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## Article

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William McBride and Erica York

# US Presidential Election 2024: A Comparison of Fiscal Policies Proposed by Leading Candidates for US President

## KEY MESSAGES

- The 2024 US presidential election will determine who will work with Congress to address three major fiscal issues: the expiration of key tax reforms from the 2017 Tax Cuts and Jobs Act (TCJA), the ongoing trade war with China, and the trajectory of the federal debt
- Vice President Kamala Harris supports increasing taxes on high earners and corporations while substantially increasing redistribution through the tax code. Her proposals, including raising the corporate tax rate to 28 percent, would shrink the economy by an estimated 1.6 percent and fall short of raising the revenue necessary to cover increased spending
- Former President Donald Trump seeks to make the 2017 tax cuts permanent, reduce the corporate tax rate further, and implement higher tariffs. While his tax policies could boost growth, his aggressive tariff strategy would harm the economy and fall short of paying for the tax cuts
- Rather than addressing the projected debt burden, which is unprecedented and unsustainable, both candidates' plans are likely to worsen the US debt trajectory and create a drag on economic growth

The outcome of the 2024 US presidential election will have repercussions for all areas of US policy but perhaps especially fiscal and trade policy. One major issue to be decided is the direction of the US tax code,



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as most of the 2017 tax reforms sunset after 2025. In addition, intersecting fiscal policy and trade and international relations, the next president will decide the direction of the trade war with China as well as ongoing transatlantic spats and the proliferation of protectionist industrial policies. Overarching all of this is an increasingly unsustainable and dangerous federal debt trajectory, and a debt ceiling negotiation scheduled to occur early in 2025. Each area gives the next president a significant opportunity for reform and the potential for a major course change in US policy.

We first lay out the policy environment the next president will inherit before moving to a discussion of the two leading candidates' proposals and the estimated effects they would have on the US economy, federal budget, and policy direction.

## POLICY LANDSCAPE

In 2017, then-President Trump signed into law a major rewrite of the US tax code. The law, the Tax Cuts and Jobs Act (TCJA), permanently reduced the corporate income tax rate from 35 percent to 21 percent, transformed the international rules from a worldwide system to a hybrid territorial system, and temporarily restructured and reduced individual and estate taxes.

Most of the changes expire after 2025, and several business provisions related to investment costs, including deductions for research and development (R&D) expenses and investments in machinery and equipment, expire over the same period. The scheduled changes set the next US president up to influence major tax legislation.

We estimate continuing all the individual, estate, and business tax changes that are otherwise set to expire would reduce federal tax revenue by USD 4.2 trillion from 2025 through 2034, worsening a currently projected deficit of USD 22 trillion over the period and a debt-to-GDP ratio that will exceed its all-time high within the next three years.

The economic and political impacts of letting the TCJA expire add further challenges. Our estimates indicate that allowing the indi-

vidual tax cuts to expire would increase tax burdens for more than 62 percent of US taxpayers and lead to a reduction in GDP as people adjust to higher marginal tax rates on work, saving, and investment.

In his first term, Trump also instigated a trade war by imposing new tariffs (taxes) on imports of washing machines and solar panels (Section 201), steel and aluminum (Section 232), and billions of dollars' worth of consumer, intermediate, and capital goods from China (Section 301) throughout 2018 and 2019. Based on pre-trade war levels of trade, the new tariffs applied USD 80 billion of taxes a year on USD 380 billion of imports. Foreign retaliation currently applies to billions' worth of US exports, amounting to approximately USD 13.2 billion in tariff revenues for foreign governments.

The Biden administration has made minimal adjustments to the tariffs, maintaining all the Section 301 tariffs on China, imposing higher tariffs on certain Chinese goods, and expanding the scope of the Section 232 steel and aluminum tariffs to cover certain imports from Mexico. Biden and Harris have also overseen the implementation of several protectionist industrial policies in the Inflation Reduction Act (IRA) and the Creating Helpful Incentives to Produce Semiconductors (CHIPS) and Science Act; these policies have inspired other countries to adopt protectionist policies of their own.

The next occupant of the White House will have to address the expiring tax changes under the TCJA, while dealing with massive debt levels and simmering trade tensions.

### HARRIS'S TAX PROPOSALS

The Biden administration's fiscal year 2025 budget outlines a tax policy vision of additional taxes on high earners and US businesses offset by more tax credits for a variety of taxpayers and activities. VP Harris's campaign has confirmed she will support all the tax policies included in the FY 2025 budget with some revisions (to capital gains taxes, as noted), including these major changes:

- Expand the base of the net investment income tax (NIIT) to include nonpassive business income and increase the rates for the NIIT and the additional Medicare tax to reach 5 percent on income above USD 400,000
- Tax long-term capital gains and qualified dividends at 28 percent (as opposed to 39.6 percent as in the budget) for taxable income above USD 1 million and tax unrealized capital gains at death above a USD 5 million exemption
- Create a 25 percent "billionaire minimum tax" to tax unrealized capital gains of high-net-worth taxpayers on an annual basis

The budget proposes working with Congress to address the upcoming expirations of the TCJA, outlining three policy goals: opposing tax increases on people earning less than USD 400,000, opposing tax cuts or larger deductions for people earning more than USD 400,000, and paying for the partial tax cut extension with additional tax increases on high-income taxpayers and corporations.

Harris has proposed further expanding several Biden administration initiatives. While the budget would temporarily boost the child tax credit, she would permanently expand it and raise it further to USD 6,000 for newborns. To address housing affordability, she would increase the budget's proposed first-time homebuyer's tax credit to USD 25,000 and attempt to cap rents by threatening disallowance of certain depreciation deductions. Harris would expand the use of price controls across several sectors, most notably by accelerating the speed of Medicare negotiations for prescription drug prices (part of the IRA, also enforced through tax measures) and banning certain price increases for food and groceries.

Lastly, Harris supports ending taxes on tips for service and hospitality workers, an idea originally pitched by Trump on the campaign trail.

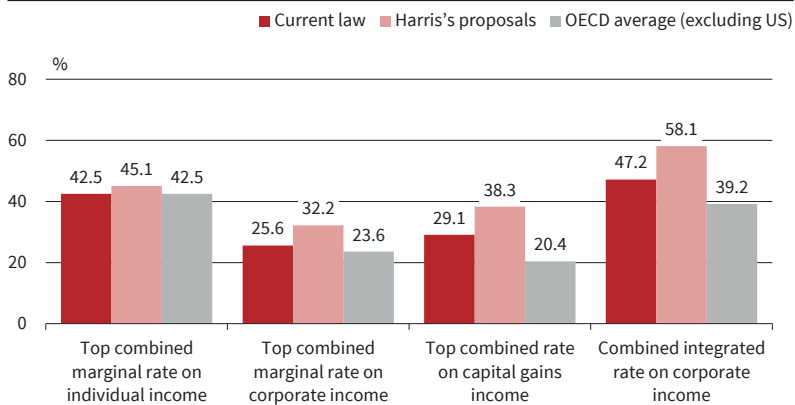
### TRUMP'S TAX PROPOSALS

Former President Trump has not released a fully detailed tax plan as part of his current bid for reelection, but he has floated several tax and tariff policy ideas.

On taxes, he has made it clear he seeks to extend the expiring TCJA changes and further reduce the corporate income tax rate. Additionally, he's proposed exempting tip income and Social Security benefits from individual income taxes, expanding education savings accounts, and rolling back the IRA's green energy tax credits.

He would also significantly expand barriers to trade on several fronts, suggesting "reciprocal tariffs," imposing a 10 percent or higher universal baseline tariff on all imports, revoking permanent normal trade relations (PNTR) with China, and raising current tariffs on China to at least 60 percent.

Figure 1

**Top Tax Rates under VP Harris's Proposals Would Reduce US Competitiveness**

Note: Estimates include average state top marginal income tax rates and average top local income tax rates, calculated as an average of local rates imposed in the two highest population jurisdictions.

Source: State and local tax statutes; OECD Statistics 2022–2023; Bloomberg Tax; PwC Worldwide Tax Summaries; authors calculations.

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While he has discussed the idea of fully replacing the individual income tax with higher tariffs, such a combination of policies is mathematically impossible at current income tax revenue levels. The most likely direction of tax policy under Trump would be permanence for the 2017 tax cuts, further income tax reductions, and significant import tax hikes.

## POLICY CONCLUSIONS

### Comparing Top Tax Rates and Tax Types

Under Harris's proposals, top tax rates in the United States would rise far above international norms (Figure 1).

The current top combined corporate tax rate – including the average of state rates – is 25.6 percent. Harris would increase it to 32.2 percent, the second-highest corporate tax rate in the OECD (behind Colombia's 35 percent).

The current top combined personal tax rate is 42.5 percent, consisting of the top federal rate (37 percent) and the average of state and local rates. This is about equal to the OECD average. Under Harris, the top combined rate would rise to 45.1 percent before accounting for the proposed 5 percent additional Medicare tax, half of which falls on the employer. Including the employee-side portion would raise the top rate to 47.6 percent.

The current top combined capital gains tax rate is 29.1 percent, consisting of the 20 percent capital gains tax rate, the 3.8 percent net investment income tax (NIIT), and the average of state and local income tax rates on capital gains. By taxing high earners' capital gains at 28 percent and raising the NIIT to 5 percent, Harris's proposals would raise the top tax rate on capital gains to 38.3 percent – the second-highest in the OECD (behind Denmark's 42 percent).

The combined integrated rate on corporate income reflects the two layers of tax corporate income faces: first at the entity level through corporate taxes and again at the shareholder level through capital gains and dividends taxes. Currently, the top combined integrated tax rate on corporate income distributed as capital gains is 47.2 percent. Under Harris's proposals, it would rise to 58.1 percent – the highest in the OECD.

By placing a higher burden on work, saving, and investment, the Harris tax plan would weaken key drivers of US economic growth.

While Trump would maintain or potentially improve the competitive position of the US when it comes to income tax rates, he would move in a harmful direction when it comes to tariffs. Though consumption taxes are typically thought of as less distortionary than income taxes, tariffs are highly distortionary because they are narrowly targeted and invite foreign retaliation. Moreover, they could reduce US output through a few channels.

Tariffs may be passed on to producers and consumers in the form of higher prices. Raising the cost of parts and materials would raise the price of goods using imported inputs and reduce private sector output. Similarly, higher consumer prices due to tariffs would reduce the after-tax value of both labor and capital income.

Alternatively, the US dollar may appreciate in response to tariffs, offsetting some or all of the potential price increase for US consumers. The more valuable dollar, however, would make it more difficult for exporters to sell their goods on the global market, resulting in lower revenues for exporters.

Both channels would lower the returns to labor and capital, reducing incentives for work and investment, resulting in a smaller economy and lower incomes. Foreign retaliation against US-imposed tariffs compounds the drop in output and incomes without raising any additional revenue for the US Treasury.

### Comparing the Macroeconomic Effects

Using the Tax Foundation's General Equilibrium Model, we have estimated the economic and revenue effects of the major tax and tariff proposals of each candidate (Table 1).

For Trump's policies, we modeled making the TCJA individual, estate, and business tax provisions permanent and further reducing the corporate income tax rate to 20 percent. Additionally, we modeled a

Table 1

#### Economic and Revenue Effects of the Major Tax and Tariff Proposals of Each Candidate

	Harris's FY 2025 budget tax proposals	Trump's major tariff and tax proposals
GDP	–1.6%	–0.1%
GNP	–1.3%	–0.4%
Capital stock	–2.7%	0.1%
Pre-tax wages	–1.1%	0.4%
Full-time equivalent employment	–666,000	–121,000

Source: Tax Foundation General Equilibrium Model, June 2024.

tariff increase to lift the average rate of the Section 301 tariffs on China to 60 percent and a separate 10 percent universal tariff on all US imports. We also modeled in-kind retaliation from foreign trading partners on US exports.

The tax provisions would be pro-growth, boosting long-run GDP by 1.2 percent, the capital stock by 1.1 percent, wages by 0.4 percent, and employment by 926,000 full-time equivalent jobs.

However, the tariffs would create a significant drag on the economy. Our model passes tariffs back to the factors of production, such that tariffs reduce the amount of revenue businesses have to compensate their workers and shareholders, resulting in a reduction in real incomes. We estimate US-imposed tariffs would reduce long-run GDP by 0.8 percent, the capital stock by 0.6 percent, and jobs by 685,000.

Further, the potential of retaliation also threatens US economic strength. While retaliatory tariffs are not direct taxes on US exporters, they raise the after-tax price of US goods in foreign jurisdictions, making them less competitively priced in foreign markets. As such, retaliatory tariffs also result in lower US output. We estimate in-kind retaliation from foreign trading partners would reduce US GDP by an additional 0.4 percent. In total, we estimate these proposals from Trump would reduce GDP by 0.1 percent, raise wages by 0.4 percent, and eliminate 113,000 jobs.

If Trump pursued further tax cuts, such as the proposal to exempt Social Security benefits from income taxes, we estimate it would be somewhat pro-growth (increasing long-run GDP by 0.1 percent).

For Harris's policies, we modeled the major tax proposals described in the FY 2025 budget, excluding the novel minimum tax on unrealized capital gains, an undertaxed profits rule (UTPR), and unspecified R&D incentives. Because the budget does not specify or account for TCJA extension, we excluded that from our analysis. We also exclude her recently proposed top tax rate on capital gains and dividends (which differs from the budget).

We estimate the tax changes in the budget would reduce long-run GDP by 1.6 percent, the capital stock by 2.7 percent, wages by 1.1 percent, and employment by about 666,000 jobs. The budget would decrease American incomes (as measured by gross national product, or GNP) by 1.3 percent in the long run, reflecting offsetting effects of increased taxes and reduced spending, as debt reduction reduces interest payments to foreign owners of the national debt.

Raising the corporate income tax rate to 28 percent is the largest driver of the negative effects, reducing long-run GDP by 0.6 percent, the capital stock by 1.1 percent, wages by 0.5 percent, and jobs by 128,000.

Our economic estimates likely understate the effects of the budget since they exclude two novel and highly uncertain yet large tax increases on high earners and multinational corporations.

Harris's additional proposals that go beyond those mentioned in the budget, including a larger child tax credit, increased subsidies for housing, an exemption for tip income, and partial TCJA extension, would reduce revenue substantially and have an uncertain but likely small positive effect on economic output.

### Comparing the Revenue Effects and Fiscal Impact

Both candidates are still rolling out new policy ideas, making it impossible to produce a precise calculation for how they will impact the budget deficit. As it stands, both candidates' policy proposals would worsen the debt trajectory.

On a gross basis, we estimate the proposals specified in the FY 2025 budget would increase taxes by about USD 4.2 trillion over a decade. After accounting for tax credits, spending changes, and the economic effects of the tax increases, the net effect would be to reduce deficits by USD 1.4 trillion over a decade.

However, Harris's additional ideas would more than offset this deficit reduction. For instance, continuing the TCJA for people making under USD 400,000 would cost about USD 2.5 trillion over a decade, further CTC expansions would cost about USD 1 trillion, and housing subsidies and the tip exemption would add more than USD 200 billion. In total, her policies would add more than USD 2.3 trillion to deficits over a decade.

The fiscal picture under Trump's proposals is similarly bleak. The combination of permanence for the 2017 tax cuts, a 20 percent corporate tax rate, universal tariffs of 10 percent, and 60 percent tariffs on Chinese imports would add USD 1.6 trillion to the deficit over the next decade. Tacking on the exemptions for tips and Social Security swells the deficit impact to USD 3 trillion or higher. If Trump pursues rolling back all the IRA credits, a difficult lift in Congress, it could reduce the net deficit impact of his policies to USD 2 trillion.

### CONCLUSION

In short, while the specifics are lacking, neither candidate has offered an entirely sound set of fiscal policy reforms. Both would riddle the tax code with carveouts and raise taxes in ways that would add at least USD 2 trillion to deficits over the next decade without improving economic growth.