



Budget Model

Budgetary Offsets for Democrats' Reconciliation Package: Options

Summary: We analyze a combination of net revenue raisers consistent with the requirements released by the Senate Budget Committee on August 9th, 2021, for budget reconciliation.

Introduction

On August 9th, 2021, the Senate Budget Committee released a budget resolution that would allow \$3.5 trillion in new spending over a decade with up to \$1.75 trillion deficit financed. The Senate Budget Committee instructions for the Finance Committee also recommends budgetary offsets in five areas:

- Corporate and international tax reform
- Tax fairness for high-income individuals
- IRS tax enforcement
- Health care savings
- Carbon polluters import fee

We analyze a budget savings package based on these five areas with details consistent with previous proposals from the Biden administration and recently proposed legislation:

- Corporate tax rate: Increase to 25%
- International taxation (GILTI): Eliminate QBAI exemption; assess country-by-country
- Personal income taxes: raise the top tax rate on ordinary income to 39.6%
- Personal income taxes: Raise the top individual rate on preferred rate income to 28%; adopt carryover basis for inherited assets
- IRS: Spend an additional \$40 billion in funding for IRS enforcement and compliance
- Medicare drug prices: Reduce Medicare prescription drug spending by 60% starting in 2025
- Carbon fee: Enact a tariff equal to domestic environmental regulation compliance costs of \$10.5 billion per year

We project that this package would generate \$1.83 trillion in net budget savings over the 10-year budget window and is consistent with \$3.5 trillion in new spending and \$1.75 trillion in new debt before interest costs. In our

analysis below, we refer to this package as the “Medium” net revenue option. For comparison, we also analyze two additional packages: a “Low” net revenue option and a “High” net revenue option. The “Low” option produces a 10-year cumulative deficit no larger than \$1.75 trillion but only if additional spending is reduced from \$3.5 trillion to \$2.7 trillion. The “High” option affords \$3.5 trillion in new spending with no additional debt (i.e., the spending is fully financed), generating \$700 billion in debt reduction before interest savings.

PWBM has previously analyzed the administration's major policy proposals, including the [American Jobs Plan](#), [American Families Plan](#), and comprehensive [President’s FY2022 budget proposal](#). The current brief only reports conventional revenue estimates. As more details about the reconciliation package emerge, PWBM will produce an analysis that includes the macroeconomic impact of both taxes and spending programs on the overall economy.

Table 1. Policy Option Package Details

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	Low	Medium	High
Corporate and international tax reform			
Corporate tax rate	25%	25%	28%
GILTI		Eliminate QBAI exemption; assess country-by-country	Eliminate QBAI exemption; assess country-by-country; lower the deduction rate to 25%
FDII			Eliminate
Minimum tax			Apply a 15% minimum tax on book income 1/
Tax fairness for high-income individuals			
Top tax rate on ordinary income	39.6%	39.6%	39.6%
Tax treatment of capital gains 2/		Raise the top rate on preferred rate income to 28%; adopt carryover basis for inherited assets	Raise the top rate on preferred rate income to 43.4%; tax unrealized gains at death; tax carried interest as ordinary income 3/
IRS tax enforcement			
Funding for enforcement and compliance	Additional \$20B over ten years	Additional \$40B over ten years	Additional \$80B over ten years

	Low	Medium	High
Information reporting			Institute comprehensive information reporting for financial accounts
Health care savings			
Prescription drug price controls 4/	Reduce Medicare prescription drug spending by 25% starting in 2025	Reduce Medicare prescription drug spending by 60% starting in 2025	Reduce Medicare prescription drug spending by 60% starting in 2023
Carbon polluter import fee			
Enact a tariff equal to domestic environmental regulation compliance costs 5/	\$5 billion per year	\$10.5 billion per year	\$16 billion per year

Additional policy details:

1/ C corporations would be assessed a tax of 15% on worldwide book income above \$2 billion less foreign tax credits, owing any positive difference between this tax and regular tax. Note that General Business Credits are not allowed against the tax.

2/ Rates are inclusive of the 3.8% Net Investment Income Tax.

3/ Taxpayers would be allowed a \$1M exemption on unrealized gains at death, in addition to the current-law exemption for primary residences.

4/ These options are based on the Elijah E. Cummings Lower Drug Costs Now Act of 2019. The Secretary of Health and Human Services would be required to set certain prescription drug prices to a level defined relative to international peers.

5/ The proposal would tax imports at a rate defined by the Secretary of Treasury, who under the option would be required to estimate industry-specific compliance costs for environmental regulation by 2023. The Low, Medium, and High options here are defined relative to a \$5 – \$16 billion annual range given by the authors of the Fair, Affordable, Innovative and Resilient Transition and Competition Act of 2021.

The “Medium” Net Revenue Option

This package includes increasing the corporate tax rate to 25 percent, increasing the top rate on ordinary income to 39.6 percent, increasing IRS tax enforcement and compliance funding by \$40 billion over ten years, reducing Medicare prescription drug spending by 60 percent starting in 2025, and enacting a carbon tariff of \$10.5 billion per year. It also increases taxes on foreign-sourced income (assessing GILTI on a per-country basis) and on capital gains (raising the top rate to 28 percent and eliminating stepped up basis at death).

Table 2. Net Revenue Under the “Medium” Option

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	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	Budget window
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	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	Budget window
Corporate and international tax reform											
Raise the corporate tax rate to 25%	27	39	42	45	54	59	61	62	62	65	516
Calculate GILTI on a per-country basis	17	25	27	29	23	24	26	27	28	28	253
Tax fairness for high-income individuals											
Raise the top rate on ordinary income to 39.6%	17	23	25	26	16	4	1	0	0	0	114
Raise the top rate on preferred rate income to 28%; adopt carryover basis for inherited property	5	16	19	22	24	25	27	29	31	33	237
IRS tax enforcement											
Increase IRS funding for audits by \$40B over ten years	-1	0	2	5	8	12	15	17	17	17	91
Health care savings											
Institute prescription drug price controls for Medicare	0	0	0	10	19	27	80	105	143	151	535

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	Budget window
Carbon polluter import fee											
Middle estimate	0	0	11	11	11	11	11	11	11	11	84
Total	65	103	125	147	155	162	221	249	291	305	1,830

The “Low” Net Revenue Option

This package increases the corporate tax rate to 25 percent and the top rate on ordinary income to 39.6 percent. However, it only increases IRS tax enforcement and compliance funding by \$20 billion over ten years, reduces Medicare prescription drug spending by 25 percent starting in 2025, and enacts a carbon tariff of \$5 billion per year.

Table 3. Net Revenue Under the “Low” Option

[DOWNLOAD DATA](#)

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	Budget window
Corporate and international tax reform											
Raise the corporate tax rate to 25%	27	39	42	45	54	59	61	62	62	65	516
Tax fairness for high-income individuals											
Raise the top rate on ordinary income to 39.6%	17	23	25	26	16	4	1	0	0	0	114
IRS tax enforcement											

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	Budget window
Increase IRS funding for audits by \$20B over ten years	0	0	1	3	5	7	9	10	10	10	54
Health care savings											
Institute prescription drug price controls for Medicare	0	0	0	4	8	12	34	43	58	62	222
Carbon polluter import fee											
Low-end estimate	0	0	5	5	5	5	5	5	5	5	40
Total	43	63	73	83	89	87	111	119	136	142	946

The “High” Net Revenue Option

This package builds on the “Medium” option by including the fullest version of several proposals from the Biden administration. The corporate and international tax reform section is modeled on the American Jobs Plan, and the capital gains and IRS funding proposals are modeled on the American Families Plan. The package also includes a more aggressive schedule for drug price reductions and the highest carbon tariff of the three options.

Table 4. Net Revenue Under the “High” Option

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	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	Budget window
Corporate and international tax reform											
Raise the corporate tax rate to 28%	46	69	73	79	93	101	105	106	107	112	892

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	Budget window
Calculate GILTI on a per-country basis and set the deduction rate to 75%	41	61	66	72	70	74	80	85	88	90	728
Eliminate FDII	8	13	19	23	22	23	29	35	41	46	260
Institute a 15% minimum tax on book income	6	9	12	15	19	21	23	25	27	28	184
Tax fairness for high-income individuals											
Raise the top rate on ordinary income to 39.6%	17	24	25	26	17	4	1	0	0	0	114
Raise the top rate on preferred rate income to 43.4%; tax unrealized gains at death; tax carried interest as ordinary income	8	22	30	36	38	39	43	45	49	54	365
IRS tax enforcement											
Increase IRS funding for audits by \$55B over 10 years; require information reporting on gross flows in and out of financial institutions	2	5	11	20	30	43	59	78	101	129	480

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	Budget window
Health care savings											
Institute prescription drug price controls for Medicare	0	74	99	106	115	123	132	136	143	151	1,079
Carbon polluter import fee											
High-end estimate	0	0	16	16	16	16	16	16	16	16	128
Total	128	278	351	393	420	445	489	527	571	626	4,227

This analysis was produced by [John Ricco](#) under the direction of [Richard Prisinzano](#). Prepared for the website by [Mariko Paulson](#).