DEMOCRATS VS. REPUBLICANS: OPPOSITE VIEWS ON TAXES

Authors
Nina Krauthamer
Wooyoung Lee

Tags
2024 Income Tax
T.C.J.A.

INTRODUCTION

Democrats and Republicans have starkly different views about a host of issues, including a number of social and foreign policy issues. The parties' positions on taxes are also diametrically opposed.

The party platforms are fairly straight forward and are reproduced in full:

Democrats (Party Platform)

> *Reforming the Tax Code to Benefit Working Families*
>
> Our tax system has been rigged against the American people by big corporations and their lobbyists, and by Republican politicians who dole out tax cuts to their biggest donors while leaving working families to struggle.
>
> Democrats will take action to reverse the Trump Administration's tax cuts benefiting the wealthiest Americans and rewarding corporations for shipping American jobs overseas. We will crack down on overseas tax havens and close loopholes that are exploited by the wealthiest Americans and biggest corporations. We will make sure the wealthy pay their fair share in taxes. We will make sure investors pay the same tax rates as workers and bring an end to expensive and unproductive tax loopholes, including the carried interest loophole. Corporate tax rates, which were cut sharply by the 2017 Republican tax cut, must be raised, and "trickle-down" tax cuts must be rejected. Estate taxes should also be raised back to the historical norm.
>
> Democrats will reform the tax code to be more progressive and equitable, and reduce barriers for working families to benefit from targeted tax breaks, including the Earned Income Tax Credit and the Child Tax Credit. Our program of reform will provide immediate, marked relief for working families, including more generous, refundable tax credits to benefit low- and middle-income families, and easier and more equitable access to tax provisions that help working families build wealth, including by equalizing tax benefits for retirement contributions and providing more accessible tax breaks for homeownership.

Republicans (Party Platform)

> *Make Trump Tax Cuts Permanent and No Tax on Tips*
>
> Republicans will make permanent the provisions of the Trump Tax Cuts and Jobs Act that doubled the standard deduction, expanded

> the Child Tax Credit, and spurred Economic Growth for all Americans. We will eliminate Taxes on Tips for millions of Restaurant and Hospitality Workers, and pursue additional Tax Cuts.

Note that Donald Trump has announced that he would propose eliminating income taxes on Social Security benefits.

Harris' past proposals in 2019, when she was running to be the Democratic candidate, were different from Biden's proposals.[1] While Biden pledged not to raise taxes on anyone making less than $400,000. Harris' plans focused on a lower income threshold: $100,000. Harris would have repealed the Tax Cuts and Jobs Act with the exception of provisions benefiting taxpayers earning less than $100,000 per year (as reported in the publication *Tax Notes*). Other proposals included an increase in the corporate tax rate to 35% and increases to the estate tax rates. Harris's proposals today are more in line with the Biden proposals, with some significant changes. She has recently announced that she would eliminate tax on tip income, similar to the earlier Trump proposal.

This article will explore these differences and some possible tax law changes, depending on the composition of the Senate and House, as well as the Presidency. We will compare the tax proposals set forth in the "General Explanations of the Administration's Fiscal Year 2025 Revenue Proposals," which is commonly referred to as the "Green Book" (summarizing the proposals for the Biden Administration's Fiscal Year 2025 Budget) with the Republican "Mandate for Leadership, the Conservative Promise — Project 2025, Presidential Transition Project ("Project 2025") guide to tax policy. Harris' proposals (as they differ from the Biden proposals) will be noted, as well. Actual tax proposals in the future may not reflect these two position papers.

THE DEMOCRATS

The Democrats would raise the corporate rate to 28% and the minimum tax on billion-dollar corporations to 21%. Harris would allow new companies to deduct up to $50,000 in start-up expenses.

There would be a 25% mark-to-market minimum tax on the individuals with wealth of more than $100 million.

The net investment income tax ("N.I.I.T.") and additional Medicare tax rate would be increased to 5% for taxpayers with adjusted gross income in excess of $400,000. All pass-through business income of taxpayers with adjusted net income in excess of $400,000 would be subject either to the 3.8% NIIT or the Medicare tax (currently 3.8%) under the Self-Employment Contributions Act ("S.E.C.A.")

There would be no deduction for compensation over $1 million paid to corporate employees, excluding compensation paid to employees of S-corporations. An S-corporation is a corporation that elects to be a pass-through for income and loss purposes. It was a precursor to an L.L.C., but is not as malleable as an L.L.C. when it comes to restructurings.

---

1 Tobias Salinger, "How Kamala Harris may shift the crucial tax debate in this year's election," Accounting Today, July 22, 2024.

Further measures would be taken to discourage corporations from booking profits in low-tax jurisdictions, stopping corporate inversions to tax havens, and raising the tax rate on U.S. multinationals' foreign earnings from 10.5 percent to 21 percent.

The tax on stock buybacks would be increased to 4% from 1%.

The types of distributions taxed as dividends would be expanded.

Harris would increase the global intangible low-taxed income ("G.I.L.T.I.") tax rate from 10.5% to 21 percent, calculate the tax on a jurisdiction-by-jurisdiction basis, and revise related rules.

She would also repeal the reduced tax rate on foreign-derived intangible income ("F.D.I.I.").

Tax cuts for individuals made by the 2017 tax law would be repealed. The top rate of 39.6% would be restored.

Capital gains would be taxed as ordinary income for those with more than $1 million in income.

The benefit of favorable carried interest treatment for investment fund managers would be eliminated, and income arising from a carried interest would be taxed as ordinary income.

Harris proposed a 28% tax on long-term capital gains, or assets owned for more than one year, for households making more than $1 million annually.

The like-kind exchange rules for real estate would be limited to $500,000 a year ($1,000,000 a married couple).

Transfers of appreciated property by gift or on death would be treated as realization events, thereby subjecting realized gains to income tax. The estate tax would continue to apply as well.

Harris has made a number of campaign proposals that would reduce taxes on low- and middle-income households by (i) expanding the Child Tax Credit ("C.T.C."), (ii) expanding the Earned Income Tax Credit ("E.I.T.C.") by expanding the age range and by adjusting the credit structure to be more generous to childless workers, (iii) increasing premium subsidies for health insurance under the Affordable Care Act ("A.C.A.") by extending certain provisions that would otherwise expire, and (iv) providing an average $25,000 in down payment assistance to qualified first-time homebuyers:

Under current law, eligible families receive a tax credit of up to $2,000 per child, a portion of which is refundable ($1,700 in 2024). Starting in 2026, the total credit amount will decrease to $1,000. Under the Harris campaign policy proposal, the credit amount would instead permanently increase to $3,600 per child 5 years and younger, and to $3,000 per child older than 5 years starting in 2025. The proposal would also increase the maximum age of eligible children from 16 to 17 and make the credit fully refundable. Families with newborns would receive an additional $2,400 fully refundable credit during the first year of the child's life, bringing the total maximum credit value to $6,000 for newborn children.

Harris favors raising the corporate income tax rate to 28 percent. Under current law, corporations pay a statutory tax rate of 21 percent on their taxable income. This proposal would raise that rate to 28 percent. That would reverse one-half of the statutory corporate tax rate reduction that was enacted as part of the 2017 Tax Cuts and Jobs Act, which lowered the rate from 35 percent to 21 percent.

THE REPUBLICANS

The 2025 Proposal[2] would continue the combined payroll tax of 15.3%.

Income tax would be imposed at a 15% rate (after application of a standard deduction) up to the payroll tax cap, currently $168,600 and indexed for inflation, and at 30% for income above that amount.

Capital gains and qualified dividends would be indexed and taxed at a rate of 15%. Most deductions, credits, and exclusions, including the earned income tax credit, would be eliminated.

The corporate tax rate would be lowered to 18%.

The estate and gift tax rate would be lowered to a rate not higher than 20% and the temporary, higher exemption amount passed as part of the 2017 tax law would be made permanent.

The G.I.L.T.I. regime was one of the biggest changes from the T.C.J.A. G.I.L.T.I. tax is currently levied at an effective rate of 10.5%, which is scheduled to rise to 13.125%. The proposal would cap the tax rate at 12.5%. (In combination with the proposed reduced corporate rate of 18%, this would mean that the Code §250 deduction would be set at 69.44%.)

"Major differences exist as to the proper levels of taxation and the proper objects of expenditures. The country is at a major tipping point."

Many of the reforms in the Inflation Reduction Act of 2022, such as the corporate alternative minimum tax and the tax of stock buybacks, would be repealed.

Longer term proposals include the creation of a national sales tax, a business transfer tax, a cashflow tax, and a Hall-Rabushka flat tax. The proposal generally calls for the elimination of most deductions and credits but proposes new or expanded credits in areas such as private education, rural housing, and U.S.-based manufacturing.

TAKEAWAY

Before the turn of the millennium, Democrats and Republicans shared many of the same ideas as to taxation. Regarding expenditures, there was agreement that certain expenditures needed to be made. However, Democrats generally preferred to spend more and Republicans generally preferred to spend less.

In today's Washington, consensus is a dirty word. Major differences exist as to the proper levels of taxation and the proper objects of expenditures. The country is at a major tipping point.

---

2 See Sullivan, Martin, "Your Guide to Tax Policy in Project 2025", Tax Notes (8/14/2024) for a compete discussion.