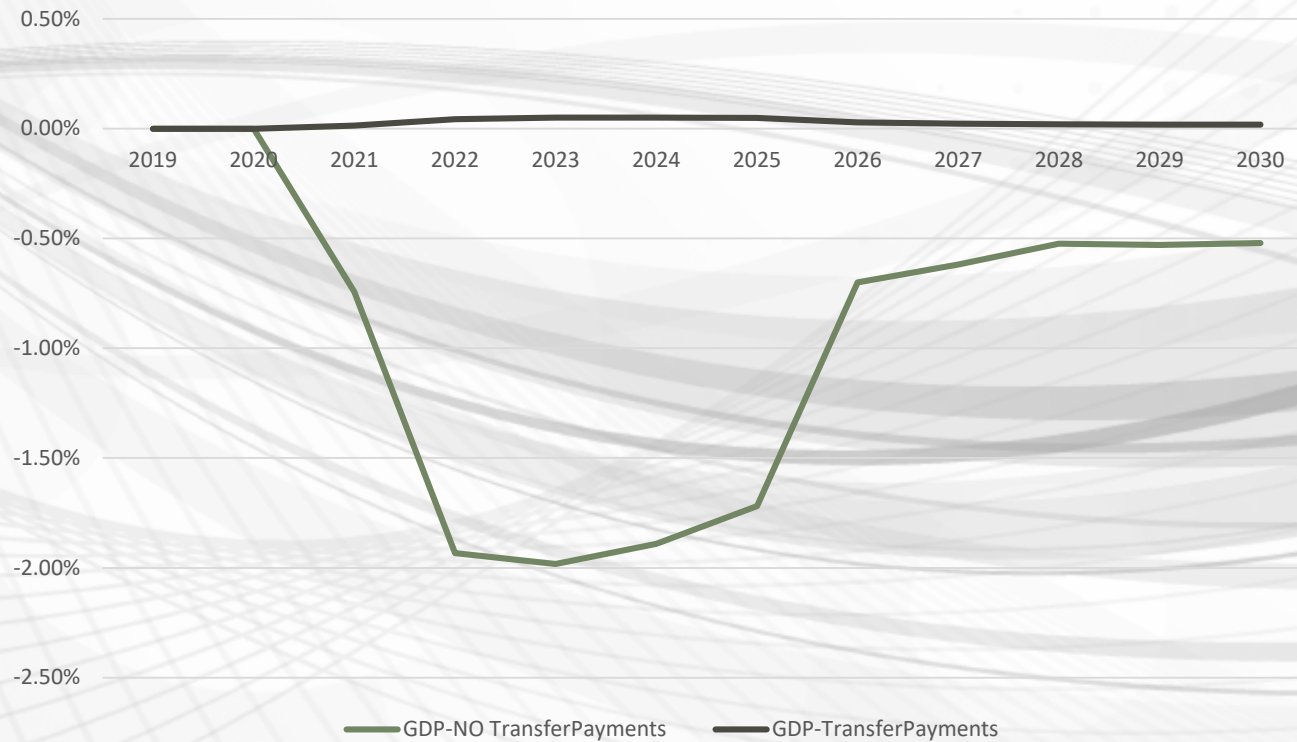
Transfer Payments List

- ❑ Social Security benefits
- ❑ Other retirement and disability insurance benefits
- ❑ Medicare benefits
- ❑ Public assistance medical care benefits
- ❑ Military medical insurance benefits
- ❑ Supplemental security income (SSI) benefits
- ❑ Earned Income Tax Credit (EITC)
- ❑ Supplemental Nutrition Assistance Program (SNAP)
- ❑ Other income maintenance benefits
- ❑ State unemployment insurance compensation
- ❑ Other unemployment insurance compensation
- ❑ Veterans benefits
- ❑ Education and training assistance
- ❑ Other transfer receipts of individuals from governments
- ❑ Current transfer receipts of nonprofit institutions
- ❑ Current transfer receipts of individuals from businesses

Personal Income Tax-GDP



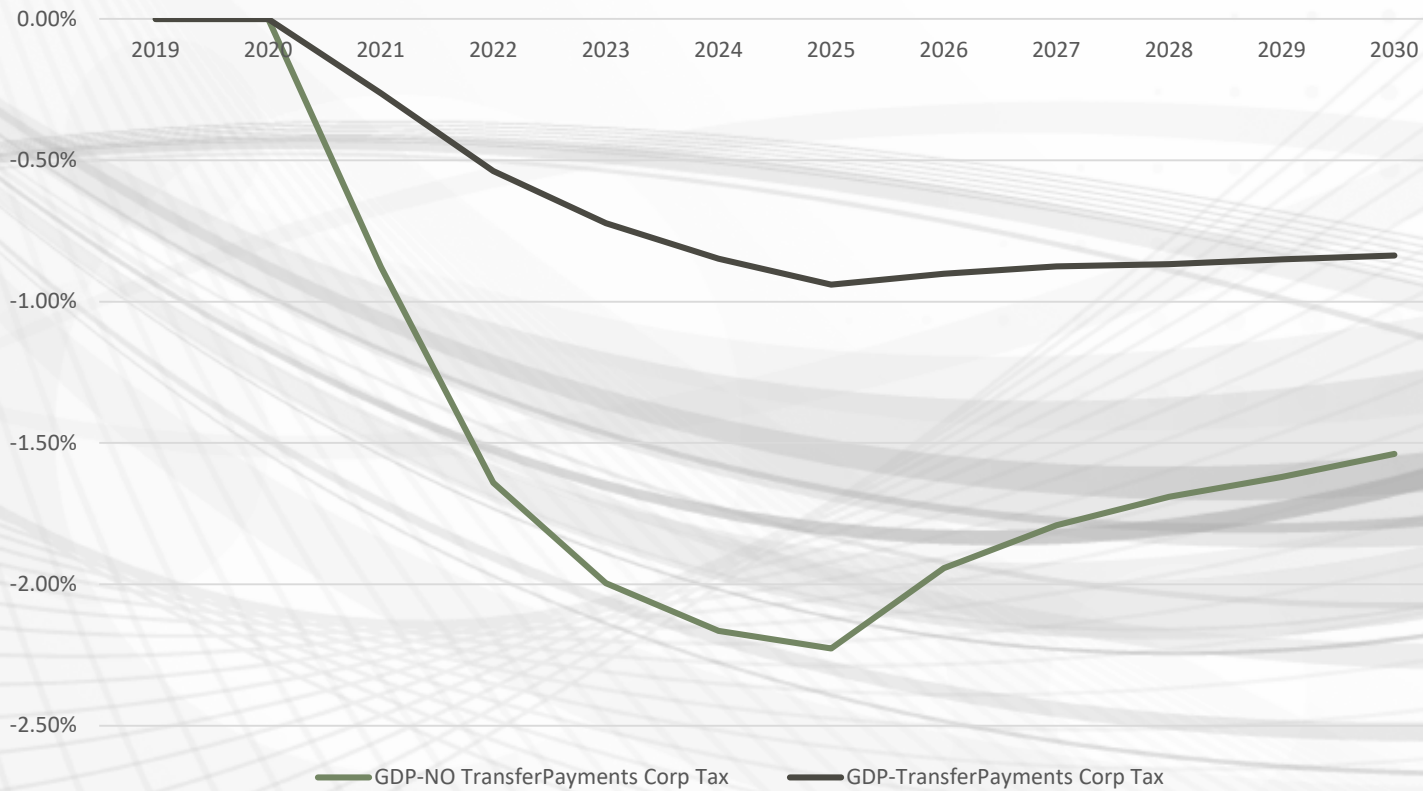
%Change in GDP-Personal Income Tax



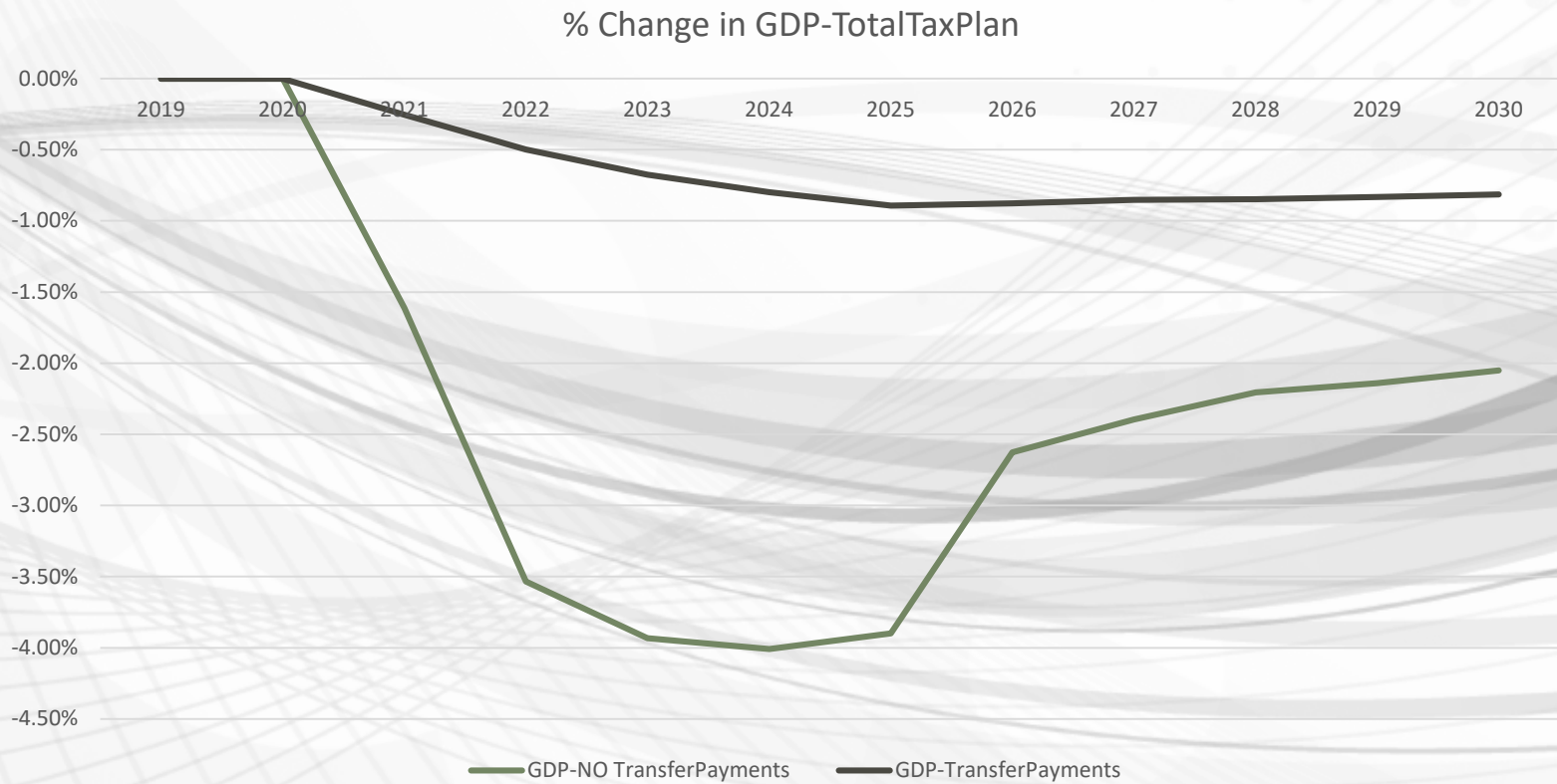
what does REMI say? sm

Corporate Tax-GDP

% Change In GDP with Corporate Tax

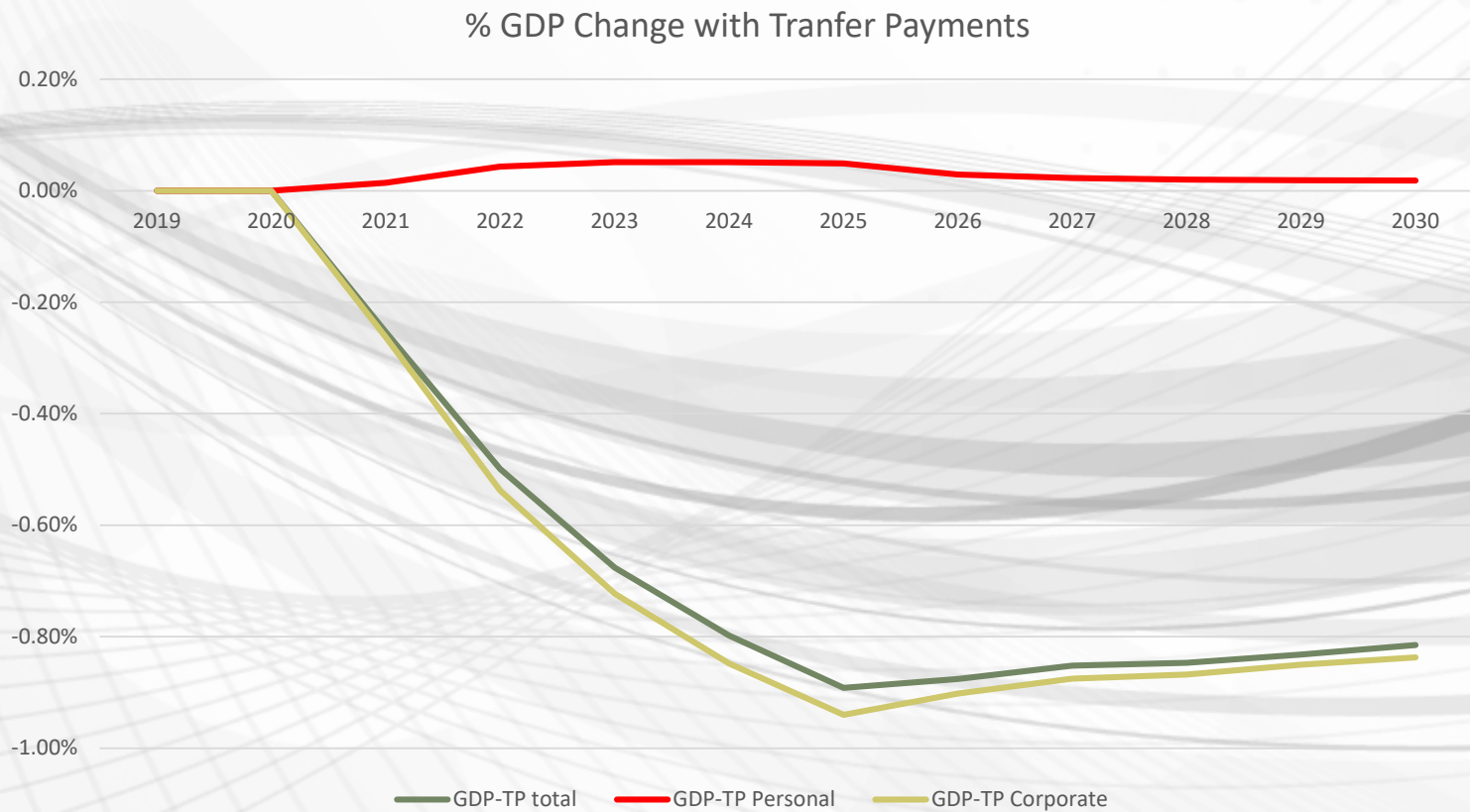


Total Taxes-GDP



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% GDP Change with Transfer Payments



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New York-SALT - Case Study

- The Economic Impact of Losing Full Deductibility of State and Local Tax (SALT) in New York State
 - ▣ Federal Tax Cut and Jobs Act of 2017
- NY State Division of the Budget's Multi-Region PI+ Model was used to Estimate the Long Term Impact of the SALT Cap
 - ▣ New York City, Greater Metro, Rest of State

[Rockefeller Institute of Government & New York State Division of the Budget](#)

REMI-PI+ Analysis 2018-2024



- Upper Bound Scenario:
 - The REMI Variable *Personal Taxes* was increased by \$12.3 Billion
 - More Impactful due to effect of households and business leaving the state as a result of the increasing personal income taxes

- Lower Bound Scenario:
 - The REMI Variable *Consumption Reallocation* was decreased by \$12.3 Billion
 - Limits in Overall Economic Impact by bypassing REMI Linkages such as relative wages, economic migration, relative home prices

Impacts on New York State



- Values are Average of Upper and Lower Bound Scenarios
 - ▣ compared to Differences from Baseline Forecast
- Values represents what is lost on an annual average basis over the first 7 years

Employment by Sector (thousands)	Five-Year Average	Seven-Year Average
Total Employment	(110.9)	(107.2)
Natural Resources	(0.1)	(0.1)
Construction	(18.2)	(16.3)
Manufacturing	(1.9)	(1.8)
Retail and Wholesale	(18.2)	(17.7)
Transportation and Public Utilities	(3.2)	(3.0)
Finance, Insurance & Real Estate	(9.6)	(9.1)
Services	(52.8)	(51.8)
Government	(6.9)	(7.3)

Impacts on New York State



Economic Variables	Five-Year Average	Seven-Year Average
Total Employment (thousands)	(110.9)	(107.2)
Private (thousands)	(104.0)	(99.9)
Population (thousands)	(90.3)	(104.3)
Net Economic Migrants (thousands)	(14.7)	(11.5)
Real Gross Domestic Product (2012 \$ billions)	(\$10.6)	(\$10.3)
Nominal Output (\$ billions)	(\$24.5)	(\$24.5)
Real Output (2012 \$ billions)	(\$16.7)	(\$16.3)
Personal Income (2012 \$ billions)	(\$9.9)	(\$10.4)
Disposable Personal Income (2012 \$ billions)	(\$14.6)	(\$15.2)
Real Disposable Income (2012 \$ billions)	(\$11.1)	(\$11.3)
Personal Consumption Expenditure—Price Index	(0.1)	(0.2)
Housing Price (percent deviation from baseline)		
New York City	(0.9%)	(0.9%)
Greater Metro Area	(1.5%)	(1.5%)
Rest of State	(0.2%)	(0.2%)

what does REMI say? sm

Study Summary



- The Elimination of the SALT Cap:
 - Support on Average 107,000 More Full Time Jobs Annually
 - Return Billions of Dollars to State's GDP

- The Cap on Deductions is Effectively a Tax Increase
 - Without Federal Support to Offset Losses, Deep Cuts in State Spending will impede economic growth
 - Having a sustained negative effect on employment and output

Cut to State Spending



- Fiscal Tax-PI Simulation: Dynamic State-Level Effects of Cut to State and Local Spending

- All States experience a 5% reduction in State and Local Government Spending
 - A 5% Reduction in the Year 2021 only
 - Analysis for the State Economy of Louisiana

Results



- **Employment** Thousands (Jobs)
 - Absolute Change: 56 Thousands Jobs Lost
 - % Change: -2% change in Employment Level

- **Gross Domestic Product (GDP)** (Millions \$)
 - % Change: -2% change in GDP

- **Revenue** (Millions \$)
 - Absolute Change in Revenue: -0.16
 - % Change in Revenue -2%

Revenues (Millions \$)	Absolute Change	% Change
Automobile Rental Tax	-0.16	-2%
Beer Taxes – Parish & Municipalities	-0.052	-1%
Catalog Sales Tax – Local & State	-0.051	-1%
Consumer Use Tax – Local & State	-0.004	-1%
Corporation	-5.131	-1%
Corporation Franchise Tax	-1.711	-1%
Electric Cooperative Fee	-0.001	-2%
Fiduciary	-0.178	-1%
Flat Room Occupancy Tax	-0.062	-1%
Food & Beverage Taxes	-0.142	-1%
Gasoline Inspection Fee	-0.05	-1%
Gasoline Tax	-4.493	-1%
Hazardous Waste Disposal Tax	-0.07	-2%
High Alcoholic Content (Liquor/Wine)	-0.394	-1%
Individual, Declaration & Withholding	-55.459	-1%
Inspection & Supervision Fee	-0.13	-1%
Louisiana Stadium & Exposition District	-1.246	-2%
Louisiana Tourism & Promotion District Tax	-0.341	-1%
Low Alcoholic Content (Beer)	-0.446	-1%
Natural Gas Franchise Tax	-0.036	-1%
Natural Gas Franchise Tax	-0.008	-1%
Natural Resources – Severance Tax	-5.336	-1%
Oilfield Site Restoration Fee – Gas	-0.046	-1%
Oilfield Site Restoration Fee – Oil	-0.01	-1%
Out-of-State Shippers	-0.001	0%
Sales Tax	-61.653	-1%
Service Contractor Tax	-0.039	-1%
Special Fuels Tax	-2.585	-1%
Surface Mining & Reclamation Fee	-0.004	-1%
Telecommunication Tax for the Deaf	-0.013	-2%
Tobacco Tax	-2.737	-1%
Tour Tax	-0.007	-2%
Transportation & Communication Utilities Tax	-0.125	-2%

what does REMI say? sm

Conclusion



- Stimulus is top priority
- Tax increases, no additional stimulus would damage a weak economy
- Economic modeling shows the effects of policies on the national, state, and local economy