

## **The Right Tax? Macroeconomic and Industry Impacts of Proposed U.S. Tax Reform**

Topic: (2.7) Input-output analysis for policy making (1)

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On June 24, 2016, House Republicans released a 35-page report on tax reform that would lower the corporate tax rate to 20 percent, provide full expensing for business investments, eliminate the deduction for net business interest expense, eliminate most tax preferences, and exempt active foreign business income under a “territorial”™ system. The plan also includes border adjustments that would exempt export receipts and deny a deduction for import costs, following a destination-based approach to tax jurisdiction. Overall, the “Blueprint” is a type of destination-based business cash flow tax (DBCFT). In addition, the proposed reform allows for immediate expensing of investments, unless the investment components were imported. The proposed tax system is expected to have wide-ranging and varying effects on prices, real wages and the exchange rate.

In this study, we use the Inforum Lift model of the U.S. to examine the effects of this proposed tax reform on taxes paid, prices, output and employment by industry. Lift is a dynamic econometric IO model at its core, calculating outputs and prices based on final demand and value added forecasts. Interindustry accounting enables the calculation of the tax base at a level of 71 industries. The model also includes equations for investment, profits, proprietor income and wages by industry, as well as cash flow and dividends.

We anticipate that the study results will be of interest to policy makers and to US and foreign companies that may be affected by the proposed tax reform. It should also be valuable to IO economists who are interested in developing IO-based models for analysis of tax policy. A preliminary version of this study, which treats the tax like a sales tax, can be found at [http://www.inforum.umd.edu/papers/otherstudies/2017/blueprint\\_impact\\_analysis\\_011017.pdf](http://www.inforum.umd.edu/papers/otherstudies/2017/blueprint_impact_analysis_011017.pdf).