THE HAMILTON PROJECT

The coming fiscal cliff: A blueprint for tax reform in 2025

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The coming fiscal cliff: A blueprint for tax reform in 2025

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Abstract

At the end of 2025, almost all of the individual, estate, and pass-through provisions of the Tax Cuts and Jobs Act (TCJA) will expire. This looming expiration creates an important opportunity to improve tax policy along multiple dimensions at the same time that TCJA provisions are evaluated for possible extension. In this paper, we suggest four key principles to guide tax policy choices in 2025: first, reforms should raise revenue on net, improving fiscal sustainability; second, reforms should respond to persistent inequalities by increasing the progressivity of the tax code; third, reforms should work to reduce tax-based inefficiencies in the code, and finally, reforms should address global collective action problems such as climate change and tax competition. Using these principles as a guide, we then evaluate possible TCJA extensions and consider a menu of revenue-raising reforms that together have the potential to raise about $3.5 trillion over the coming decade, while improving the progressivity and efficiency of the tax system.

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I. Introduction

Many provisions in the 2017 Tax Cuts and Jobs Act (TCJA) are scheduled to expire at the end of 2025. Policymakers will face significant pressure to extend at least some of the expiring TCJA provisions, and will encounter important fiscal trade-offs. Beyond these trade-offs, the reopening of the tax code in 2025 is also an enormous opportunity to rethink tax policy. In this paper, we describe a menu of promising potential reforms that have the ability to improve the tax code across multiple dimensions.

The first dimension is revenue adequacy. The most recent ten-year budget projections estimate that debt will reach 119 percent of GDP over the course of the next decade, and will increase far more substantially outside the budget window. In addition, the fiscal outlook could be significantly worse if federal spending grows with the economy, and if some revenue-losing features of the TCJA are extended. Furthermore, the coming insolvency of the Social Security and Medicare trust funds makes these fiscal imbalances all the more pressing.

At a bare minimum, policymakers should aim for a revenue-neutral reform. However, given the significant fiscal needs facing the U.S., aspirations should ideally be far loftier. Our message is to use the opportunity of TCJA sunsets to set ambitious revenue-raising targets, given the fiscal needs facing the U.S. today. And it is important to do so in a progressive way, given increased inequality and wealth concentration.

While we do not tackle entitlement reform in this paper, we do believe it is imperative for policymakers to approach the 2025 reform debate with an eye toward raising revenue while allowing more fiscal space for all priorities, including entitlement reform. While there is no magic to any particular revenue target, for the purpose of this paper we focus on a menu of reforms that has the potential to raise net tax revenues (gross revenue increases minus any tax cuts) by around $3.5 trillion, which is enough to cut primary deficits in half over the coming budget decade, stabilizing debt-to-GDP ratios at current levels over the coming decade.[1]

There will be pressure to extend a significant portion of the expiring TCJA provisions. We propose preserving and extending some TCJA provisions, ensuring that, on net, those changes do not contribute to budget deficits. Many of the best features of the TCJA can be extended without adding to deficits at all. However, we also identify areas where extensions are costly and, in our mind, undesirable: e.g., extending pass-through business deductions, estate tax cuts, and individual rate cuts, especially for the highest brackets.

Beyond considering TCJA provisions, this paper introduces a suite of proposals that would involve fundamental changes to many parts of our tax code. While our proposals raise substantial new revenues, we do not see these reforms as mere "pay-fors." We select the reforms with principles of sound tax policy firmly in mind, focusing on changes that would enhance progressivity, improve efficiency, and better align U.S. tax policy with global progress addressing important global collective action problems.

Table 1 overviews the menu of tax policy options that we discuss in this paper. The revenue estimates we offer are based on off-the-shelf estimates relative to a baseline of current law; these estimates are described further below.[2] We do not provide revenue estimates for the full package nor of interactions between the menu items listed in table 1.[3] While political forecasts are beyond the scope of our expertise, we deliberately set aside reforms that might be good policy by other criteria but that are unlikely to be feasible even under the best conditions.

Our goal is not to put forward a singular tax reform package. While adoption of the complete list of reforms would meet the ambitious fiscal goal of halving primary deficits, we recognize that is unlikely to occur. Policymakers might decide to preserve more of the TCJA tax cuts than we recommend, thus decreasing net tax revenues raised. They could decide to subtract from (or supplement) the list of reforms that we offer. And they could dial up or down rates and levels. Instead, our proposal demonstrates that there is a set of revenue-raising tax proposals with the potential to meaningfully address revenue adequacy, while also improving the efficiency and progressivity of the tax code. It is impossible to predict which of the proposals from the menu that we present will rise to the forefront of future tax reform debates. Indeed, there are many worthwhile tax policy reforms that are not on this list but that also merit consideration. However, both deficit-increasing packages, and those that would exacerbate inequality, should be avoided.

It is important to be clear-eyed about the challenge ahead. Given the revenue needs that face the U.S., broad-based tax increases for high—and not just

TABLE 1

Total revenue raisers in proposed menu of options

Proposal	10-year revenue effect (billions)
Raise the corporate tax rate to 28 percent	$1,325
Implement international tax reforms	$500
Restore research and experimentation expensing/refundability	-$300
Capital income proposals	$420
Estate proposals	$250
Corporate carbon fee and border adjustment	$650
Permanent IRS funding	$500
Financial transactions tax	$540
Reform Self-Employed Contributions Act (SECA)/net investment income tax (NIIT)	$300
Expand the Child Tax Credit (CTC)/Earned Income Tax Credit (EITC)/premium tax credits	-$1,075
Tax Cut and Jobs Act (TCJA) extensions[4]	~$0
Other revenue raisers[5]	$400
Net total	$3.5 trillion

Source: Authors' calculations.

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the highest—earners are necessary. While tax increases should—and under our proposed menu, would—be concentrated at the very top, it is impossible to meet the country's revenue goals with a narrow focus on this population to the exclusion of others.[6]

At the same time, we favor substantially more progressivity in the tax code, and the proposals that follow would offer just that: they will significantly increase the taxes borne by the wealthiest and use some portion of that revenue for additional support to the most vulnerable Americans, particularly children who are growing up in poverty. Furthermore, a more equitable tax code is not just one that is more progressive. Even within income groups, the current tax system can exacerbate racial disparities, and reforms can be a tool to ameliorate them (Brown 2021). Any tax reform package should work to create a fairer economy where the gains from economic growth and innovation are more broadly shared.[7]

There are "dials" to all the proposals that we detail in each section to address possible points of compromise. A few are worth highlighting explicitly. As one example, we believe that aligning with important partner countries in setting an appropriate price on carbon is crucial to the existential threat posed by climate change. The corporate carbon fee described below is designed to insulate households from the costs of such a measure. Policymakers may find it attractive to either earmark these revenues for climate change mitigation and adaptation efforts, or to return revenues to households in the form of carbon dividends; we would be wholly supportive of such efforts. As a second example, we understand that allowing the TCJA's individual rate cuts to expire, particularly for the lower tax brackets, might well be untenable. Although such an approach is expensive (a broad extension totals at least $1.8 trillion over a decade), allowing rate increases to expire for at least the top few brackets is a less costly alternative to a broad-based extension.

In the end, we hope that the proposals we offer illustrate our main thesis: There is much to be gained from a thoughtful approach to tax reform in 2025. Failure to take advantage of this opportunity would be an unforced error coming at the expense of future generations.

This paper continues as follows. In section II we lay out the starting point, describing which TCJA provisions are expiring in 2025 and the potential costs associated with extension. In section III we detail the principles that guide our subsequent tax reform proposals. Section IV lays out our suite of proposed tax policy changes and extensions. In this section we detail both an approach to addressing the looming TCJA expirations, as well as changes in key areas of the tax code—including corporate and international taxation, capital taxation, estate taxation, carbon fees, tax administration, and individual tax credits—which together form a useful menu of tax reform options. Section V considers some questions and concerns. We conclude in section VI by considering how this menu of proposals could meet our overall revenue target while adhering to sound tax policy principles.

II. The challenge: Tax policy in 2025

Regardless of the outcome of the 2024 elections, and what party or parties end up controlling the White House and the U.S. Congress, we already know one thing about tax policy in 2025: it will change. If policymakers do absolutely nothing, a large number of tax policy changes that were enacted as part of the 2017 Tax Cuts and Jobs Act (TCJA) will simply expire at the end of 2025, removing nearly every tax law change from the TCJA that directly affects individuals, pass-through businesses, and estates.[8] In addition, some business tax provisions are scheduled for rate increases (or reductions in deductions) beginning in 2026.[9]

There seems to be an inclination on both sides of the aisle to extend at least some of these tax cuts, however. Republican lawmakers often argue for blanket extensions of the 2025 provisions, alongside clawing back other automatic business tax raisers baked into the TCJA that have recently come to pass. Democratic lawmakers often argue for selective extensions of the TCJA tax cuts, alongside extensions of other tax provisions (e.g., expansions of the Earned Income Tax Credit [EITC] and the Child Tax Credit [CTC]) that were part of the 2021 American Rescue Plan (ARP) legislation.

Any broad package of TJCA extensions would be expensive. The latest Congressional Budget Office (CBO) calculations show that extending most elements of expiring provisions would cost $3.1 trillion over the coming decade (2024–33), and other recent estimates are in a similar ballpark (around $3 trillion; Swagel 2023a).[10] Of note, the budget window is a very important determinant of these estimates, since the greater the number of years in the window that occur after 2025, the higher the revenue costs over the ensuing decade. Therefore, if legislation is adopted in 2025 to address these coming tax law changes, the entire budget window will be affected, making the 10-year revenue cost substantially higher than these estimates. A simple extrapolation of the latest CBO budget estimates suggests the cost of extension over the window 2026–35 would rise to $3.9 trillion.

Table 2 considers the main provisions that are estimated to be affected by TCJA expiration, focusing on all those with a revenue consequence that exceeds $25 billion over the period 2024–33; negative numbers indicate provisions that are costly to extend and positive numbers show provisions that raise revenue due to extension.

As table 2 shows, the vast majority of the largest changes affect individual income tax provisions. In two important areas, there are large and opposing revenue effects that affect some of the same populations, basically shuffling tax burdens without having major distributional consequences. First, consider the changes to the bite of the alternative minimum tax (AMT) alongside the more direct TCJA limits on deductions. Since the AMT limits the ability of higher-income taxpayers to fully benefit from their deductions, and the direct limits have a similar consequence, the net effect is relatively small. Extending the less binding AMT costs $1.1 trillion and helps higher-income people to fully use their deductions, but extending the direct limits on higher-income deductions has the opposite effect, and raises $910 billion.[11] The overall effect may be close to a wash for some of these taxpayers, but there are large changes in perception, perhaps because few people understood the AMT, but almost everyone affected perceives the effects of limiting state and local tax (SALT) deductions. It is also important to note that the ultimate fiscal cost of the more generous AMT policy depends crucially on the individual tax rates in place, an issue that is discussed further below.

Likewise, consider the combination of extending the repeal of exemptions—allowing a certain amount of exempt income per family member—with the extension of higher standard deductions and the CTC, likewise affecting those with children. Extending the exemption repeal raises $1.6 trillion, but extending the higher standard deduction and the higher CTC costs (together) $1.6 trillion.

However, despite some reshuffling and relabeling in those tax policy combinations, other extensions more clearly provide tax cuts (in the TCJA, and thus by extending the TCJA). These extensions can be grouped into four categories.

First, the individual tax rate bracket cuts have large revenue consequences, costing $1.8 trillion to extend. These rate changes affect individual taxpayers. Of note, the cost of extending these tax cuts would be even higher (at $2.4 trillion) if the AMT provision were extended first (CRFB 2023c).[12]

Second, the doubling of the estate tax exemption, while affecting only about 2 in 1,000 estates, costs about $125 billion to extend (CBO 2021b). This provision affects only a tiny slice of well-off heirs. There are

TABLE 2

Joint Committee on Taxation estimates of budgetary effects of extending certain revenue provisions (2024–2033)

	10-year revenue effect (billions)
Extend the 2017 TCJA's changes to individual income tax provisions	
10, 12, 22, 24, 32, 35, and 37 percent income tax rate brackets	-$1,810
Modification of Child Tax Credit (CTC): $2,000 not indexed; refundable up to $1,400; $500 other dependents not indexed; phase outs $200,000/$400,000 not indexed	-$604
Increase of the individual alternative minimum tax (AMT) exemption amounts and phase-out thresholds	-$1,088
Modification of standard deduction ($12,000 for singles, $24,000 for married filing jointly, $18,000 for head of household)	-$1,036
Repeal of many itemized deductions	$908
Repeal of deduction for personal exemptions	$1,593
Qualified business income deduction	-$548
Election to invest capital gains in an opportunity zone	-$67
Limitation on excess business losses of noncorporate taxpayers	$137
Increase of the estate, gift, and good and services (GST) tax exemption amount	-$127
Maintain certain business tax provisions altered by the 2017 TCJA	
Additional first-year depreciation with respect to qualified property	-$325
Deduction percentages for foreign-derived intangible income (FDII) and global intangible low-taxed income (GILTI)	-$111

Source: Swagel 2023a, including https://www.cbo.gov/publication/59154.

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also tax cuts for capital income holders that operate through opportunity zone provisions.

Third, two provisions have large effects on pass-through business owners, and together generate a net revenue cost of extension of about $410 billion. The pass-through business income deduction costs about $550 billion to extend; but, extending the limit on excess business losses of pass-through business owners (which affects their ability to offset their ordinary income with business losses) raises about $140 billion. Pass-through income is disproportionately earned by those at the top of the distribution (Page et al. 2020).

Finally, there are provisions that affect corporations, including investment expensing provisions, which cost $325 billion to extend (CBO 2023a),[13] and international tax provisions, the largest of which are upcoming changes to the tax rates affecting low-taxed foreign income and export-income, which together cost about $110 billion to keep at their current levels.

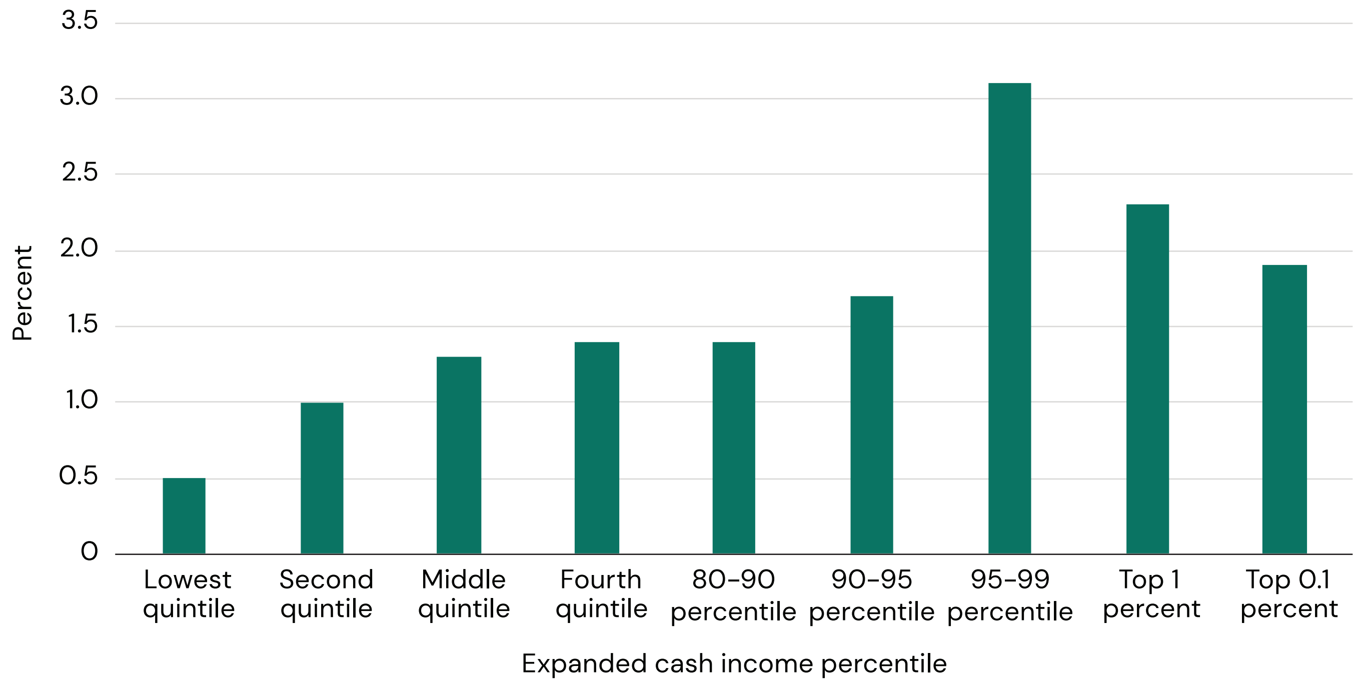
Overall, the post-tax income gains from extending all of the expiring provisions in TCJA would be unevenly distributed just as the gains from enactment of the law were also unequally distributed. Those at the top would benefit much more than low- and middle-income families from extending these tax cuts. (See Figure 1.)

Tax Policy Center (TPC) estimates shown in figure 1 indicate that extending the TCJA individual, pass-through, and estate tax cuts has a regressive effect on the income distribution, since gains from extending the tax cuts at the top of the distribution are generally higher, aside from the top 1 percent of the distribution. In 2026, taxpayers in the top quintile would pay, on average, $7,730 less in tax if these provisions of TCJA were extended, and the top 1 percent would pay, on average, $48,690 less in tax. In contrast, tax cuts in the first four quintiles average $100, $450, $990, and $1,870, respectively.

Figure 1 does not include the distributional effects of maintaining the lower corporate tax rate, which was made permanent in TCJA. If the distributional effects of the cut in the corporate tax rate from 35 percent pre-TCJA to 21 percent post-TCJA were also included in the analysis, the benefits would be even more skewed to higher income households. More generally, the permanent provisions of the TCJA, such as the steep cut in the corporate rate, were more regressive than the temporary provisions, overall (CBO 2021a).

FIGURE 1

Gains in after-tax income from making the TCJA permanent in 2026



Source: Tax Policy Center 2022, table T22-0144.

Note: Analysis considers extending all individual income tax cuts, estate tax cuts, and pass-through business tax cuts. It does not include maintaining prior corporate tax provisions, which would further skew the benefits of extension toward the top.

III. Principles of tax reform in 2025

The opening up of the tax code that will very likely occur in 2025 will take place in a larger fiscal context and comes with enormous risks and opportunities.

First, forecasts for government deficits and debts in the years ahead are large and rising, suggesting the importance of revenue-raising reforms to help move the U.S. toward fiscal sustainability. If we hope for deficits to decrease at the same time that (even portions of) TCJA are extended, that will imply the need for substantial new revenue sources.

Second, there are opportunities to create a fairer tax system that more adequately captures the relative ability to pay of taxpayers, in part by leveling the disparate tax treatment of different types of income.

Third, there are opportunities to make the tax code far more efficient, reducing distortion.

Finally, there are opportunities to work productively with other countries on global collective action problems, preserving American leadership and building closer ties abroad. This section will overview these key tax policy desiderata, setting out principles that will guide our subsequent tax policy reform suggestions.

A. Fiscal stability

On a recurring basis, the CBO issues 10-year budget projections, the most recent of which was issued in May of 2023 (CBO 2023a). The projections are done from a current law baseline rather than a current policy baseline; thus, the projections assume that the TCJA tax cuts that are scheduled to expire (as well as other baked-in rate increases or deduction decreases) actually occur. Under these assumptions, CBO projects that deficits will average 6.1 percent of GDP over the coming decade (2024–33), and that debt-to-GDP will rise from its current level of 97 percent of GDP to 119 percent of GDP in 2033. The recently enacted Fiscal Responsibility Act brings the 2033 debt-to-GDP ratio down to 115 percent, mostly through discretionary spending caps (CBO 2023c). Of course, there are many sources of uncertainty that could affect these forecasts in a negative way, such as unexpected international conflicts, public health emergencies, or recessions, all of which would raise deficits and debts; positive shocks could also take place and would work in the other direction.

In general, these CBO estimates are optimistic forecasts because a current law baseline assumes that the TCJA sunsets actually occur. Indeed, alternative scenarios that adopt a current policy baseline (assuming the extension of expiring provisions), assume growth of discretionary spending with GDP, and account for recent revenue losses would increase the debt-to-GDP ratio to 130 percent of GDP by 2033, and significantly more thereafter (CRFB 2023a).[14]

CBO also does longer-term forecasts, the most recent of which was issued in June (CBO 2023b). Projections farther out are more dire, and get worse over time, but they are also subject to greater uncertainty. Deficits are projected to grow steadily, reaching 10 percent of GDP in three decades (by 2053), when debt reaches more than 180 percent of GDP. Demographic pressures, such as the aging of the population, drive greater spending on Social Security, Medicare, and Medicaid, alongside rising health-care costs, which are generally projected to increase faster than inflation (CBO 2023c).[15] Increasing interest burdens also play an important role in the path of future deficits and debt, as does the time path of policy responses, since delaying policy adjustment creates more adverse macroeconomic consequences (CBO 2023a).[16]

Persistently high debt levels can be dangerous in a variety of ways, such as by limiting the ability of the government to borrow in response to negative shocks, threatening economic growth, and saddling future generations with debts incurred today. The experience of recent recessions highlights these risks; deficits ballooned during the Great Recession and following the onset of the COVID-19 pandemic for two reasons: lower economic activity reduces tax revenues, and mitigating downturns requires additional spending (Dynan 2023). If federal policymakers perceive that the U.S. has less fiscal leeway for additional spending in the future, the government runs the risk of not being able to fully utilize fiscal policy to respond to future downturns (Romer and Romer 2019).

A further concern about persistently high debt levels is their potential impact on government borrowing costs (Dynan 2023). Although generally regarded as more symbolic than substantive (Furman 2023; U.S. Department of the Treasury [Treasury] 2023a),[17]

Fitch's recent downgrade of the U.S.' long-term ratings to AA+ from AAA pointed to a "high and growing general government debt burden" as contributing to its assessment that the U.S. fiscal position was increasingly vulnerable to future economic shocks (Fitch Ratings 2023).[18] In addition, recent upward revisions to the current projected budget deficit have highlighted the role of rising interest costs, clouding the upcoming fiscal outlook (Stein 2023).

The tangible consequences of high debt loads are not fully knowable, and the lack of consensus on the threshold or projected trajectory at which debt reaches a harmful level lessens the political appetite for tackling this issue. Thus, we advocate for a rules-based approach to revenue raising around the 2025 debate. At the very least, any TCJA extensions must be paid for, but beyond that it would be ideal to achieve meaningful deficit reduction in the years ahead.

The need for revenue-raising that we identify understates the issue, because there is a large appetite for undertaking further public investments, such as expansions of the social safety net, that would require new government spending. Many policymakers will be tempted to spend any revenues raised on such fiscal priorities. While such priorities are important, returning to a more fiscally sustainable path is an important step to take alongside such objectives, which means additional tax revenue is critical. In short, it would be a mistake to ignore the looming fiscal gap and make new investments without identifying adequate funding to support them.

B. Distribution

In recent decades, income inequality has increased. Although researchers disagree about the extent of that increase, income growth has unquestionably been higher at the top end of the distribution, driving increased inequality (Auten and Splinter 2023; CBO 2021a; Saez and Zucman 2020).[19] Researchers also disagree about the extent to which the tax system is effective at reducing inequality, but the federal income tax system is progressive overall, acting to reduce inequality, while other taxes (including the payroll tax system and many state and local taxes) have more varied, and sometimes regressive, effects.[20]

Decades of high and rising levels of inequality suggest that the U.S. federal income tax system should become more progressive, in response to changes in the economy that have the potential to benefit everyone (since they provide net gains for the economy as a whole), even as they create winners and losers. For example, forces such as technological change, rising market power, declining unionization, and international trade may act to increase before-tax income inequality, but the tax system is a powerful lever to help buoy those that are impacted by negative economic shocks while asking more from those that have been especially benefited by these same forces.

In recent decades, however, our tax system has often made changes that have worked in the opposite direction. For example, the TCJA provided much larger relative after-tax income gains at the top of the distribution than at the bottom, reducing the progressivity of the federal tax system. The corporate, pass-through, and estate provisions had particularly regressive consequences.[21] While capital income is far more concentrated than labor income, it is also more lightly taxed, and tax policy changes over prior decades have reduced capital taxation relative to labor taxation, including large cuts in top dividends and capital gains tax rates as well as rising estate tax exemptions, more generous preferences for tax-preferred savings, and other special provisions and loopholes, such as opportunity zones, that benefit earners of capital income at the top of the distribution.

While we firmly believe that the tax system would benefit from changes in law that enhance progressivity by raising substantially more revenue from the wealthiest individuals and the most profitable corporations, we do not believe that tax changes should be limited to only the universe of very top earners. More generally, while thresholds to govern tax changes may be attractive from a political perspective, we do not view them as particularly useful barometers for policy evaluation for several reasons. First, tax law changes should be considered as a package, taking into account the combined effect of all provisions, as well as the spending or deficit reduction that they finance. This holistic view will often allow a balancing of multiple considerations in designing a progressive tax reform package, as we set out to do in this paper.[22] Second, there may be other goals beyond revenue that justify tax burdens that fall more broadly. For example, a tax on cryptocurrency mining aims to rein in excessive electricity use, and a tax on cigarettes is part of a strategy to deter smoking.

Furthermore, setting particular tax thresholds often has the result of leading to hard-to-defend conceptual claims. For instance, the corporate tax is clearly a very progressive tax, but that does not mean there will be no burden on lower-income people. Even if the tax fell solely on shareholders (and research suggests it may also fall to some extent on regular returns to capital and labor), there are some shareholders in lower- and middle-income groups. So, such a rules-based approach to taxation, if taken literally, implies that it would be very difficult to raise almost any tax, beyond those that were narrowly targeted through the individual income tax system at the very highest earners. And, of note, there just is not enough income held by that group to meet coming revenue needs within reasonable tax policy parameters.

While a precise distributional analysis is outside the scope of this paper, our broad objective in the menu outlined below is to increase the progressivity of the tax system by raising substantially more revenue from those with the highest ability to pay, in part to fund additional support for those at the bottom in the form of more generous tax credits. The overall effect of the menu (taken as a whole) will be to substantially decrease inequality.

C. Efficiency

Both revenue and progressivity are important tax policy desiderata, but we also seek to achieve revenue and fairness objectives while avoiding unnecessary distortions and inefficiencies. In many cases, we focus on tax bases that are relatively efficient, or on tax instruments that reduce existing distortions between types of income. This allows more revenue potential without resorting to excessively high tax rates. For example, the treatment of capital and labor income are not aligned, leading to a strong incentive to earn capital income relative to labor income. Likewise, the tax treatment of foreign and domestic corporate income maintains large distortions that favor earning income offshore. Furthermore, a large tax gap means that there are important policy interventions that can raise revenue even without raising tax rates at all.

Of course, nearly every tax comes with some distortion, beyond head taxes (which are undesirable for fairness reasons) and Pigouvian taxes (which respond to negative externalities, discussed below). While Pigouvian taxes have an important role to play, and we propose expanding their use, they cannot fund the entire government. Therefore, the search for efficient tax instruments often occurs in a world of second-best options, wherein we merely seek to minimize distortion rather than eliminate it. The options we highlight below are provided with that spirit in mind.

D. Preserving American leadership in an interconnected world

At present there are at least two important arenas where working alongside other countries can improve tax policy outcomes relative to going it alone; these are areas where important policy spillovers make policy choices interdependent. In international tax, many important partner countries are in the process of adopting corporate minimum taxes; this gives the U.S. a chance to more effectively collect tax on mobile multinational income, without sacrificing the competitiveness of U.S. multinational firms.

Tax policy reforms can also provide the multinational corporate community with a more certain and stable tax environment, a more stable international trading environment (with fewer trade conflicts originating from tax disputes), and reduced administrative and compliance burdens. Likewise, with respect to climate policy, the reforms we suggest below have the potential to reduce harmful policy competition, while helping governments better tackle the enormous global collective action problem of climate change. Success in global coordination in these arenas can help lay the groundwork for needed cooperation to address other policy challenges in a deeply interconnected world.

IV. Proposed tax policy changes and extensions

Our proposal is summarized in Table 3. This section of the paper will discuss two types of changes in tax law. First, we consider which of the TCJA expiring provisions should be extended. Second, we suggest a menu of additional revenue raisers that are compatible with the principles described just above.

A. What to do about TCJA

Our starting point is that it would be a mistake to extend the TCJA in its current form. There are, however, areas where extensions are worthy of consideration, which we describe below. While we offer one potential path for the TCJA extenders, the political process will determine which policies are ultimately adopted. Policymakers may well choose to extend expensive elements of the TCJA such as the rate cuts and the pass-through business deductions (called the 199A deduction). Even extending TCJA rate cuts just for the lower brackets is very expensive, in part because the lower brackets affect all taxpayers.[23] Such choices would come at the expense of deficit reduction, unless other sizable revenue raisers or spending cuts are identified.

As discussed above, many of the corporate tax changes in TCJA are permanent, so they will not automatically expire, although there is pressure to undo some of the automatic corporate revenue raisers that were included within TCJA, including the change to R&E amortization, the phasing out of expensing, tighter interest deduction limits, increases to the tax rate on foreign income (global intangible low-taxed income [GILTI]), and reductions to the generosity of the deduction for excess profits derived from export income. In the next section, we suggest several reforms to corporate tax policy, but we do not deviate from current law forecasts for business revenues in this section.

In terms of TCJA extenders, we first suggest extending the combination of higher standard deductions, exemption removal, and a more generous CTC.[24] This combination of policies is approximately revenue neutral and distributionally neutral. For example, it will have positive effects for low-income taxpayers for whom the increased generosity of the tax credit has helped address food insecurity and child poverty, although the elimination of personal exemptions works against these benefits.[25] On net, we view the higher standard deduction as a useful policy that simplifies tax paying for a group of people that no longer itemize, and that reduces the distortions associated with the home mortgage interest deduction, since fewer taxpayers itemize. While the higher standard deduction reduces the incentive for charitable giving for those that no longer itemize, we find the overall policy stance to be an improvement relative to pre-TCJA law.

Second, we suggest some revenue-neutral version of extending the SALT/AMT changes, or even a revenue-increasing version. The AMT is a non-transparent way to claw back tax preferences; even though it affects many of the same people that the SALT cap affects in a less salient fashion (and therefore one could argue is a preferred way to accrue revenue with less fuss), the tax code should ideally operate in a way that ordinary individuals can understand. A widely binding AMT never passed that test. As a result, we propose extending the higher AMT exemption amount, or even repealing the AMT entirely (since the AMT raises very little in combination with our other proposed changes).

The SALT cap, on the other hand, has frustrated some high earners in high-tax states who have seen their overall income tax rates go up by a large margin as a consequence, by as much as 4 percentage points. Removing the SALT cap, however, would be highly regressive, and it is hard to defend expending revenue on a tax benefit where 80 percent of the gains accrue to the top 5 percent of earners, while just 4 percent of the gains accrue to the bottom four quintiles.[26] Thus, on progressivity and revenue-raising grounds, there are clear reasons to keep the TCJA SALT cap in place, and to also address work-arounds (which we recommend), alongside other limits on itemized deductions. (We would extend home mortgage deduction limits of the TCJA.) If that is deemed to be too heavy a political lift, there are other options available for policymakers to consider, including a more binding AMT.[27,28]

In terms of changes to the TCJA provisions, a significant challenge is grappling with what to do about the TCJA changes to the individual rate structure. We propose allowing most of the temporarily lower tax rates to expire. Extending the tax cuts for the top brackets is expensive, amounting to about 20 percent of the total rate cut cost.[29] Given our significant revenue

TABLE 3

Total revenue raisers in proposed menu

Proposal	10-year revenue effect (billions, unless specified)
TCJA extensions of expiring provisions	~$0
• Extend TCJA higher standard deduction, exemption removal, and a more generous child tax credit	
• Extend a revenue-neutral version of TCJA deduction limits, alternative minimum tax (AMT) provisions, and rate changes, as described in text	
• Other expiring provisions are allowed to expire	
Raise the corporate tax rate to 28 percent	$1.3 trillion
Implement international tax reforms including:	$500
• Stronger per-country GILTI at 21 percent	
• Pillar 2 consistent provisions	
• Repeal the Base Erosion and Anti-Abuse Tax (BEAT), the corporate alternative minimum tax (CAMT) (for GILTI payers)	
• Repeal the foreign-derived intangible income (FDII)	
Restore research and experimentation expensing, make Pillar 2 consistent[30]	-$300
Increase tax rates on long-term capital gains and dividends by 5 percent	$250
Carryover basis for capital gains	$160
Eliminate the carried interest loophole	$10
Return to 2009 estate and gift tax parameters	$250
Corporate carbon fee and border adjustment	$650
Reverse Internal Revenue Service (IRS) funding recission of $21 billion	$260
Permanent mandatory stream of funding to the Internal Revenue Service (IRS) (2031-2035)	$240
Financial transactions tax (FTT) of three basis points applied to most stock, debt, and derivatives transactions	$540
Close Self-Employed Contributions Act (SECA)/net investment income tax loopholes	$300
Expand the Earned Income Tax Credit (EITC) to the American Rescue Plan (ARP) parameters	-$156
Expand the Child Tax Credit (CTC)	-$650
Extend expanded premium tax credits (PTCs)	-$270
Other revenue raisers[31]	$400
Net total	$3.5 trillion

Source: Authors' calculations.

Note: Authors' calculations based on sources detailed in the paper text.

needs, we believe there is no reason to contemplate the extension of the top rate cuts. The case is harder with respect to the lower brackets: Although the lowest tax bracket was not changed by the TCJA, the 15 percent bracket was lowered by 3 percentage points to 12 percent, the 25 percent bracket to 22 percent, and so forth. While it may be tempting to simply extend the second-lowest tax bracket change, so married taxpayers with income below about $100,000 would see no statutory rate increases, even that is very expensive, accounting for nearly 40 percent of the total cost of rate extensions, since it means all taxpayers, even those with higher incomes, see a tax cut.[32]

Keeping the TCJA rate schedule in place for those outside the top two brackets would cost about 80 percent of the total cost of tax rate extensions, reaching around $2 trillion over the budget window 2026–35, which is about 60 percent of the net revenue from the full tax reform menu described below. In short, there are very high opportunity costs associated with blanket TCJA rate extensions.[33] While this return to pre-TCJA law will affect many taxpayers, lowering some after-tax incomes, those same households will benefit from having a federal government that has its fiscal house more in order and that can afford to fund key fiscal priorities with the federal budget on a sustainable path. In addition, many of these households will also benefit from the expanded CTC and EITC proposed below. These households would receive a net tax cut from adoption of the full menu of tax reforms described here. Moreover, for those (few) households

below median incomes without CTC or EITC eligibility, tax increases would typically be very small.

In addition to letting the rate cuts expire, we suggest allowing the expiration of the more generous estate tax thresholds (discussed further below) as well as the opportunity zone capital gains tax preferences (which provide undue preferences for capital income without sufficient offsetting benefits for struggling communities).[34]

Finally, we suggest allowing for the expiration of the pass-through income deduction. Of all the TCJA extension policy calls, one of the easiest is ending the pass-through business deduction. The deduction is highly regressive—the top 1 percent get more than 50 percent of the benefits, and low earners get very little (e.g., Marr and Jacoby 2023). Given its complexity, ending the pass-through deduction would make the tax system simultaneously simpler, fairer, and more efficient.[35]

The TCJA pass-through income deduction was intended, in part, to give something to the pass-through business sector, alongside the large corporate tax cuts. At the time, supporters of the deduction argued it was imperative to ensure tax parity with corporations so that pass-through owners were not disadvantaged. Still, under current policy, pass-through businesses face a lower tax burden than some types of corporate income (Pomerleau 2022). Furthermore, for pass-through businesses there are many hurdles for determining whether one's business income is qualified to benefit from the 20 percent pass-through deduction, and some but not all industries qualify for the deduction; as a result, both complexity and disparate treatment were embedded in the provision.[36]

The discrepancies between the tax treatment of corporate and pass-through business activity distort the choice of organizational form and reduce the business tax base. In the proposals below, we suggest raising the corporate rate, alongside ending the 199A deduction, which should reduce disparities in tax treatment faced by different types of businesses, while raising revenue from capital income (Cooper et al. 2016). Like the corporate tax cuts in TCJA, pass-through tax cuts work to lower the overall tax burden on capital, reducing the progressivity of the tax system.[37]

On net, the overall effect of our TCJA extensions is intended to be approximately revenue neutral. While adding up the extended items from table 2 implies a small revenue loss of about $90 billion from the CBO table, on net there would more likely be a large revenue gain, due to both the interactions between the higher rates and the changes in other provisions, including the AMT, which cost less to extend at higher rates, as well as the later budget window. In fact, using the CRFB calculator (CRFB 2023c) implies that there is enough revenue to maintain revenue-neutrality from the overall TCJA proposal described here but permanently lower the second lowest tax rate in 2026 to about 12.5 to 13 percent from 15 percent, which would be the rate under current law. (The bottom rate is unchanged under TCJA at 10 percent.) That would mean this second rate would rise very modestly from 12 percent in 2025 to its new level in 2026.

B. Reforms beyond TJCA: Key areas

1. Corporate and international tax

Provision	10-year revenue effect (billions, unless specified)
Raise the corporate tax rate to 28 percent	$1.3 trillion[38]
Implement international tax reforms, including: • Stronger per-country GILTI at 21 percent • Pillar 2 consistent provisions[39] • Repeal the Base Erosion and Anti-Abuse Tax (BEAT), the corporate alternative minimum tax (CAMT) (for GILTI payers) • Repeal foreign-derived intangible income (FDII)	$500[40]
Restore research and experimentation expensing, make Pillar 2 consistent	–$300[41]

Corporate tax provisions play an important revenue-raising role in our package; corporate tax increases have large revenue potential, generate a more efficient and competitive playing field, help achieve key progressivity goals, and better align our tax system with changes being pursued in the rest of the world, thus reducing the pressures of tax competition and profit shifting.

Beyond these reasons, 2025 comes during an important time for compromise in corporate tax. While the major corporate tax cuts in TCJA, including the reduction in the domestic statutory tax rate from 35 percent to 21 percent, were permanent, the TCJA also embedded five corporate tax increases that take place over the period 2022–27; these provisions are already generating discontent in the business community as well as Republican proposals for policy change. Starting in 2022, interest deduction limits have become more binding. As of 2023, R&E expenses can no longer be expensed and must instead be amortized. Beginning in 2023, investment expensing provisions are being phased out, which will continue in steps over five years. Finally, in 2026, the GILTI rate (affecting the foreign income of U.S. multinational companies) increases and the foreign-derived intangible income (FDII)

deduction rate, which provides a subsidy to excess profits from export income, is reduced.

Furthermore, tax policy developments in the rest of the world have simultaneously lowered the pressures of tax competition and threatened to subject U.S. multinational companies to multiple, inconsistent regimes. Many important countries in the world economy have recently moved toward adopting a global agreement on minimum corporate taxation (OECD 2021). This agreement is a very important step toward addressing a longstanding global collective action problem. In particular, the pressures of tax competition and profit shifting made it very difficult for governments to tax mobile multinational corporate income, reducing the ability of governments to raise revenue in a broad-based and fair manner. In 2021 an agreement by jurisdictions representing about 95 percent of the world economy (including the U.S.) put forward a global minimum tax that would ensure that multinational income faces some minimum amount of taxation, regardless of where it is reported.[42] To help adopting countries defend their tax bases from tax base erosion pressures from non-adopting countries, the agreement also included an under-taxed profits rule that applies minimum taxes to multinational companies headquartered in non-adopting countries, that themselves lack adequate minimum taxation, when they serve adopting country markets.

The fact that major world economies including Canada, the European Union (EU), Japan, South Korea, and the United Kingdom are moving forward to implement this regime has two important consequences for U.S. corporate tax policy. First, and most important, this agreement removes a key constraint that has long made it difficult to tax the foreign income of U.S. multinational companies. U.S. multinational companies and their lobbyists often strenuously objected to tax burdens on foreign income, citing worries of the pressures of competition from peer companies in more lightly taxed jurisdictions. (These pressures might be particularly relevant in cross-border merger and acquisition bids.) While these competitiveness concerns were both poorly defined and exaggerated, they made it difficult for U.S. policymakers to contemplate higher taxes on foreign income of U.S. multinational companies.[43] However, the movement abroad to impose minimum taxation on almost all mobile multinational income makes it far easier for the U.S. government to tax the foreign income of U.S. multinational companies without risking such competitiveness concerns.

Second, current U.S. law is not well aligned with what the rest of the world is doing, and subjects U.S. companies to a hodge-podge of overlapping and inconsistent minimum taxes. The TCJA introduced the GILTI (a globally-blended tax on the foreign income of US multinational companies at about 10.5 percent) and the Base Erosion and Anti-Abuse Tax (BEAT), which is an add-on minimum tax that applies when there are excessive tax base erosion payments. The Inflation Reduction Act (IRA) introduced CAMT, a corporate AMT that falls on the global book income of large companies. In addition, foreign governments may now levy under-taxed profits rule taxes on U.S. multinational companies, if those companies face insufficient tax burdens. Therefore, tax reform presents an opportunity to consolidate a hodgepodge of minimum taxes into one minimum tax regime that is consistent with what the rest of the world is doing, thus increasing the stability and certainty of international tax rules while also reducing compliance costs for multinationals themselves.

The policy environment in 2025 thus provides an opportunity to create a business tax system that is better suited to the challenges of a modern global economy, and that meets key business community desiderata, even in the context of revenue-raising reforms. While we are not naïve about garnering business support for any revenue-raising business tax package, the broken nature of the status quo means that the following package of business tax reforms can simultaneously improve a healthy competitive business environment while raising revenue and building a fairer tax system.

With this starting point in mind, we propose the following changes to the U.S. corporate and international tax system. We suggest a corporate rate of 28 percent, with a 25 percent deduction for GILTI income, generating a 21 percent GILTI rate. GILTI would also be reformed to operate on a country-by-country basis; it would also end the exemption of the first 10 percent return on foreign assets.

Of course, the choice of any tax rate is arbitrary. A 28 percent corporate tax rate is midway between current law and the pre-TCJA rate. The TCJA corporate tax cuts were permanent, but this proposal would reverse half of the 14-percentage-point cut in place since 2018; together with the proposals that would broaden the corporate tax base, this package furthers key tax policy desiderata described below. Likewise, we suggest a GILTI rate at 21 percent in order to balance competing objectives, but this is also a policy dial.

Alongside these reforms, we suggest returning to R&E expensing, instead of the TCJA's required amortization; we also suggest a small redesign of R&E credits in order to make them more effective in the context of global minimum tax rules.[44] Both changes should help encourage research and development, and the associated positive spillover effects for the broader U.S. economy.

This combination of corporate and international tax policy changes would achieve four key objectives. First, it would raise revenue. The United States (U.S.) consistently raises less corporate tax revenue than our trading partners, despite having corporate sector

profitability that is the envy of the world.[45] Since the TCJA, corporate tax revenues as a share of GDP have fallen farther, reflecting lower statutory rates as well as inadequate base protection.[46]

Second, the corporate tax is an important part of taxing capital income, which is typically untaxed at the individual level by the U.S. government.[47] Taxing capital income is an important part of a progressive tax system, since capital income is far more concentrated at the top of the income distribution than is labor income.[48] In recent decades, governments have shifted tax burdens away from capital income and toward labor income or consumption, making the tax system less progressive.[49] Raising corporate tax rates will therefore provide a progressive source of revenue.[50]

A third key objective is that these changes will help strengthen the competitive structure of the U.S. market. Under current law, U.S. multinational companies pay much lower average tax rates than smaller domestic companies pay.[51] At the same time, recent decades have been characterized by rising market power of large businesses, and a great degree of concentration is evident in the U.S. corporate tax base. For example, 2019 data from the IRS indicate that fewer than 2,000 companies, which is fewer than 0.5 percent of 500,000 U.S. corporations, account for 87 percent of the U.S. corporate tax base.[52]

The current tax system benefits larger, multinational companies relative to smaller firms by imposing lighter taxes on economic rents—or profits above the normal return to capital—than on regular returns. In contrast, economic theory suggests that taxing rents is less distortionary than taxing the normal return to capital, since rents taxation is less likely to alter decisions regarding capital investment, employment, or other economic activity. The strong case for taxing economic rents has been emphasized by many scholars; absent international tax reform, however, the international mobility of the tax base makes it difficult to tax rents (Avi-Yonah 2020; Clausing 2023a; Fox and Liscow 2020; Furman 2020; Furman and Orszag 2018).

The fourth and final key objective is that these reforms will better align the U.S. system of corporate taxation with what the rest of the world is doing, and will allow corporate tax revenue collection without excessive fears of tax base erosion or a deterioration in competitiveness. Under the TCJA status quo, our tax system incentivizes *all* foreign income relative to domestic income. In particular, because of the GILTI's structure, foreign income receives a 50 percent deduction relative to domestic income, and tax credits from higher-taxed income earned abroad offset tax due on low-tax income abroad; this structure generates a preference for both types of income relative to U.S. income (Clausing 2020).

In contrast, under the proposed per country GILTI, there would no longer be a tax incentive favoring high-taxed foreign income, and the tax rate on low-taxed foreign income will be much closer to that faced by domestic income (at three-fourths of the domestic rate, rather than one-half of the domestic rate). Furthermore, the elimination of the exemption for the first 10 percent return on foreign assets would eliminate the incentives for the offshoring of physical assets that are baked into the current GILTI structure.

In addition, because foreign countries are moving forward with minimum taxation, this stronger taxation of foreign income will not come at the expense of the competitiveness of U.S. multinational firms in global merger and acquisition bids, since the differential between the lowest tax rate abroad and U.S. tax treatment of foreign income is actually shrinking. Under our proposal, the differential would be 6 percentage points (21 percent relative to the global minimum of 15 percent), far lower than the differential under TCJA prior to the implementation of the global tax agreement (10.5 percent relative to a global minimum of 0 percent).

This package of reforms thus makes a corporate tax system that is more fit for purpose: it raises revenue in a progressive fashion, and it reduces the tilt in the playing field that favors large multinational companies relative to smaller domestic ones, and foreign activity relative to domestic activity. It also has something to offer the business community. By better aligning the U.S. tax system with what the rest of the world is doing, U.S. corporations will avoid a hodgepodge of complex and inconsistent minimum tax regimes. Furthermore, by providing stronger incentives toward research and development, while taxing above-normal profits more heavily, these reforms also generate a corporate tax system that is better suited toward long run economic growth and vibrant market competition.

Dials. The clearest dials for the above proposals are the rates, both the headline corporate rate and the GILTI rate, which is determined by the headline rate and the percentage deduction for foreign income. While corporate tax increases are more popular than most tax increases, they are also opposed by the business community (Gallup 2023). Depending on revenue goals, policymakers may be wary of raising corporate tax rates as high as those proposed here.

Another policy dial is the GILTI deduction share. The larger the GILTI deduction, the greater the tax distortion favoring lightly taxed foreign income relative to U.S. income, but the closer the U.S. rate is to the lowest rate abroad, which is now 15 percent for most multinationals.[53] At minimum, a GILTI rate of 15 percent and a country-by-country reform would ensure alignment with the international tax agreement, and would also ensure that U.S.–based multinational companies do not face under-taxed profits rule taxes abroad. (And, as the proposal suggests, CAMT and BEAT could be turned off for GILTI payers, subjecting

U.S. multinational companies to more-consistent and more-certain tax regimes throughout the world.) Another point of compromise is the FDII deduction: while this tax preference has multiple flaws, one could also undertake a revenue-neutral reform of FDII, rather than simply repealing it.[54]

An additional reform worth careful consideration would be reforming the corporate tax base as a whole, pairing more-generous treatment of investment expenditures with stricter interest deductibility limitations. This would reduce the distortion between debt-financed investment and equity-financed investment, lowering tax-system subsidies to the former and the possibility of double-tax on the latter.[55] Reducing the distortion favoring debt-financed investment would also reduce corporate leverage, which would otherwise be encouraged by the higher corporate tax rate, reducing macroeconomic fragility.

2. Reforming taxation of capital income

Provision	10-year revenue effect (billions)
Carryover basis for capital gains	$160[56]
Increase tax rates on long-term capital gains and dividends by 5 percent	$250[57]
Eliminating the carried interest loophole	$10[58]

Reforming capital gains taxation is an issue that has received substantial attention from policymakers and academics in prior tax reform debates. Past literature in economics has emphasized that preferential rates for capital income may be justified to encourage investment and entrepreneurial activity; however, more recent literature has also pointed to reasons for harmonizing capital and labor tax rates.[59] Under current law, capital income is tax preferred, and the tax incentives provided to capital income are also structured such that they allow much capital income to escape taxation.

These tax preferences are also regressive. At higher levels of income, capital income becomes more important relative to labor income (Treasury 2022), and, at the very top, capital income is the dominant source of income. For example, wages and salaries that are taxed at ordinary rates make up less than 10 percent of the income of the top 0.001 percent, while capital gains and dividends make up more than 70 percent (Batchelder and Kamin 2019).

An important driver of these differences is the tax preferences that capital income receives; in 2019, about 40 percent of the wealth of the top 1 percent was in the form of unrealized capital gains (Bricker et al. 2020, tab. B). At death, gains that are passed to heirs receive a "step-up" in basis, so they are never taxed. In addition, when appreciated assets are donated to charity, the gains are untaxed and the donor receives an income tax deduction for the fully appreciated value of the donated asset.

This opportunity to escape capital gains taxation altogether is one that is enjoyed disproportionately by those at the top of the income distribution. That is because a high share of income at the top comes in the form of capital gains; for example, those with ownership stakes in large corporations benefit in the form of capital gains income, which vastly outpaces their relatively small labor compensation that is immediately taxed. In addition, well-off individuals can avoid realizing capital gains while still meeting their consumption needs, for example through the use of derivatives (Stiglitz 1983) or by borrowing against shares that have accumulated in value.

The status quo is both unjust and inefficient. Only high earners are able to take advantage of preferential tax rates that, in many cases, afford them the opportunity to postpone or delay taxation indefinitely; it is why, as former president Obama famously noted in his 2012 State of the Union address, "Warren Buffet pays a lower tax rate than his secretary" (Obama 2012, timestamp 45:33).

This disparate tax treatment is also inefficient, since it distorts economic choices in favor of activities that generate tax-preferred capital income. Furthermore, it can "lock-in" investment choices in order to avoid realizing gains and triggering taxation, reducing optimal portfolio reallocation. For example, entrepreneurs are discouraged from selling ownership stakes, and will instead bequeath assets to family members in order to avoid tax liability; that might not be the most economically efficient use of their funds, however.

Therefore, improving capital taxation comes with the potential of significant revenue gains at the same time that it has the potential to increase efficient capital allocation as well as the progressivity of the tax system. We propose overhauling the taxation of capital gains through the following policies, which official estimates suggest would generate about $420 billion in additional tax revenue over the next decade.

a. Carryover basis

A driver of the lock-in of unrealized capital gains is the fact that, under the tax code today, inheriting an asset wipes out any unrealized gain on that asset that has accumulated during the donor's life. So, shares of founders' stock that have appreciated from nothing to much higher levels over the founders' lifetimes will have taxes on those gains entirely wiped out if founders pass those shares to an heir, or to a charity, rather than realizing the gain during their lifetime.

An important step toward reducing capital income tax preferences would be the introduction of carryover basis, such that taxpayers would adopt the adjusted basis of the decedent on assets that they inherit. As

a result, the decedent's unrealized capital gains would eventually be taxed at the heirs' tax rate upon a future sale. This approach would raise substantially less revenue than proposals that would require realization at death because lock-in effects would persist across generations. However, lock-in effects should be substantially reduced relative to the status quo, since it would no longer be possible to completely avoid capital gains taxation; this would improve the efficiency of capital allocation. CBO has estimated a 10-year score of $156 billion (CBO 2022b).

b. Increasing tax rates on capital gains and dividends

Raising rates on capital gains and dividends would work to lessen the tax advantage that accrues to financial income relative to labor income. But it is important to pair this reform with broader policy changes because, in the absence of changes to the realization regime which allow untaxed gains to escape taxation indefinitely, a higher capital gains rate alone will increase incentives to lock in gains and avoid taxation.

In the past, because of lock-in, JCT and Treasury have assumed that the revenue-maximizing capital gains rate is around 30 percent (Gravelle 2021).[60] But experts at the Penn Wharton Budget Model have suggested that the revenue-maximizing rate rises to over 40 percent if stepped-up basis is repealed, which would eliminate the incentive to hold gains until death.[61]

In setting the optimal capital gains rate, it is important to consider interactions with the corporate income tax, since corporate income is taxed before after-corporate-tax income (i.e., dividends and capital gains) is taxed at the owner level. Those interactions are beyond the scope of this paper; however, they bear on the optimal capital gains rate. Partly for this reason, we offer a moderate proposal to increase the long-term capital gains and dividend rates by 5 percentage points, so the new top rate would be 25 percent, which is well below the top ordinary income rate.

CBO has previously estimated that raising capital gains rates by 2 percentage points would generate an additional $100 billion in revenue over a decade.[62] Because implementing carryover basis will reduce capital gains tax elasticities, a 5-percentage-point increase could generate approximately $250 billion (CBO 2022e).

c. Eliminating the carried interest loophole

Carried interest is a means by which investment managers are compensated based on fund performance, which ties some portion of their pay to the profits that are generated by assets that are under their management. Although management fees that investment managers receive are taxed at ordinary income rates, carried interest is taxed at preferential capital gains rates. Furthermore, carried interest is taxed as income accruing from the partnership, which allows for deferral of these tax payments until the investment is sold, years into the future.

It is commonplace for private equity and hedge fund managers to minimize the share of their compensation that is ordinary income and to maximize carried interest in order to receive this advantageous tax treatment, even though both streams of income are compensation for the same underlying investment management service, and thus should be taxed at ordinary income levels. Proposals to tax the carried interest that general partners receive for performing investment management services have been scored as generating over $10 billion over the course of a decade. A more aggressive approach to carried interest would tax carried interest as ordinary income, but also require that taxes be paid annually on accrued carried interest, essentially impose a mark-to-market tax on carried gains; this would generate more like $60 billion over the course of a decade.[63]

Previous analysis by official scorekeepers has suggested that the reforms to capital income in our package, put together, would raise about $420 billion over the course of the next decade. This estimate is likely conservative because JCT has in the past relied on a realization elasticity of –0.7 (Dowd, McClelland, and Muthitacharoen 2015; JCT 1990). Recent academic work points out that this elasticity may well be overstated (Agersnap and Zidar 2021).

Our view is that the revenue potential of overhauling the tax treatment of capital gains is likely substantially greater than the official estimates we rely on, in part because the rise of pass-throughs and index funds has limited the share of capital gains that are highly elastic to rate changes (Sarin et al. 2021). Still, while the behavioral lock-in effects of capital gains taxation are smaller if capital gains are realized at death (instead of step-up in basis), an important driver of taxpayer behavior in response to changes in capital gains tax rates will be the extent to which taxpayers perceive that any tax changes that are made in the 2025 reform are likely to be undone by later congressional action.

Dials. It is worth noting that the estimates that follow do not include tailoring of the tax base through the use of thresholds: We lay out a menu of options that calls for ending carryover basis, increasing tax rates on long-term capital gains and dividends, and eliminating carried interest for all taxpayers. Because the distribution of capital income is particularly concentrated at the top, this would constitute progressive tax reform. But policymakers may choose to tailor policy changes, e.g. with carryover basis (or even realization of capital gains at death) for only a subset of the wealthiest taxpayers. While the particulars will depend on policy design, generally such approaches, while improvements to the status quo, will lower revenue potential. There

are also other dials; one obvious example would be to increase (or decrease) the rate on long-term capital gains and dividends.

In addition, there are arenas where past proposals are worthy of consideration, since they represent policy improvements, despite potential political and legal challenges.

Ending the tax advantage for charitable giving

One approach to increase revenues would be to consider eliminating some or all of the tax advantage associated with charitable giving. Individuals are currently able to shield themselves from capital gains liability through charitable giving. The tax code incentivizes the donation of an appreciated asset—such as a share of stock—in the following manner: Those who donate appreciated shares are able to escape capital gains taxation, and receive a deduction equivalent to the full value of that share, despite not paying tax on the gains. From a taxpayer's perspective, that is of course advantaged relative to selling the asset, paying capital gains, and donating the residual, since it results in a larger deduction. It is also beneficial to the charity that receives the appreciated asset, and does not receive the net-of-tax gain. The loser in the current system is of course the fisc, which loses revenue from the inability to tax the capital gains on donated assets. Constructive realization upon donation would end this tax advantage for the wealthy and raise substantial revenue by turning the gift of the appreciated share into a taxable realization event.[64]

Constructive realization of unrealized gains

The distortionary nature of the current capital tax regime is such that it provides an incentive to fail to sell assets to their most productive owner when one is alive, because doing so would constitute a realization event. Our base proposal calls for moving in the direction of ending this distortion by ending the step-up in basis that occurs when the basis of a decedent's asset becomes the asset's fair market value at the donor's death–entirely eliminating any tax liability for gains that accumulated during the donor's life. But this approach preserves lock-in dynamics because unrealized capital gains can escape tax liability across generations, giving taxpayers the substantial advantage of deferring taxation.

It would be ideal to eliminate this inefficiency by requiring constructive realization at time of death or gift. Beyond efficiency rationale, this policy change would also generate large revenues, due to the importance of unrealized gains among high-income individuals. It is also possible to tailor this realization approach to focus on only the wealthiest families who hold the most unrealized gains; such narrowing would of course come at the expense of revenue.

Past estimates suggest that constructive realization at death has the potential to raise hundreds of billions over a decade.[65] Carve-outs for particular populations where we worry about illiquidity at death, such as farmers and closely held businesses, would lower this revenue estimate, but not substantially.[66]

Other approaches to realization of unrealized capital gains—for example, mark-to-market taxation or capital gains withholding similar to the structure of the so-called billionaires' minimum income tax—have the advantage of raising significant revenue immediately across a wide swath of the capital gains tax base, rather than slowly over time as realization events occur. Immediate revenue gains push against some of the behavioral adjustments that taxpayers could hope to make in response to perceived potential volatility in reforms.[67]

It is worth noting that the U.S. Supreme Court has agreed to hear a challenge next term under the Sixteenth Amendment as to whether a one-time tax under Section 965 of the tax code (enacted in the TCJA, reaching unrepatriated deferred foreign income of certain foreign corporations) is a violation of the apportionment clause of the Constitution, which deems unconstitutional direct taxes that are not apportioned among the states. The case has wide-ranging implications that threaten to implicate swaths of the tax code that today do not function on a realization basis, such as partnership and S-corporation taxation, or mark-to-market taxation for traders in securities. To be clear, a ruling for the petitioners would be a mistake, with potentially catastrophic ramifications for the tax code, as tax experts of all political leanings have already made clear (e.g., Kamin, Spinrad, and Huang 2023; Nix 2023). Still, the decision to hear this case means that in a few months we will have more information on the extent to which the Supreme Court believes there are constitutional limits on realization-based approaches that should factor into policy design going forward.

3. Reforming estate taxation

Provision	10-year revenue effect (billions)
Return to 2009 estate and gift tax parameters	$250[68]

Before the passage of the TCJA, only about 5,000 Americans were liable for estate taxation. The TCJA doubled the estate tax exemption, which reduced this already small total by more than 50 percent.

Allowing these changes to expire avoids losing $127 billion in tax collection from the wealthiest estates over the course of the decade. Beyond that, given the twin goals of progressivity and revenue-raising, we propose to broaden the estate tax base further: the Obama administration contemplated lowering the threshold from about $11 million (at the time) to $7 million for couples, alongside other changes to estate

and gift taxation that would return these taxes to their 2009 parameters;[69] reverting to the 2009 thresholds would now raise at least $250 billion in additional tax revenue over the decade, relative to a baseline that includes the expiration of the TCJA estate tax threshold.

Even with a broader base, the estate tax as it stands is not an exceptionally potent tool to tap into the untaxed wealth that accrues to the top of the distribution, because of the wide array of loopholes that exist to help the ultra-rich avoid taxation. Although the current estate tax rate is 40 percent, the effective estate tax rate is in single digits (Sarin, Summers, and Kupferberg 2020). While a large portion of the difference between the statutory and effective tax rates is related to bequests to surviving spouses, excluding these bequests raises the effective tax rate to just 20 percent. What is responsible for the remainder? There are a host of tax-planning tools, including gifts to family members, transferring assets (at least in name) to trusts, and charitable-giving arrangements designed to lower estate tax liability while sometimes, in the case of donor-advised funds, being free from any requirement to disburse dollars to charitable causes.

Dials. There are important political challenges with the broaden-the-base and raise-the-rate estate tax reforms advocated above. There has been a highly successful campaign to paint efforts at raising taxes on the income inherited by future generations as an unjust "death tax;" despite the fact that the share of the population that would be eligible for such taxation is both very small and very wealthy. In addition, some argue that the estate tax double-taxes income in some sense because it was taxed upon receipt (e.g., workers pay taxes on income); still, the vast majority of wealth that would be subject to an inheritance tax is actually hitherto untaxed capital gains. A second argument is that the estate tax is destructive to family farms and businesses that lack the liquidity needed to meet the tax obligations. As with capital gains reform proposals, it is possible to design carve-outs for certain classes of taxpayers to bolster against these critiques, although such carve-outs would come at a revenue cost.

Another alternative is shifting toward an inheritance tax on the beneficiaries of an estate, rather than on the estate itself. Batchelder (2020) suggests that $340 billion in revenue would accrue to the fisc over the next decade if the lifetime exemption from the inheritance tax per heir were $2.5 million, growing to $917 billion if it were $1 million (Batchelder 2020). This approach has conceptual appeal in that it would more equitably allocate taxes on inheritances among heirs based on what they receive, which is not necessarily well-mapped to the size of the estate from which they derive an inheritance. In addition, one potential advantage of such an approach is that it would better comport with public notions of fairness to tax those who are receiving income—beneficiaries of inherited income, just as we tax beneficiaries of wage and salary income—as opposed to taxing estates who themselves are not benefiting financially from the transfer.

4. Climate and energy taxation

Provision	10-year revenue effect (billions)
Corporate carbon fee	$650[70]

The IRA of 2022 was an enormous step forward for U.S. climate policy; it took seriously the existential threat of climate change,[71] it made a large financial commitment to the energy transition, and it worked to help build support for the energy transition among key stakeholders, industries, and workers. At the time of passage, the IRA included well over $100 billion in spending (including spending on conservation, sequestration, energy efficiency, industrial decarbonization, and green lending), as well as about $270 billion in clean energy tax credits, the largest of which target clean energy production and investment, clean energy manufacturing, energy efficiency incentives, carbon capture, and electric vehicles. JCT has since increased their score of the estimated cost of these clean energy tax credits to $527 billion.[72]

Importantly, these policy tools are likely to reduce U.S. greenhouse gas emissions; as summarized in Bistline et al. (2023), the IRA will likely reduce U.S. carbon emissions substantially relative to the baseline without the legislation, closing one-quarter to one-half of the gap between business-as-usual forecasts and U.S. emissions reductions goals under the Paris Agreement.

There are several current pressures on this tax credit–focused U.S. climate policy, however, and these pressures will be even more salient in 2025. First, several estimates have found that the fiscal costs of these provisions are likely to be larger than even JCT's revised estimates (e.g., Bistline, Mehrotra, and Wolfram 2023; Credit Suisse 2022; Penn-Wharton Budget Model 2023b). In addition, many of these tax credits use novel structural features, including transferability and direct pay, that make the credits akin to refundable tax credits. These features, while making the credits more flexible, also make the IRA provisions more difficult to administer and raise the potential of fraud. Of course, to the extent that large costs come with large take-up, that could also imply larger emissions reductions, as noted by Gleckman (2023) and others.[73]

There are also concerns regarding how U.S. climate policies interact with those of other countries (Bown and Clausing 2023; Clausing and Wolfram 2023). These concerns are not minor, and, without due care, they have the potential to unravel highly effective policy choices abroad. For example, when some countries

subsidize clean energy adoption, and others tax dirty energy, that introduces large competitiveness differentials for trade-exposed and energy-intensive industries, whereby firms in cost-reducing jurisdictions have large advantages relative to those in cost-imposing ones. While carbon border adjustments and countervailing duties can (in principle) handle these differentials, they also can create trade frictions of their own, since trading partners often object to being tariffed and view such policies as "protectionism in disguise," even if they are designed in a nondiscriminatory fashion.[74]

These competitiveness worries were compounded by several provisions within the IRA that included domestic (or free-trade-area partner) content requirements. While these provisions helped bolster political support for the important climate initiatives in the IRA, they were also a break from prior U.S. policy and world trading system norms, and, accordingly, they upset some of our closest partners, who expressed their displeasure at the highest levels.[75] While U.S. policymakers often exhorted trading partners to simply follow in U.S. footsteps, not all countries can afford such massive subsidies, and national content restrictions run the risk of decreasing the cost-effectiveness of the energy transition. Furthermore, if subsidy races make it more difficult for countries to use cost-imposing policies, this has the potential to adversely affect fiscal balances, policy effectiveness, and the distributional consequences of climate policy.[76]

With this starting point in mind, we propose that the climate tax policy provisions in the IRA be complemented by measures that gradually introduce a corporate carbon fee in the U.S.; this fee would be economy-wide, but we take care to protect households from any direct costs; there will be minimal impacts on either gas prices or utility bills.[77] We view this policy as helpful in (a) building on the energy transition progress made in the IRA, (b) better aligning U.S. policy with the most cost-effective policies abroad (which in turn can leverage more global action), and (c) potentially further funding our climate goals. We also propose implementing reforms that would enhance the effectiveness of the IRA provisions.[78]

a. Households protections

First, households will be insulated from negative effects on their budgets.

- Retail gasoline and home heating oil would be exempted at the refinery level in order to insulate households from increased transportation and fuel costs.[79]
- Since the IRA is simultaneously lowering energy costs at the utility level, any increase in utility costs due to the carbon fee are unlikely to have important effects on household utility bills, as estimated by energy market models.[80] As noted in the preceding bullet, home heating oil would be exempt; if needed, however, funds could also be set aside to help offset the negative effects on exceptional communities.

b. Simple, gradual administration

Second, implementation will be gradual, and implementation costs will be low.

- There would be gradual implementation. Implementation would be delayed by one year, and then the fee would begin at a low price of $15, gradually rising to a level of $65 over the budget window.[81] Prices would rise slowly at first, and then more steeply. This implementation path would allow more time for the IRA investments to translate into lower-cost alternative energy capacity.
- Implementation costs would be low and straightforward. The fee would be implemented top down, and would fall on most major sources of carbon emissions, with the tax collected on a small number of business taxpayers in the oil, natural gas, and coal sectors. Emissions from other sources, such as those arising from agriculture and land use, would not pay the fee. The fee would focus on carbon, relying on other policies to address methane and other greenhouse gas emissions.[82]

c. Large emissions reductions

Third, emissions benefits will be substantial.

- The carbon price path would help fuel long-run clean energy investments. When investors are considering wind, solar, nuclear, hydrogen, fuel cell, electric vehicle, and carbon capture projects, among others, they are interested not just in today's marginal incentive to invest, but also in the cost-effectiveness of their investments over time. A rising carbon price will make any current investments in clean energy more likely to pencil out.
- Modeling suggests that there would be large effects on emissions reductions, enough that, paired with the IRA, the U.S. would meet our Paris emissions goals.

d. Competitiveness

Fourth, the proposal will increase the competitiveness of U.S. production, while better aligning the U.S. government with other nations that are tackling climate change.

- The policy would be paired with a carbon border adjustment akin to what the EU has proposed and that has been contemplated, in a variety of forms, by lawmakers of both parties. This would help the U.S. better align its policies with those

in other countries, using the countries' combined leverage as large consumer markets to encourage emissions reducing policies globally, as discussed in Clausing and Wolfram (2023).[83]

- There is presently bipartisan interest in carbon border adjustment. For such rules to be nondiscriminatory, and thus consistent with trading system norms in a manner that avoids trade conflicts, such policies need to be accompanied by parallel domestic costs. The proposed carbon fee, alongside the border adjustment, would treat any producer serving the U.S. market the same way, in a nondiscriminatory fashion. Since U.S. industries are relatively cleaner than their foreign counterparts, however, a U.S. carbon fee coupled with a carbon border adjustment would still, on net, benefit the competitiveness of U.S. producers in world markets, (Rorke and Bertelsen 2020).

Dials. In recent U.S. policy debates, observers often note how difficult it is to price carbon in the U.S. In addition to the broad anti-tax sentiment that works against many of the proposals in our reform menu, there are concerns about past failures to pursue pricing in Congress, including the BTU energy tax proposed in the 1990s, as well as the Waxman-Markey cap-and-trade effort of the early Obama years. The success of the IRA, while barely feasible in a 50/50 Senate, was partly premised on the idea that subsidies to clean energy were far easier politically than taxes on dirty energy.

Nonetheless, there are several reasons to suspect that policy viability may not be static. First, climate change is a far more salient problem today: The proliferation of climate-related natural disasters has touched Americans lives in ways that are likely to move assessments of policy viability. A second reason is that the IRA could help pave the way for complementary policy tools. Building clean energy infrastructure and capacity makes it easier for consumers and businesses to substitute clean energy for dirty energy if the price of the latter increases. Third, there are important opportunities to incentivize emissions reductions abroad through carbon border adjustments and climate clubs, which are absolutely essential to the global climate effort. Such opportunities become far easier if U.S. policy is aligned with that in other countries; at present, the U.S. is the only G7 country without a carbon price.

Still, raising revenue from a carbon fee, even one that fully insulates households, may prove a bridge too far. In that event, there are multiple dials that can be turned to make a carbon fee more palatable. In addition to adjusting the price path and implementation date, revenues could be earmarked to support popular causes. For example, research by Dechezleprêtre et al. (2023) suggests that spending on environmental infrastructure and clean energy adoption can increase support for carbon fees.

Revenue could also easily be returned to taxpayers. If revenue were refunded on an even per capita basis, issuing carbon dividends, the bottom seven deciles would experience increases in income from the policy, even without the carve-outs suggested in our baseline proposal (Horowitz et al. 2017). Revenues could also be earmarked for even more targeted relief by using the funds to expand tax credits that benefit low-income taxpayers, or by adjusting cash payments by geography, to account for the fact that some regions of the country have higher carbon footprints.[84] Of course, if revenue were used for rebates or spending, it would no longer reduce deficits, but the policy would still be beneficial, generating the same emissions reduction and global collective action benefits discussed above.

5. Improving tax administration

Provision	10-year revenue effect (billions)
Reverse Internal Revenue Service (IRS) funding recission of $21 billion	$260
Permanent mandatory stream of funding to the IRS (scores from 2033-2035)	$240[85]

The federal government will lose around $600 billion this year in taxes that are owed to the fisc but that remain uncollected. The largest contributor to this tax gap is estimated to be income that is underreported on tax returns by individuals, though other components of the tax gap, for example evasion by corporations or partnerships, is less well-estimated. For this reason, many, including former IRS commissioner Charles Rettig, have speculated that the tax gap is much larger than previously estimated: Rettig suggested that the true gap could be closer to $1 trillion than the agency's $600 billion figure because some areas of the economy (e.g., cryptocurrencies and proprietorship income) are so opaque to the agency.

The estimated tax gap alone totals over 2 percent of GDP annually, which is a lower bound on the scope of tax evasion in the U.S. today. That means that steps taken to meaningfully increase the IRS's enforcement capacity have the potential to raise sizable revenue. Such efforts further decrease inequities in the economy attributable to the fact that this evasion advantage is disproportionately enjoyed by those at the top of the distribution. Sarin, Summers, and Kupferberg (2020) note that the top 1 percent is responsible for more than 30 percent of the measured tax gap, because the wealthy tend to accrue income from opaque sources where the IRS does not have the capacity to

verify the veracity of income reported (and taxed) with information from third parties. When such third-party reporting exists, compliance rates are upward of 95 percent; in the absence of reporting, they are below 50 percent (IRS 2022b).

The Biden administration has been focused on the potential of overhauling tax administration, and the IRA included an $80 billion stream of mandatory funding to help the IRS improve its high-end compliance efforts by investing in technology and enforcement capacity. Some funds were also earmarked for improving taxpayer service, for example through better phone assistance.[86]

However, the funds provided to the IRS in the IRA face a precipitous cliff: the mandatory funds to help the agency rebuild after a decade of gutting (which reduced IRS staffing to levels not seen since the 1970s) are set to expire in 2031. That means that any investment made with these resources to augment the agency's workforce would either need to be funded with additional resources at the end of the decade or rolled back, which would leave the IRS in a similar position from a staffing perspective—though of course it would be better off with the improved technological capacity that this investment will deliver.

Since the IRA's passage, the imminence of this cliff has grown. That is because the agency has suffered a variety of threats to this new funding stream. First, the IRS discretionary budget was 4.4 percent less than the amount requested in FY22. This means practically that mandatory funds that were intended to be deployed for transformative investments are instead being redirected toward regular IRS operations such as staffing filing season. As designed, mandatory funding was always meant as an additional funding stream atop a baseline level of regular, discretionary appropriations which would support IRS activities (e.g., salaries for the current workforce, inflation-adjusted fixed costs like rent, etc.). Cuts to the discretionary funding stream threaten the transformative nature of the IRA investment.

Furthermore, as part of the debt ceiling negotiations Republicans proposed the recission of IRS funds. Albeit puzzling, given the importance of these investments for deficit reduction,[87] eventually negotiators agreed to cut the mandatory funding stream earmarked for enforcement by $21 billion. Although it is hard to estimate exactly when the IRS will run out of mandatory funding, it seems likely to hit its cliff closer to 2026 than 2031, since mandatory funding for increased high-end enforcement has been effectively cut by nearly 50 percent by the debt ceiling deal, from around $45 billion over the decade to just $25 billion.

That means that replenishing these funds is likely to have a sizable revenue effect: extrapolating from Sarin and Mazur (2023) suggests around $260 billion in revenue will be lost over the course of the next decade due to the $21 billion rescission. To arrive at this estimate, those authors assume that the IRS will expend resources on the same activities and with the same speed as before the recission, until it can no longer afford to do so. This means that the IRS will not be able to pay for its final few years of planned investment, so it will lose the revenue attached to those years' expenditures.

Our proposal has two parts: First, we propose reversing the recent IRS funding recissions, thus providing the agency with an additional $21 billion of enforcement resources to deploy in the coming decade, which would recover the $260 billion in revenue that has been lost by recent recissions.

Second, we propose creating a stream of permanent mandatory funding to persist and support the new hires and capacity that the agency will build up in coming years. Creating permanence to this revenue stream would, one hopes, decrease the likelihood that the agency will continue to be in the crosshairs of political debates about its funding needs.[88] This stream of mandatory funding will generate revenue for years to come, but, for budgeting purposes, the revenue will be scorable until the end of the relevant 10-year budget window. It will also have a meaningful out-of-window effect that will be relevant for potential reconciliation dynamics: Based on Sarin and Mazur (2023) estimates, a permanent stream of funding for the IRS that supports the IRA investment will generate $1 trillion between 2033 and 2043, about $240 billion of which will accrue in the first three years of that window.

Importantly, unlike the estimates in the rest of this paper, this $500 billion total is higher than what official scorekeepers are likely to assess as the impact of additional IRS investment. As described above, we derive our estimate based on work from Sarin and Mazur (2023) who offer a highly simplified version of a revenue estimate that considers the impact of these dollars, assuming they are expended throughout the decade in a scaled manner, with initial investments building up over time. This estimate assumes that the funds supplement, rather than replace, discretionary appropriations that the agency receives in the next decade.

The difference between our estimate and that of official scorekeepers is largely attributable to official estimators' conclusion that, while direct effects (e.g., additional revenue generated from enforcement activity) are significant, deterrence effects associated with additional enforcement—either self-deterrence after taxpayers are audited and assessed additional taxes, or community deterrence in the face of a stronger IRS presence—are negligible.[89] The direct effects (additional revenue generated from enforcement activity) arrived at by Sarin and Mazur are very similar to official scorekeeper estimates.[90] However, the scorekeepers' low assessment of deterrence generates an underestimate of revenues from IRS funding, given that Treasury's own estimates suggest a three-to-one deterrence factor (Treasury 2019). Sarin and Mazur's

baseline estimate applies a very conservative deterrence factor of just one, one-third of the Treasury estimate.[91]

Dials. The likelihood of raising substantial revenue from curtailing tax evasion is even greater in the presence of other changes to tax administration. That could come in the form of a larger investment in the agency: the size of the tax gap means that additional enforcement capacity will further increase tax collection. There are, of course, diminishing returns to enforcement efforts: the optimal amount of evasion is not zero, given the resources that would have to be expended to capture the last dollar of unpaid taxes. But with a tax gap over 2 percent of GDP, additional IRS resources—above and beyond a mandatory stream of funding for the agency at roughly the size of the IRA, adjusted for inflation and growth—will reap positive returns. Policymakers could thus generate substantially more revenue by further investments in enforcement capacity.

In addition, there is a close relationship between the availability of third-party reporting and taxpayer compliance. Third-party reports shared with both taxpayers and the IRS improve compliance by making tax obligations clearer to taxpayers and by making it easier for the IRS to identify noncompliance. As the U.S. Government Accountability Office has pointed out, increased information reporting is one of the most effective ways to meaningfully bolster compliance.[92]

For that reason, a useful reform for the IRS's effectiveness in tax collection would be to extend third-party reporting to income streams where such reporting is presently absent, and thus with compliance rates under 50 percent. Incomplete reporting generates revenue losses, and also reduces economic efficiency by pushing more resources than desirable into evasion-advantaged industries, such as those that transact primarily in cash. While these proposals need to be honed with burden and implementation concerns front-of-mind, it is worth noting that there are several hundreds of billions of dollars of additional tax revenue at stake from improving the visibility of opaque income streams. As we note above, we estimate that additional IRS funding alone will generate $500 billion over the next decade, but this is higher than official scorekeepers' total; if desired, a broader suite of tax gap reforms would increase official revenue estimates from improvements in tax administration.[93]

6. Financial transactions taxes

Provision	10 -year revenue effect (billions)
Financial transactions tax (FTT) of three basis points applied to most stock, debt, and derivatives transactions	$540[94]

More than $1 trillion in stocks and bonds is traded on any given day (CBO 2018). Unlike many industrialized nations, the U.S. does not impose a tax on securities transactions. In addition to the substantial revenue-raising potential of such a tax instrument, there is also an efficiency argument to be made in favor of a tax that throws sand into the gears (Tobin 1978) of financial markets, such that it dissuades excessive speculation and rent-seeking from high-frequency trading. The experiences of other countries in experimenting with financial transactions taxes (FTTs) speak to the administrative feasibility of such an approach and suggest that concerns about hindering price discovery by the decrease in trading volume that would occur if financial transactions were taxed are overstated, particularly for the low rates that policies made in this vein have contemplated (Summers and Summers 1989; Weiss and Kawano 2020).

The case for an FTT has grown stronger in recent history as resources devoted to capturing trading profits like high-frequency trading and algorithmic trading have grown in importance. The result is that trading activity is currently an order of magnitude higher than it was two decades ago, but it is hard to see how this significant investment of human capital and infrastructure has translated into more-robust financial markets or growth.

CBO (2022c) includes a tax on financial transactions among its list of options for deficit reduction; specifically, a one-basis-point tax on the purchase of most securities and on transactions including derivatives.[95] They estimate the tax would generate about $260 billion in additional revenue over the course of a decade.

Weiss and Kawano (2020, 151) pointed out that an FTT would be highly progressive: "Nearly 70 percent of the tax burden would fall on those in the top income quintile, with 23 percent on those in the top 1 percent and approximately 85 percent on those in the top 40 percent of the income distribution."

In the past, proposals for financial transactions taxes have raised concerns regarding potential negative impacts on market functioning, with critics pointing to failed international experiments with FTTs, such as Sweden's introduction of orders of magnitude larger (1–2 percent) FTTs that substantially decreased trading on Swedish markets and largely eliminated the use of Swedish brokers, who were the only market participants eligible for the tax. Such experiences illustrate the importance of appropriately designing an FTT, with a low rate and a broad base, so as to minimize market distortions.[96]

We propose beginning with an FTT of three basis points per transaction, which—while small—would be large enough to raise significant revenue. While official scorekeepers have not scored this specific proposal, we roughly estimate that an FTT set at the

three-basis-point rate would raise about $540 billion over a decade.[97] We expect very little impact on market liquidity or the cost of capital of such an approach. Indeed, experts think that an FTT set at a rate several times higher would not have negative effects on market functioning. (The experience of Hong Kong is perhaps helpful: an FTT set at 20 basis points raises over 1 percent of GDP annually and does not appear to impede Hong Kong's status as a global financial center).

One point on progressivity is worth noting: Despite the estimates of the incidence of the FTT highlighted above, critics tend to argue that middle-class investors will bear this tax because their financial assets are held indirectly, through retirement and mutual funds. But that concern is vastly overstated: the average mutual fund has an annual turnover of approximately 30 percent, so a three-basis-point FTT passed on to an investor with $50,000 of assets would amount to just $5.00 annually.

Dials. As with other proposals, it is easy to imagine scaling up or scaling down an FTT. One obvious lever is the rate, which could be raised or lowered. Additionally, some jurisdictions with FTTs, like France, Italy, the U.K., and Hong Kong, use market maker exemptions of differing breadth (Weiss and Kawano 2020). Such an approach would lower revenue potential but would also address concerns that an FTT could reduce market making and trading volume in ways that could harm liquidity and market functioning. But introducing such an exemption would pose a design challenge in defining market-making activity and those who are market makers. Today, large parts of the activity in markets come from individuals who claim to be providing liquidity but who are not easily identified as such, and any attempted classification would create distortion as well as opportunities for avoidance that reduce the revenue from the tax.

7. Reforming payroll taxes to create uniform treatment

Provision	10 -year revenue effect (billions)
Reform Self-Employed Contributions Act (SECA)/net investment income tax (NIIT)	$300[98]

At present, the self-employed pay Self-Employed Contributions Act (SECA) and Federal Insurance Contributions Act (FICA) taxes on their net earnings to help finance Social Security and Medicare, while high earners pay a small surtax. In addition, the Affordable Care Act (ACA) included tax changes to strengthen Medicare's solvency, including raising the Medicare payroll tax rate to 3.8 percent. Since high earners often make more of their income through investments than through wages, the ACA also included a surtax on investment income (the net investment income tax, or NIIT), applying at the same 3.8 percent rate on whatever portion of household income is investment income.

Strangely, many owners of pass-through businesses, including S-corporation and partnership businesses, are currently able to avoid SECA and NIIT taxes. These taxes were intended to tax high earners at comparable rates; however, distributions to pass-through owners often escape this 3.8 percent tax since wage income is subject to the tax but non-wage distributions to shareholders escape taxation. This disparate tax treatment will cost the fisc more than $300 billion over the course of the next 10 years, disproportionately by reducing tax burdens for top earners.[99]

Closing this tax preference would thus raise substantial revenue, reduce tax-induced distortions in organizational form, and decrease the incentive to misclassify income solely for tax avoidance reasons. It would also reduce the inequity associated with the fact that most American workers have taxes withheld to cover the cost of entitlement programs; nevertheless, those at the top who are small business owners and S-corporation owners can avoid this same tax burden.

8. Expanding the Child Tax Credit (CTC), the Earned Income Tax Credit (EITC), and premium tax credits (PTCs)

Provision	10 -year revenue effect (billions)
Expand the Earned Income Tax Credit (EITC) to the American Rescue Plan (ARP) parameters	–$156[100]
Expand the Child Tax Credit (CTC)	–$650[101]
Extend expanded premium tax credits (PTCs)	–$270[102]

The EITC and the CTC provide critical support for low- and moderate-income families in the U.S. Since their inception, these credits have been shown to have beneficial effects on labor force participation, consumption, health, children's poverty, and educational outcomes (Hamilton et al. 2022).

The American Rescue Plan (ARP) expanded both credits for the most vulnerable, lowest-earning households, but only through the end of 2021. That means that the past few years have seen sizable reversions in important metrics like food security for the lowest-earning populations.

First, the ARP expanded the base size of the CTC from $2,000 (the increased TCJA base) to a maximum of $3,000 per dependent child, with an extra $600 for each young child under age six. The ARP also

advanced the credit so families would receive monthly rather than annual disbursements.

Perhaps most importantly, for the first time the ARP also made the CTC fully refundable. Without full refundability, if a household receives a credit in excess of the amount of federal income tax they owe, it does not receive the full credit. When the ARP expired at the end of 2021 and the CTC reverted to the TCJA's partial refundability scheme, an estimated 19 million children, or more than 25 percent of children under the age of 17, no longer qualified for the full benefit.

Perversely, while the expansion of the CTC contributed meaningfully to the most significant decrease in child poverty in the U.S. in recent history, the expiration of the ARP's expansion represented the largest growth in child poverty, as it erased these gains.

The ARP also increased the EITC for the lowest-paid working adults without children. The ARP nearly tripled the maximum EITC for these workers, from $540 annually to $1,500 annually, and expanded the age range of eligible workers slightly; it also lifted the income cap, from $16,000 to $21,000 annually. These changes provided additional income support to 17 million Americans who are the lowest-paid workers.

Under current law, the base size of the CTC is $2,000. However, the lowest earners do not receive the full value of the credit because only a portion is refundable. The EITC has also reverted back from the ARP's temporary expansion, with the maximum EITC for the lowest-paid workers falling back to the $540 level.

While the precise thresholds are worthy of debate, we believe it is imperative that any future tax package build on the success of the CTC and the EITC. While we would prefer even-more-generous credits for most American families, given fiscal constraints and the inevitable political debates ahead, it will be important to prioritize an expansion that reaches the lowest-income households who are in greatest need. For that reason, we would emphasize full refundability of the CTC so that low earners are not receiving less support for their children than higher earners.

In our package, we budget $800 billion for extensions to the EITC and CTC. The ARP EITC extensions would cost about $150 billion over the budget window. One possible reform that would cost around an additional $650 billion over the budget window, on top of our suggestion of extending TCJA's expanded CTC, would include full refundability, a $2,500 CTC with a boost of $750 for children under six years of age, payable monthly, with a replacement of the SSN requirement with an ITIN requirement. It is beyond the scope of our paper to weigh the many trade-offs in this space, but $650 billion could easily meet the twin goals of full refundability and a more generous credit.[103]

We also suggest extending the expanded premium tax credit that expires in 2025, which CBO has scored as costing $270 billion. These expanded premium tax credits will continue to address health insurance affordability for lower-income Americans.

Dials. In this space, there are multiple dials that can meet policy goals, including credit amounts, phase out thresholds, phase out rates, the age of children that qualify for the CTC, and other eligibility criteria.

C. How the menu options fit together

Our proposed suite of reform options adheres to the principles of tax reform discussed above.

First, these policy changes would restore fiscal responsibility. In addition to fully paying for all proposed TCJA extensions, and proposed expansions in the CTC and EITC, the full menu raises a net of $3.5 trillion, enough to cut the primary deficit in half over the coming budget decade, thus stabilizing debt to GDP.

Tax increases are politically difficult and may well be an uphill climb for legislators. All of the proposals that we consider have myriad options and dials that can be tuned to more narrowly target any tax changes, but of course these come at a fiscal cost. In our view, the U.S. fiscal system simply cannot afford a one-way tax ratchet where Republicans lower tax cuts and Democrats raise taxes again, but only on those at the very top.

Second, these policy changes would build a more progressive tax system, while asking more from a broader swath of taxpayers. While tax increases are never popular, the after-tax income reduction for those at the top of the distribution will far exceed any increase on those outside the top. Indeed, for many families with children or those receiving the EITC, there will be a net tax cut from this package.

Third, these policy changes promote efficiency in several important ways. The corporate tax raisers mostly fall on large, profitable companies that are earning above-normal profits, making the corporate tax a more efficient tax than many, as discussed above. (One could even exclude 99 percent of corporations from the rate increase and leave about 90 percent of revenue intact.) Ending the pass-through deduction will end the inefficient tilt in the playing field in favor of certain industries, reduce compliance and administrative burdens, and level the tax treatment across choices of organizational form (alongside the corporate tax increase). Reducing the tax preference for capital income will likewise reduce inefficient preferences for some industries and compensation patterns over others, and will fall disproportionately on those at the top of the income distribution who are earning above-normal returns.

Raising estate tax burdens will increase saving and labor incentives for heirs, admittedly a very small share of the population, while having minimal impact on the savings and investment decisions of those leaving bequests. The FTT, at the level we are suggesting, is likely to improve the functioning of financial markets. Efforts to increase tax compliance will raise important new sources of revenue without requiring higher tax rates elsewhere in the system; it will also reduce the tax preference that currently favors more opaque sources of income.

The carbon fee will be an important step toward correcting the most important externality in today's economy; carbon fees are an efficient source of revenue that economists have long favored. This policy change will also help turbocharge the clean energy investments in the IRA by providing long-term price signals that favor clean energy relative to dirty energy.

Finally, these policy changes are consistent with U.S. leadership in an evolving world economy. In particular, both the international tax policy changes and the climate policy changes work to align U.S. policymaking with what the rest of the world is doing, in a way that allows for improved solutions to the long-standing and vexing global collective action problems of tax competition and climate change.[104]

V. Questions and concerns

The TCJA reduced statutory tax rates at almost all levels of taxable income. Shouldn't we preserve rate cuts for the bottom tax brackets to benefit low-income taxpayers?

In the U.S. federal income tax system, when we think about tax brackets we tend to quote the marginal rate corresponding to the highest tax bracket that individuals face. That tax rate is not the effective tax rate paid on all income earned; instead, it is the tax paid on the last dollar of income.

To take a concrete example, a single filer today in the 37 percent tax bracket who earns $650,000 per year pays the lowest rate of 10 percent on the first $11,000 of income they earn, and the highest rate of 37 percent on only about the last $72,000 of income earned (IRS 2022a).

So, rate cuts for the lower tax brackets do not benefit exclusively low- and middle-income taxpayers; they benefit all taxpayers. At current thresholds, lowering that 10 percent rate would mean a broad-based tax cut on the first $11,000 of income earned by anyone, including the very wealthy.

The bottom rate was not impacted by the TCJA, but the subsequent brackets were: the 15 percent rate was lowered to 12 percent, the 25 percent to 22 percent, and so forth. Keeping the bottom two rates in place for the next decade would come at a cost of at least $720 billion.[105] That would indeed insulate individuals earning $45,000, and couples earning $90,000, from any statutory rate changes. But it would also insulate the first $45,000 earned by everyone else from any changes, too.

That means that, if policymakers are focused on improving progressivity, those dollars can be better targeted at the middle and bottom of the distribution, for example through full refundability of the CTC or an EITC expansion for the lowest-paid working adults, both changes that we propose.

Does the international tax agreement harm U.S. interests?

In 2021, an international tax agreement (Clausing 2023d) brought together more than 135 jurisdictions representing about 95 percent of the world economy. Within the agreement, Pillar 2 taxes the mobile multinational income of the world's largest multinational companies at a minimum rate of 15 percent; this agreement is now being implemented in many countries.

Some lawmakers have launched a rearguard battle against the U.S. adoption of the international agreement. They argue that the agreement threatens the powers of Congress, reducing U.S. tax sovereignty, and beyond that, it even harms the revenue from the U.S. corporate tax system (e.g., Rubin 2023; U.S. Senate Committee on Finance 2023a).

We've addressed these arguments at far greater length elsewhere,[106] but in short, the agreement has precisely the opposite effects of what critics claim, enhancing the choice set for Congress, and enabling a more robust corporate tax. As always, Congress can write the nation's tax laws as it sees fit, but the agreement lessens tax competition pressures in a way that actually expands possibilities for Congress.

For instance, Republicans have long cautioned that the competitive pressures faced by U.S. multinational companies in the global marketplace mean that we have no choice other than to offer U.S. multinational companies very low tax rates. As a result, in recent years U.S. multinationals often pay effective tax rates in the single digits.[107] However, now that foreign governments are raising rates, Congress has more freedom to choose corporate tax rates that align with the nation's fiscal priorities. Furthermore, a more uniform international tax approach abroad should increase tax certainty for U.S. multinational companies.

Finally, U.S. adoption of the agreement will increase U.S. revenue, regardless of what other countries do. Importantly, by raising the lowest possible tax rate faced abroad from zero to 15 percent, the global agreement makes the U.S. corporate tax base less tax-sensitive, reducing profit shifting incentives for companies and increasing the revenue potential of the corporate tax at typical U.S. corporate tax rates. This makes it far easier to propose the corporate and international tax reforms described above.

VI. Conclusion

In our view, the policy changes made in this proposal and summarized in table 1 would be an enormous step forward for U.S. tax policy: they would improve the revenue potential of the tax code, the progressivity of tax burdens, the efficiency of the tax system, and the country's ability to address global collective action problems.

While this menu is just one vision for tax reform, the proposals we discuss are largely ready to implement and could garner support, in our judgment, among a broad swath of lawmakers. Even if election outcomes support consideration of these reforms, it will not be easy. Tax increases are very difficult to enact politically, and the concentrated interests that would be harmed by tax increases (particularly corporate interests, fossil fuel interests, small businesses, and those representing affluent taxpayers) will attempt to obstruct many of these proposals.

Furthermore, elections are unpredictable, and one can easily imagine a 2025 environment with a split Congress. In the event that bipartisan consensus is required for new legislation, we suspect many (but not all) of the items above may fall off the table. Still, we can imagine some sources of compromise, and this is an important area of additional thought in the months ahead. Consider one illustrative example: Under current law, U.S. multinational companies are subject to a vast array of minimum taxes both at home and abroad, including the GILTI, the CAMT, the BEAT, and (soon) foreign under-taxed profits rules. Greater alignment of the U.S. tax system with the international agreement reforms has the potential to both raise revenue and reduce complexity for U.S. businesses, while lowering the pressures of tax competition.

There are dials to all the proposals that we detail. We hope that the set of proposals we offer illustrates our main thesis: There is much to be gained from approaching tax reform in 2025 with the goals of raising revenue, increasing progressivity, enhancing efficiency, and improving global cooperation. Should policymakers choose to take it, this is a moment that will offer a chance to reverse the dominant trends of recent decades, which have reduced fiscal sustainability due to increases in spending without commensurate revenue-raising.

Endnotes

1. This goal is based on benchmarks from CBO (Swagel 2023a) that indicate that cutting primary deficits in half from current levels would stabilize debt to GDP over the coming decade; this would require $5 trillion in primary deficit reduction. Swagel 2023c indicates that the Fiscal Responsibility Act (enacted since that estimate) included $1.5 trillion in deficit reduction over the next decade, leaving $3.5 trillion of needed savings to meet this objective.
2. When possible, we use a Joint Committee on Taxation (JCT) or Congressional Budget Office (CBO) score if an appropriate one is available. If an appropriate JCT or CBO score is not available, we rely on estimates from the U.S. Department of the Treasury's (Treasury) Office of Tax Analysis, the Tax Policy Center (TPC), or the Committee for a Responsible Federal Budget (CRFB). In one exceptional instance, tax compliance, we rely on academic estimates from Sarin and Mazur (2023).
3. These estimates therefore fail to grapple with the interactions between different reforms that will be critical to official scorekeepers' consideration of tax packages in 2025. In general, these estimates should be viewed as useful ballpark figures, but policy details, interaction effects, and revisions to the baseline due to inflation or other factors will all affect the 2025 scores of similar packages.
4. Below, we discuss how interactions between TCJA extensions can muddy the fiscal impact of TCJA extension options. Ignoring interactions, CBO estimates suggest that our package of TCJA extensions would generate a small (less than $100 billion) revenue loss, but the CRFB tax extensions calculator (CRFB 2023c) suggests that our package of TCJA extensions would generate a large revenue gain, leaving room for a near complete extension of the 12 percent bracket in a revenue-neutral package of TCJA extenders. At the time of any future legislation, JCT scores would account for any interactions, and thus they would likely be closer to the CRFB estimates discussed in the text, which tend to map closely to official scores that consider interactions.
5. There are several revenue provisions that are similarly workable as the main provisions discussed in our table 1, but that lie outside the scope of our analysis. These include the elimination of fossil fuel preferences in the tax code, removal of like kind and depreciation real estate preferences, partnership reforms, inventory reforms, conservation easement reform, small business stock reform, tightening estate tax loopholes, rules affecting the taxation of income from digital assets, prescription drug advertising deductibility, a somewhat higher excise rate on stock buybacks, and reforms to the generosity of retirement savings provisions for certain taxpayers. In total, these reforms are more than sufficient to plug the remainder of the revenue gap needed to reach a $3.5 trillion goal.
6. Using the example revenue target we offer in this paper, raising $3.5 trillion over the course of the next decade only from those in the top few percent would necessitate untenable tax rates on this group.
7. This is not just true for tax policy, but also for tax administration. For example, future IRS enforcement activities must address the audit disparities by race highlighted by Elzayn et al. (2023).
8. There are some exceptions, including the inflation-indexing provision of TCJA, which changed the measure of inflation in a way that raised real tax burdens, and the effects on health insurance premiums that occur as a result of the repeal of the individual mandate tax penalty.
9. Some business tax increases are already phasing in per the original TCJA timetables. Research and experimentation (R&E) expenses must be amortized from 2023 (instead of the more favorable expensing), interest deduction limitations became more binding from 2022, and investment expensing provisions are phasing out of the period 2023–26.
10. See Swagel (2023a) for the latest CBO estimates. Not all groups include the same set of provision extensions; for instance, some do not keep business tax provisions as they were in 2023. Estimates from the CRFB (2023a) incorporate a baseline that accounts for the Fiscal Responsibility Act and also considers the possibility of extending investment expensing provisions that have already begun phasing out; that combination has a cost of $3.1 trillion, a figure that was recently updated to $3.3 trillion (CRFB 2023c). Penn-Wharton Budget Model (2023a) covers an earlier window (2023–32) and finds a 10-year cost of $2.8 trillion. Of note, the budget window is especially important in this case (and not just due to nominal price increases), since it affects the number of years in the 10-year period that occurs after 2026, when the tax code is scheduled to change more precipitously. TPC (2022) has an earlier analysis that does not include the business tax changes, and that estimates a revenue cost of $1.9 trillion over 2023–32 and a cost of $3.7 trillion over the subsequent decade, 2033–42.
11. These two policies were closer to balance at the time of TCJA passage; the loosening of the AMT cost $637 billion, and the deduction limits raised $668 billion (although, again, stacking order is important). Since TCJA passage, the ability of some taxpayers to circumvent SALT caps through pass-through businesses has weakened the revenue potential of that deduction limit. If the SALT cap is retained, these work-arounds should be addressed with legislation.
12. See CRFB (2023c), which provides a calculator that incorporates these interaction effects.
13. CBO (2023a) states that "even though the provision fully expires after 2026, the benefit of the provision starts to phase down after December 31, 2022, and the estimate assumes the phaseout is eliminated." (See notes in the file that is provided alongside the publication [CBO 2023e]).
14. See CRFB (2023a). See also the long-term budget outlook from CBO (2023b) and Auerbach and Gale (2023) for more on the fiscal forecast.
15. A related budget pressure is the coming insolvency of the Social Security and Medicare trust funds. We do not tackle entitlement reforms in this paper, but reducing primary deficits allows more fiscal space for all priorities, including entitlement reform.
16. See, e.g., CBO (2023a, figure 1) on the role of rising interest payments in future deficits. CBO (2022a) points out that the longer tax increases are delayed, the more the negative macroeconomic consequences of tax increases, since tax increases will have to be higher to meet any particular debt targets, resulting in more distortion and larger negative effects on capital and labor supply.

17. See, e.g. Furman (2023) and Treasury (2023a).
18. See Fitch Ratings (2023).
19. For example, CBO (2021a) shows large increases in before-tax income for those at the top, and much lower rates of increase for poorer households. Even larger increases in inequality, with a finer disaggregation, are shown by Saez and Zucman (2020) whereas Auten and Splinter (2023) show much smaller increases in income inequality.
20. Importantly, the effective individual tax rates faced by the highest earners has fallen in the past several decades, decreasing the overall progressivity of the system (McClelland and Airi 2021).
21. At the time of enactment, TPC (2020) analysis and JCT (2023a) analysis showed the regressive nature of TCJA tax cuts. Other analysts have agreed, including CBO (2021a).
22. One could imagine setting overall progressivity goals for any tax package, such as preventing any increase in after-tax income for the top 1 percent of earners.
23. See section IV below for additional detail.
24. We suggest removing the social security number requirement for the CTC and replacing it with an individual taxpayer identification number requirement, since the social security number requirement creates economic hardship without any clear offsetting benefit.
25. These gains have been limited by the fact that the TCJA left the most vulnerable families without access to the full credit. As described below, we are supportive of an even greater expansion of the CTC which would ensure that the full credit is available to the lowest income households, who are currently left out of the TCJA's flawed design (Goldin and Michelmore 2020).
26. See the distribution tables by income percentiles from the Tax Policy Center (2021).
27. We acknowledge that this may be confusing given our suggestion above to consider the repeal of the AMT. From a policy perspective, we are in favor of more transparent tax bases that create a more comprehensible code. That said, political pressures may push in the other direction.
28. One alternative to the SALT cap would be to replace that policy instrument (in a revenue-neutral manner) with a limit on the deductibility of all itemized deductions to some base rate, such as 25 percent. This would still provide well-off taxpayers with the ability to itemize their charitable deductions, some of their home mortgage interest (we would keep TCJA limits), and their SALTs, but the benefit of doing so would be reduced from their marginal rate (39.6 percent under current law post-2025) to 25 percent. We have not calculated the revenue-neutral rate but consider an example that uses 25 percent as a placeholder. A well-off taxpayer has $50,000 in charitable deductions and pays $50,000 in state tax. With a 25 percent limit, they would be able to fully deduct $100,000, saving $25,000 in tax payments. Under current law, they would instead be able to fully deduct the $50,000 of charitable donations at the top marginal rate, saving about $20,000 in taxes at a 39.6 percent rate; they could deduct only $10,000 of their SALT, however, saving about $4,000, for a total savings of $24,000. Beyond this proposal, there are also other ways to address the SALT deduction, including expanding the SALT deduction limit for some taxpayers in the middle class but paying for that expansion by phasing out the $10,000 SALT cap for high income taxpayers and applying the SALT cap to corporate taxpayers, alongside shutting down the pass-through workarounds, as we suggest in the text.
29. This percentage is based on the CRFB TCJA extensions calculator (CRFB 2023c), under the assumptions of our policy recommendations in section IV.
30. This would include an Untaxed Profits Rule (UTPR) (as a backstop against base erosion by non-adopting countries) and a qualified domestic minimum tax (QDMT.)
31. There are several revenue provisions that are similarly workable as the main provisions discussed in our table 1, but that lie outside the scope of our analysis. These include the elimination of fossil fuel preferences in the tax code, removal of like kind and depreciation real estate preferences, partnership reforms, inventory reforms, conservation easement reform, small business stock reform, tightening estate tax loopholes, rules affecting the taxation of income from digital assets, prescription drug advertising deductibility, a somewhat higher excise rate on stock buybacks, and reforms to the generosity of retirement savings provisions for certain taxpayers. In total, these reforms are more than sufficient to plug the remainder of the revenue gap needed to reach a $3.5 trillion goal.
32. Again, this percentage is based on CRFB (2023c).
33. For a proposal to raise rates further to their 1997 levels, alongside reduced preferences for capital income, pass-through business taxation, and estate taxation, see Zidar and Zwick (2020). As the authors discuss, in 1997 tax revenue was about 3 percentage points higher as a share of GDP, and labor and capital tax rates were more aligned in the context of a broader overall tax base.
34. Recent research by Patrick Kennedy and Harrison Wheeler (2021) highlights the inefficiencies of opportunity zone tax breaks. Opportunity zone investors have very high incomes: the direct distributional incidence of the tax subsidy disproportionately benefits households in the 99th percentile of the income distribution. The authors find relatively little evidence of community benefit; for example, house prices and job postings do not rise in zip codes with opportunity zones.
35. In describing the pass-through income deduction provision (known as Section 199A), Shaviro (2018, p. 1) notes that 199A achieves "a rare and unenviable trifecta, by making the tax system less efficient, less fair, and more complicated. It lacked any coherent (or even clearly articulated) underlying principle, was shoddily executed, and ought to be promptly repealed."
36. A Wall Street Journal tax reporter made an amusing video illustrating this complexity (Rubin 2018). The professions that qualified for lighter tax treatment under 199A included real estate, oil and gas, manufacturing, and architecture, while those that did not qualify for the pass-through deduction included medicine, law, accounting, consulting, and professional sports. Such industrial favoritism is inefficient, since it provides a tax incentive that moves resources toward the favored industries and away from other industries.
37. Furthermore, taxpayers with sufficient flexibility, who often are those at the top, will have a greater incentive to disguise labor income as business income in order to benefit from lighter tax treatment.
38. This score ($1.325 trillion) is from the FY24 Greenbook (JCT 2023b), for the budget window 2024-20–33. JCT has yet to score the FY24 president's budget, and the FY23 score was difficult to compare due to the unusual Greenbook baseline in that year. Some part of this revenue is due to the automatic increase in the GILTI rate that occurs in the context of raising the corporate rate, since the GILTI provides a 50 percent deduction relative to the baseline rate.
39. This would include an Untaxed Profits Rule (UTPR) (as a backstop against base erosion by non-adopting countries) and a QDMT.
40. This is an approximate number. JCT has calculated that a per-country GILTI alongside other Pillar 2 reforms would together raise $236 billion at a GILTI rate of 15 percent (assuming the current number of compliant countries holds constant), and that repealing FDII would generate $224 billion (in an earlier window) (JCT 2023a; JCT 2021b). In these reforms, we are suggesting a higher GILTI rate of 21 percent and a later budget window (which should increase revenue). In addition, we are also proposing repealing BEAT and turning off CAMT for GILTI payers (which should reduce revenue). The Office of Tax Analysis at Treasury scored the full suite of international reforms here at more than $1 trillion, see (Treasury 2023b). However, subsequent adoption by compliant countries abroad is expected to reduce the revenue gains from U.S. international reform, (since not all low-tax income will end

up in the U.S. tax base). Indeed, some of this revenue likely "belongs" in other high-tax countries abroad, which have also lost revenue due to profit shifting.

41. This is also an approximate number. Recent JCT scores (see, e.g., JCT 2017) make the steady-state cost of extension appear to be approximately $30 billion a year, but there may be timing effects that make the cost lower, since they are estimating temporary provisions that sunset. Any cost savings relative to this estimate could be devoted to the refundability reforms described in footnote 44.
42. The minimum tax agreement is Pillar 2 of the agreement, which also includes a Pillar 1 agreement to redistribute taxing rights toward market jurisdictions. Pillar 1 has not yet reached the implementation stage.
43. For more on competitiveness, see Clausing (2017) and Kleinbard (2014). Competitiveness is often left undefined, but metrics of competitiveness that focus on the U.S. as a location for doing business are likely to be more relevant to the national interest than the definition of the multinational business community, which focuses instead on the relative success of U.S. multinationals in cross-border merger and acquisition bids.
44. In particular, we propose making the R&E credit Pillar 2 consistent, in a revenue-neutral basis, by changing the structure of the credit so that it is refundable if not used to offset tax payments within four years (which is consistent with Pillar 2 rules); this is less expensive than full refundability. The cost of this more modest refundability can be offset by making the credit slightly less generous.
45. For a comparison of U.S. corporate tax revenues with those in peer countries, see OECD's "Tax on Corporate Profits" (OECD 2022). The U.S. also has a large pass-through sector, even in the context of strong corporate profits. Federal Reserve data show that corporate profits have risen strongly since the 1980s, by about 50 percent as a share of GDP. Their data include both C corporations and other corporations; unfortunately, the National Income and Product Accounts data do not allow a separate breakdown of C corporation profits, and public IRS data are incomplete. Fortune 500 data on top U.S. corporations also indicate strong increases in corporate profits for the Fortune 500. For example, real profits (adjusted for inflation) rose 67 percent over the prior decade's lists, 2013–22, in part due to a spike in profits in the final year of the list (authors' calculations). CBO forecasts that net income subject to U.S. corporate tax will grow strongly in the coming years (CBO 2023d).
46. While the TCJA lowered corporate revenues substantially, there is less evidence of positive supply-side effects on the economy as a whole. See, e.g., Gale and Haldeman (2021).
47. More than 70 percent of capital income goes entirely untaxed by the U.S. government at the individual level since it is held by untaxable entities or in untaxed accounts. Rethinking such tax preferences would be exceedingly politically difficult (Burman et al. 2017; Rosenthal and Burke 2020). Even for taxable U.S. accounts, taxation is often deferred indefinitely (until the capital gain is realized) or eliminated entirely (in the case of step-up in basis at death).
48. For example, the top one percent of the U.S. income distribution receives 12 percent of all labor income, but 52 percent of positive capital income. See Treasury (2022).
49. In the U.S., the federal government has implemented large cuts in the top income tax rates applied to dividend income and long-term capital gains, reductions in the reach of the estate tax, and sharp reductions in the corporate income tax rate in 1986 and 2017. For the experience in other countries, see Hourani et al. (2023).
50. All conventional models of corporate tax incidence assign the vast majority of the burden of the corporate tax to capital or shareholders, including models used by the JCT, the CBO, the Treasury, and the nonpartisan Tax Policy Center (CBO 2021a; Cronin et al. 2012; JCT 2013; Nunns 2012).
51. The JCT calculated that U.S. multinational companies paid an average tax rate of about 8 percent on their worldwide income in 2018. These tax rates are far lower than those paid by domestic companies, and indeed far lower than tax rates faced by multinational companies abroad (JCT 2021a, tab. 3, p. 58).
52. See the 2019 IRS SOI Publication 16, the "Corporation Income Tax Returns Complete Report" (IRS 2019). For a more detailed discussion of the importance of market power in capital taxation, see Clausing (2023a).
53. The rate can be lower on a routine return on tangible assets and payroll, but 15 percent is the lowest rate on returns above that level.
54. For one explanation of the flaws of the FDII provision, see Clausing (2020). Reform of FDII would ideally avoid the tax subsidy to exports (a subsidy that is not consistent with WTO rules) as well as the implicit incentive to offshore physical assets. (All equal, greater domestic assets reduce the FDII deduction.) Furthermore, the FDII provision provides lower tax rates for profits that are above some normal return, providing a perverse tax preference for excess profits, the opposite of what economic theory would suggest. The goals of the FDII provision would be better met through enhanced tax incentives toward domestic research and development, which would encourage the development of intellectual property in the U.S. Furthermore, there is a large overlap between companies benefiting from the current FDII provision and those that would benefit from enhanced tax incentives for R&D.
55. In some instances, the combination of expensing and full interest deductibility means that a subset of investments benefit from negative effective tax rates; leveling the treatment of debt- and equity-financed investments can reduce these tax treatment differences. Furman (2020) suggests completely ending interest-deductibility, coupled with expensing. While these changes would be growth enhancing and would generate revenue in the steady-state, in the 10-year budget window that combination would lose revenue. This reform is highly desirable, but difficult to enact politically.
56. JCT recently estimated the revenue effect of this proposal (CBO 2022b).
57. This is an approximate number. Official scorekeepers recently estimated that raising long-term capital gains and dividend rates by 2 percentage points would generate $102 billion over the decade. Because implementing carryover basis should reduce capital gains tax elasticities, we take a linear extrapolation (that assumes that lock-in effects are not significant as we go from a 2-percentage-point to a 5-percentage-point increase) to arrive at the $250 billion number (CBO 2022f).
58. JCT recently scored taxing carried interest at ordinary income rates as a revenue option generating $11.5 billion over a decade (CBO 2022e).
59. Early models even suggested the optimal capital tax rate could be zero (Atkeson, Chari, and Kehoe 1999; Atkinson and Stiglitz 1976; Chamley 1986; Chari and Kehoe 1999; Jones, Manuelli, and Rossi 1997; Judd 1985). Yet aspects of these canonical models are highly unrealistic, including infinitely lived households, perfect foresight, perfect capital markets, and so on. Furthermore, recent theoretical work has suggested channels whereby there is an important role for positive capital taxes, often at rates similar to those applied to labor income (Conesa, Kitao, and Krueger 2009; Diamond and Saez 2011; Farhi et al. 2012; Piketty and Saez 2012; Stiglitz 2013).
60. Some recent academic work (Agersnap and Zidar 2021; Sarin et al. 2021) has pointed out that these elasticities likely understate the revenue-maximizing rate even without changes to the taxation of unrealized capital gains, for example through constructive realization at death.
61. (Paulson 2020); Agersnap and Zidar 2021 suggest an even higher revenue-maximizing rate of 47 percent.
62. See CBO (2022e). This may well be a lower bound of the revenue potential here: One extrapolation from prior CBO scores implies that taxing capital gains at the revenue-maximizing

rate would raise around $350 billion over a decade if that rate is around 30 percent, and more like $600 billion if it is 50 percent. These estimates come from Sarin, Summers, and Kupferberg (2020), who naïvely extrapolate from earlier CBO estimates (CBO 2020).

63. In 2021, JCT scored legislation to close the carried interest loophole as raising $63 billion over a decade. The legislation would require managers to recognize deemed compensation annually and be taxed at ordinary rates and subject to self-employment taxes on that compensation. However, the revenue-raising potential of closing the carried interest loophole will depend on how it is stacked vis-à-vis the increase in capital gains rates and the expiration of cuts in ordinary income rates that we propose, since an important driver of the revenue potential is the wedge between these rates (U.S. Senate Committee on Finance 2023b).
64. Although to our knowledge no revenue estimate exists for this proposal, CBO periodically considers the effect of limits on the deduction for charitable donations. It recently estimated gains from two alternatives: (1) limiting deductions to only the amount of a taxpayer's contributions that exceeded 2 percent of her AGI, or (2) eliminating deductions for non-cash contributions, as generating upwards of $250 billion over the course of the next decade (CBO 2022d).
65. JCT estimates suggest that realization at death costs $40 billion per year, but this total would be reduced by potential exemptions (Congressional Research Service 2021).
66. A proposal like this one could be further tailored to reach a narrower sliver of the population; for example, Rosenthal (2022) has advocated taxing unrealized gains at death only for the very rich (i.e., couples with more than $100 million and singles with more than $50 million), with an exemption for transfers to spouses. Such tailoring will reduce the revenue potential sizably, however.
67. The so-called billionaires' minimum income tax is practically a way to implement realization at death. It raises far more revenue because of the pre-payment of unrealized capital gains, which reduces lock-in effects. When implemented as a 25 percent minimum tax on the unrealized-gains inclusive income of the 20,000 families with more than $100 million of wealth, capital gains prepayment raises $436 billion over 10 years (Treasury 2023b).
68. Per Treasury, these changes were estimated to raise about $200 billion over the window 2017–2026. We increase the estimate modestly at a 4 percent nominal rate to account for both inflation and the growth in the value of estates in the later window. This is an underestimate of the pace of nominal estate growth over this time period, but we do not have data on that question.
69. The 2017 Treasury Greenbook (Treasury 2016) described the proposal as making the 2009 estate and gift tax parameters permanent, so a top rate of 45 percent would apply, with a $3.5 million exemption for an individual ($7 million per couple) and a $1 million gift tax exemption ($2 million per couple), with no indexing for inflation.
70. CBO (2022c) indicates that a similar tax (on average, over the window) would raise about $640 billion, excluding gasoline limits the tax to 74 percent of its potential. (This number is 74 percent of the larger tax modeled in the table, where 74 percent is calculated based on the slower ramp-up of taxes included in the same table.) Our tax would raise a bit less revenue since it would also exclude home heating oil, although in practice that is a small consideration. In addition, we would include a carbon border adjustment fee, which would raise some revenue. Our tax would raise more over subsequent decades since it starts at a lower level, increases gradually at first, then increases more steeply later in the budget window, ending at a higher level than the CBO tax. Of note, there is substantial uncertainty about the future path of carbon emissions, in part due to difficulty forecasting the effectiveness of IRA subsidies.
71. The Obama administration took climate change seriously, playing a constructive role in the Paris Agreement and taking important regulatory steps, including the Clean Power Plan. Unfortunately, the Clean Power Plan faced successful court challenges, and the Trump administration went so far as to withdraw the U.S. from the Paris Agreement. On President Biden's first day in office, however, he signed an executive order to rejoin the Paris Agreement, and the U.S. officially rejoined in February 2021 (Blinken 2021). Beyond the IRA, both regulatory measures and other legislation have supported U.S. climate change mitigation efforts. For example, the Infrastructure Investment and Jobs Act of 2022 funded important investments in power and transmission infrastructure as well as electric vehicle charging stations.
72. A summary of the legislation is provided in Bistline, Mehrotra, and Wolfram (2023). See CFRB (2023d) for a summary of the new JCT scores. They derive their analysis from sources that include JCT's estimate of the Limit, Save, Grow Act, JCT's score of amendments to repeal certain provisions of the Inflation Reduction Act, and JCT's score of the Build It In America Act.
73. There have also been important issues surrounding permitting reform, highlighting concerns that building has become excessively time-consuming, litigious, and difficult, potentially reducing the effectiveness of these clean energy incentives.
74. For example, the EU imposes costs on its companies through its emissions trading system, with associated carbon prices that often exceed $80 per metric ton. As free emission permits are being phased out, the EU intends to levy a carbon border adjustment such that all producers—both domestic and foreign exporters to the EU market—face the same carbon price. China, India, Indonesia, and Thailand, among other countries, have objected to the EU carbon border adjustment, however.
75. For example, both French President Emmanuel Macron in late 2022 and the European Commission President Ursula von der Leyen in early 2023 voiced strenuous concerns during White House visits (Bennett 2022; Amaro 2023).
76. For more on the concerns posed by countries' asymmetric climate policy choices, see Clausing and Wolfram (2023).
77. This proposal is described as a corporate carbon fee since those remitting the tax would typically be corporations in the oil, gas, and coal businesses. We would not distinguish taxpayers based on organizational form, but all payers would be businesses. There are also important complementary policy steps that involve spending or regulation. We set these aside here, beyond noting that the judicial environment makes relying solely on regulatory solutions to address climate change difficult, regardless of other policy considerations.
78. For example, as discussed in Bown and Clausing (2023), ending the domestic content provisions that are embedded in several of the IRA clean energy tax credits would serve both energy transition goals and our alignment with longstanding trade norms, easing tensions that have arisen with many key partner countries. While we are sensitive to the complex political ecosystem that generated these provisions, it is also important to facilitate global cooperation. In addition, permitting reform can make sure that public costs translate into the building of new clean energy projects and infrastructure, without undue procedural hurdles.
79. An alternative approach to protect households from transportation cost increases would pair the reform with a repeal of the federal gas tax, without exempting retail gasoline from the carbon fee. This combination would have an approximately zero effect on gas prices at a carbon price of $20. If the carbon price were to rise beyond $20, it would begin to affect households, but the electric vehicle transition would also be farther along at that point, and the additional cost could serve to further incentivize that transition.
80. For one example, see a recent Resources for the Future analysis (Roy, Burtraw, and Rennert 2021).

81. These prices would be much lower than those from many carbon pricing systems throughout the world, including those in the Canada and the EU, especially when considering expected increases over the coming decade. See the World Bank tracker (The World Bank 2023).
82. For a discussion of methane policy options as well as one proposal for greater international policy alignment on methane in the oil and gas sector, see Clausing, Garicano, and Wolfram (2023).
83. For example, several countries are contemplating carbon pricing initiatives in response to the forthcoming EU carbon border adjustment. U.S. adoption of a parallel policy would make such incentives even stronger.
84. This sounds complicated but is actually quite feasible. Existing sources of data provide refined data on carbon footprints by geographically disaggregated breakdowns, and taxpayer zip codes could be used to adjust carbon dividends accordingly.
85. Both these estimates are very rough approximations from Sarin and Mazur (2023), discussed at length in text.
86. Already in the past 12 months the agency's rate of answering phone calls from taxpayers has jumped from around 15 percent to around 85 percent this past filing season because of these investments.
87. Treasury estimated that the direct effect of this investment would net about $320 billion in hitherto uncollected taxes over the course of the next decade in the FY22 Greenbook; indirect effects would increase the estimate to about $400 billion, as noted in a later assessment; (Treasury 2021).
88. Although it is not our subject here, the challenging political environment that the IRS finds itself in merits additional thought by policymakers and outside experts. Because the agency is now funded by both base discretionary appropriations (meant to cover going concern IRS activities) and a mandatory stream from the IRA (meant to fund transformation efforts), it faces threats to adequate funding both in annual budget negotiations and from legislative vehicles aimed at rescinding mandatory funds. Policy changes could help alleviate one or both of these threats, e.g. in the extreme, shifting to exclusively mandatory funding for the agency would remove threats from the annual appropriations process; explicitly disallowing mandatory recissions from being used to fund other appropriations could also help protect mandatory funding, although it would not remove the threat of low discretionary funding as a way to limit the IRS's modernization efforts.
89. CBO previously did not score deterrence effects, e.g. (CBO 2020). More recently the CBO has included them but has concluded that deterrence would change the voluntary compliance rate only modestly.
90. CBO has various estimates for IRA investments, e.g. (Swagel 2021).
91. For example, more-recent research from Boning et al. (2023) suggests that a focus on high-end enforcement is likely to yield even greater returns, estimating that each $1 invested in high-end audits generates $12 when accounting for deterrent effects.
92. See the tax gap report from the U.S. Government Accountability Office (2019).
93. A recent effort to make progress on these dimensions included reporting from financial institutions, for example on account inflows and outflows, for the near universe of bank accounts. While a substantial revenue raiser, estimated by Treasury at hundreds of billions in additional revenue over the decade, the proposal was never adopted, given privacy and implementation concerns. Former IRS Commissioner Charles Rossotti and technology executive Fred Forman have proposed several modifications to this baseline proposal in efforts to decrease taxpayer burden, which include asking the IRS to determine which taxpayers would qualify for reporting based on income limits and the presence of low visibility income (Forman and Rossotti 2021). Approaches like this would decrease the number of new information reports that financial institutions would have to prepare; however, it would also increase the implementation difficulty for institutions subject to the reporting requirements (including banks, online payments systems, and cryptocurrency exchanges).
94. Our estimate is less than triple the $260 billion estimate from CBO (2022c) for a one basis point tax. Revenue would not scale linearly because transaction volumes will fall in the face of a higher tax rate.
95. As CBO (2022c, p. 1) notes, "The tax would not apply to the initial issuance of stock or debt securities, transactions of debt obligations with fixed maturities of no more than 100 days, or currency transactions (although transactions involving currency derivatives would be taxed). It would be imposed on transactions that occurred within the U.S. and on transactions that took place outside the country and involved at least one U.S. taxpayer (whether a corporation, partnership, citizen, or resident)."
96. Academics have pointed out that the varied experience of FTTs in practice is related to a wide range of critical and complex design issues. As one example, some FTTs have not applied to derivatives, which creates a clear avoidance opportunity, given that such securities can be economically equivalent to asset purchases. But since there is no payment at the time of a derivatives transaction, one must decide the appropriate tax base for the FTT (Burman et al. 2016).
97. Burman et al. (2016) also discuss the strong revenue potential and progressivity of an FTT, calculating that a tax with a base rate at 0.34 percent could raise up to 0.40 percent of GDP.
98. This estimate is from the fiscal year 2024 Greenbook (Treasury 2023b).
99. Aspects of this tax treatment are sometimes referred to as the "Gingrich-Edwards" loophole (named for prominent politicians who benefited from it).
100. This estimate is from the fiscal year 2024 Greenbook, (Treasury 2023b).
101. See the CFRB "Build your own Child Tax Credit Calculator," (CRFB 2023b).
102. See Swagel (2023a).
103. See the CFRB "Build your own Child Tax Credit Calculator" (CRFB 2023b).
104. For more on these considerations, see Clausing (2023b) and Clausing and Wolfram (2023).
105. This estimate uses the CRFB calculator to estimate what share of the bracket extension cost comes from this bracket, alongside the CBO estimates of the cost of extending all brackets.
106. See our op-ed (Sarin and Clausing 2023) as well as a longer treatment of the revenue question in Clausing (2023c).
107. See JCT (2021b, tab. 3, p. 58) for the analysis of the 2018 data. These tax rates are far lower than those paid by domestic companies, and indeed far lower than tax rates faced by multinational companies abroad. A recent Reuters study (Bergin 2021) found that U.S. multinational companies pay effective tax rates that are 8 percentage points lower than those of multinational companies in other countries.

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At the end of 2025, almost all of the individual, estate, and pass-through provisions of the Tax Cuts and Jobs Act (TCJA) will expire. This looming expiration creates an important opportunity to improve tax policy along multiple dimensions at the same time that TCJA provisions are evaluated for possible extension. In this paper, we suggest four key principles to guide tax policy choices in 2025: first, reforms should raise revenue on net, improving sustainability; second, reforms should respond to persistent inequalities by increasing the progressivity of the tax code; third, reforms should work to reduce tax-based inefficiencies in the code, and finally, reforms should address global collective action problems such as climate change and tax competition. Using these principles as a guide, we then evaluate possible TCJA extensions and consider a menu of revenue-raising reforms that together have the potential to raise about $3.5 trillion over the coming decade, while improving the progressivity and efficiency of the tax system.

Total revenue raisers in proposed menu

Proposal	10-year revenue effect (billions, unless specified)
TCJA extensions of expiring provisions	~$0
• Extend TCJA higher standard deduction, exemption removal, and a more generous child tax credit	
• Extend a revenue-neutral version of TCJA deduction limits, alternative minimum tax (AMT) provisions, and rate changes, as described in text	
• Other expiring provisions are allowed to expire	
Raise the corporate tax rate to 28 percent	$1.3 trillion
Implement international tax reforms including:	$500
• Stronger per-country GILTI at 21 percent	
• Pillar 2 consistent provisions	
• Repeal the Base Erosion and Anti-Abuse Tax (BEAT), the corporate alternative minimum tax (CAMT) (for GILTI payers)	
• Repeal the foreign-derived intangible income (FDII)	
Restore research and experimentation expensing, make Pillar 2 consistent	-$300
Increase tax rates on long-term capital gains and dividends by 5 percent	$250
Carryover basis for capital gains	$160
Eliminate the carried interest loophole	$10
Return to 2009 estate and gift tax parameters	$250
Corporate carbon fee and border adjustment	$650
Reverse Internal Revenue Service (IRS) funding recission of $21 billion	$260
Permanent mandatory stream of funding to the Internal Revenue Service (IRS) (2031-2035)	$240
Financial transactions tax (FTT) of three basis points applied to most stock, debt, and derivatives transactions	$540
Close Self-Employed Contributions Act (SECA)/net investment income tax loopholes	$300
Expand the Earned Income Tax Credit (EITC) to the American Rescue Plan (ARP) parameters	-$156
Expand the Child Tax Credit (CTC)	-$650
Extend expanded premium tax credits (PTCs)	-$270
Other revenue raisers	$400
Net total	$3.5 trillion

Source: Authors' calculations.

Note: Authors' calculations based on sources detailed in the paper text.

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