PENN WHARTON
UNIVERSITY of PENNSYLVANIA
Budget Model

Revenue Provisions in the House Ways and Means Reconciliation Bill: Budgetary Effects

Summary: PWBM projects that the revenue-raising provisions in the House Ways and Means Reconciliation Bill would raise roughly $2.4 trillion from 2022 to 2031.

Key Points

- The House Ways and Means Committee's draft legislation for Democrats' reconciliation bill includes tax increases to offset new spending.
- The tax increases are concentrated on multinational corporations, high-income earners and owners of closely-held businesses, large estates, and users of nicotine products.
- PWBM estimates that the revenue-raising tax provisions would increase federal revenues by about $2.4 trillion over the next decade.

Introduction

On September 13th, the House Ways and Means Committee released draft legislation detailing the revenue provisions to be included in Democrats' $3.5 trillion reconciliation package. Democratic lawmakers in each chamber of Congress are crafting legislation under the parameters defined by the Senate's $3.5 budget resolution. Previously, PWBM analyzed the revenue and macroeconomic effects of several illustrative policy packages consistent with the budget resolution.

In this brief, we present estimated budgetary effects of the revenue-raising provisions included in the Ways and Means reconciliation bill. Relative to current law, we estimate that the tax provisions would raise $2.4 trillion over the next ten years.[1]

PWBM will release subsequent briefs analyzing the budgetary, macroeconomic, distributional, and tax incentive effects of the reconciliation bill as the legislative process unfolds.

Description of Provisions

The bill includes dozens of budgetary offsets used to reduce the deficit impact of the spending provisions. We describe the most significant proposed tax changes below.

Key Corporate and International Tax Provisions

- **Increase the corporate rate.** The proposal would increase the top tax rate on corporate income from 21 percent to 26.5 percent. It would introduce a graduated rate structure with a rate of 18 percent on taxable income of $400,000 or less, 21 percent on income between $400,000 and $5,000,000, and 26.5 percent on income over $5,000,000.
- **Modify section 250 deduction for GILTI and FDII.** Corporations are taxed at reduced rates on their global intangible low-taxed income (GILTI) and their foreign-derived intangible income (FDII). The reduced rates are achieved by allowing a deduction for 50 percent of their GILTI and 37.5 percent on FDII. Under current law, these percentages are scheduled to fall to 37.5 percent of GILTI and 21.875 percent of FDII beginning in 2026, increasing the effective tax rates they face. The proposal would accelerate these changes, reducing the deduction percentages (and increasing the tax rates) by the same amounts beginning in 2022 instead of 2026.
- **Modify GILTI inclusion and foreign tax credit limitations.** Under current law, multinationals with operations in multiple foreign jurisdictions combine foreign tax credits and net income or losses from different countries in determining U.S. tax liability on their foreign income. This process allows foreign taxes paid in high-tax countries to offset U.S. taxes on income from low-tax countries, or losses in high-tax countries to offset taxable GILTI from low-tax countries. The proposal would require that a taxpayer's foreign tax credit and GILTI inclusion be determined on a country-by-country basis, disallowing pooling across different jurisdictions. The proposal would also make a number of other changes to the foreign tax credit, such as repealing the foreign branch income basket and limiting carryover of excess foreign tax credits. The proposal would also modify the GILTI inclusion in taxable income: It would lower the tax-exempt deemed return on tangible assets from 10 percent to 5 percent, repeal the exclusion of foreign oil and gas extraction income from the determination of taxable GILTI, and allow for carryover of foreign losses to subsequent years.
- **Modify deemed paid foreign tax credit.** Currently, taxpayers are allowed a deemed paid tax credit for 80 percent of the foreign taxes on income taken into consideration in determining the GILTI inclusion. The proposal would increase that percentage to 95 percent, lowering the effective tax rate on GILTI.

Key Individual and Transfer Tax Provisions

- **Increase the top rate on ordinary income.** Under current law, the top rate on ordinary income is 37 percent, scheduled to increase to 39.6 percent in 2026. The proposal would accelerate this increase to start in 2022 and lower the inflation-indexed threshold to which this rate applies from its 2021 value of $441,450 ($496,600 for joint returns) to $400,000 ($500,000).
- **Raise the top rate on long-term capital gains and qualified dividends.** Under current law, realized capital gains on assets owned for more than one year and most dividends are subject to a top statutory rate of 20 percent above an inflation-indexed taxable income threshold of $523,600 ($628,300 for joint returns) in 2021. The proposal would increase this rate to 25 percent and lower the corresponding bracket to $400,000 ($500,000). When combined with the 3.8 percent Net Investment Income Tax

("NIIT"), the proposal would raise the top preferred rate from 23.8 percent to 28.8 percent (exclusive of the AGI surcharge described below).

- **Subject certain pass-through business income to the NIIT.** Under current law, both labor and capital income for taxpayers with more than $200,000 ($250,000 for joint returns) generally face a 3.8 percent tax, either under employment taxes (FICA and SECA) or the NIIT. Some income earned by pass-through owners, including active S corporation shareholders and limited partners, is not subject to these taxes. The proposal would subject all income above $400,000 ($500,000) to the NIIT.

- **Limit the deduction for qualified business income.** Certain owners of pass-through businesses are allowed a deduction equal to 20 percent of qualified business income under current law. This provision is scheduled to expire in 2026. The proposal would limit the deduction to $400,000 ($500,000 for joint returns).

- **Extend the limitation on excess noncorporate losses.** The maximum allowable deduction for most pass-through losses is $262,000 ($524,000 for joint returns) in 2021, with any excess allowed as a net operating loss carried forward to future years. The proposal would make this restriction permanent, which is indexed to inflation scheduled to expire in 2026 under current law.

- **Impose a 3 percent surcharge on Adjusted Gross Income (AGI) above $5 million.** The proposed law would levy an additional 3 percent tax on all AGI above $5 million. This tax would apply to all forms of income, creating a combined top rate of 42.6 percent on ordinary income and 31.8 percent on preferred-rate income.

- **Lower the estate tax exemption.** Under current law, the estate and gift tax exemption is about $11.7 million (indexed to inflation) and is scheduled to halve in 2026. The proposal would accelerate that change, setting the exemption at about $6 million in 2022.

Other Key Provisions

- **Increase IRS funding.** The proposal would increase appropriations for the IRS by $79 billion, an amount that roughly doubles projected funding under current policy. The additional funds would be allocated towards the hiring of new agents and the modernization of information systems used in tax enforcement activities.

- **Increase taxes on tobacco and nicotine.** Under current law, tobacco products are subject to excise taxes set at various rates depending on the form of tobacco. The proposed law would double the rate of these taxes, and extend excise taxes to cover "smokeless tobacco" nicotine products.

Budgetary Effects

Table 1 presents PWBM's estimated budgetary effects of the provisions described above. In sum, we project the revenue raising elements would raise approximately $2.4 trillion over the budget window.

Table 1. Estimated Budgetary Effects of Selected Revenue Provisions

Billions of Dollars

DOWNLOAD DATA

Provision	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	Budget window
Corporate and international taxes											
Increase corporate rate to 26.5%	42.8	56.3	59.5	62.8	73.4	77.5	79.6	79.6	80.2	82.6	**694.3**
Modifiy Section 250 deduction for GILTI and FDII	11.4	17.1	20.9	22.5	4.0	0.9	0.8	0.7	0.7	0.8	**79.8**
Modify GILTI inclusion and FTC limitations	16.2	21.4	22.3	23.9	26.5	24.6	24.7	24.4	24.4	24.6	**233.1**
Modify to deemed paid FTC	-3.2	-4.4	-4.9	-5.5	-6.2	-5.7	-5.6	-5.5	-5.5	-5.5	**-51.9**
Extend expensing of research and experimental expenditures	-24.1	-29.4	-26.5	-22.1	13.3	24.8	19.4	12.7	4.7	1.6	**-25.6**
Other provisions 1/	19.9	27.5	16.1	16.1	16.2	16.7	17.4	17.9	18.4	19.1	**185.3**
Individual and transfers taxes											
Increase the top rate on ordinary income	26.4	35.8	37.5	39.3	16.4	6.7	6.1	6.4	6.6	6.9	**188.1**

Provision	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	Budget window
Increase the top rate on long-term capital gains and qualified dividends	8.1	10.7	11.2	11.7	11.2	10.9	11.4	12.1	12.8	14.0	**114.0**
Subject certain pass-through income to the net investment income tax	16.0	22.2	23.8	25.6	21.1	21.4	22.5	23.3	24.2	25.6	**225.8**
Limit the deduction for qualified business income	9.7	13.4	14.3	15.3	3.6	0.0	0.0	0.0	0.0	0.0	**56.2**
Extend the limit on excess noncorporate losses	0.0	0.0	0.0	0.0	0.0	26.5	34.8	36.2	37.8	39.5	**174.8**
Impose a 3% surcharge on AGI above $5M	10.8	14.8	15.7	16.7	16.3	17.7	18.8	20.0	21.2	22.5	**174.6**
Repeal TCJA estate tax exemption increase	0.9	7.5	10.2	10.8	10.2	2.6	0.0	0.0	0.0	0.0	**42.2**
Other provisions 1/	0.4	1.8	2.0	2.0	2.2	2.7	3.0	3.4	3.8	4.5	**25.8**
Other taxes											
Increase IRS funding	-1.5	-1.1	2.3	7.3	14.0	20.9	26.1	28.3	28.8	28.6	**153.9**

Provision	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	Budget window
Increase taxes on tobacco and nicotine	8.7	10.9	10.8	10.8	10.8	10.8	10.8	10.8	10.8	10.8	**105.8**
Other provisions 1/	5.9	5.1	1.6	1.4	1.1	0.9	0.0	-0.2	-0.2	-0.1	**15.7**
Total	**148.6**	**209.7**	**216.8**	**238.6**	**234.1**	**260.1**	**269.9**	**270.1**	**268.7**	**275.4**	**2,392.0**

Source: PWBM estimates, Joint Committee on Taxation estimates
1 / This line reflects the sum of JCT's estimates for all other tax provisions, adjusted for PWBM's macroeconomic projections

This analysis was produced by PWBM staff. Report was written by John Ricco and Alexander Arnon. Prepared for the website by Mariko Paulson.

---

1. This analysis is focused on the bill's "pay-fors". Several of the bill's proposed tax changes are social spending programs structured as refundable tax credits (for example, the proposed Child Tax Credit expansion). We will analyze such policies in a separate brief that considers the full package. ↩