

# THE AMERICAN ECONOMY IN A NEW ERA



## CHAPTER

# \$15 Trillion on the Table in 2029: Ordinary Taxes to Meet an Extraordinary Fiscal Moment

by Kimberly Clausing and Natasha Sarin

---

**Disclaimer:** This paper was written for the Aspen Economic Strategy Group. The views expressed herein are those of the authors and do not necessarily reflect those of the Aspen Institute or the Aspen Economic Strategy Group members.

**Suggested Citation:** Clausing, Kimberly and Sarin, Natasha. 2026. "\$15 Trillion on the Table in 2029: Ordinary Taxes to Meet an Extraordinary Fiscal Moment." In *The American Economy in a New Era*, edited by Melissa S. Kearney and Luke Pardue. Washington, DC: Aspen Institute.

**OCTOBER 2026**



# **\$15 Trillion on the Table in 2029: Ordinary Taxes to Meet an Extraordinary Fiscal Moment**

OCTOBER 2026

## **AUTHORS**

---

**Kimberly Clausing\* and Natasha Sarin\*\***

## **ABSTRACT**

---

The current US fiscal position is not sustainable, and moving toward sustainability will require tax increases. This paper argues that there are ample ordinary tax instruments to meet the fiscal moment without resorting to untested instruments or particularly high tax rates. With care, changes in tax policy can be designed to meet the fiscal moment while also improving tax progressivity, minimizing efficiency costs, aligning with the potential of tax reforms abroad, and strengthening tax administration. These types of tax policy changes can also meet the challenges of taxing wealth and responding to the artificial intelligence revolution. Within the paper, we consider five large buckets of time-tested reform options with a large revenue potential of about 3.3 percent of GDP in combination. Of these, the corporate reforms, IRS funding, and “sin tax” agendas are especially promising; they would together raise about 1.6 percent of GDP.

---

\* Eric M. Zolt Chair in Tax Law and Policy, UCLA School of Law; Nonresident Senior Fellow at Peterson Institute for International Economics

\*\* Professor of Law, Yale Law School; co-founder of the Budget Lab at Yale

*Acknowledgements: We are grateful to Zahrah Abdulrauf for her superb research assistance. We thank Abhi Gupta, Ryan Nunn, Richard Prisinzano, and John Ricco for their suggestions and their work estimating and modelling these tax proposals; we are also grateful to Penn Wharton Budget Model staff, including Lysle Boller and Alexander Arnon, for their work estimating the corporate proposals. We thank Melissa S. Kearney, Luke Pardue, and the staff of the Aspen Economic Strategy Group for their useful suggestions and production assistance. We also received helpful comments from James Poterba and Phillip Swagel.*

## Introduction

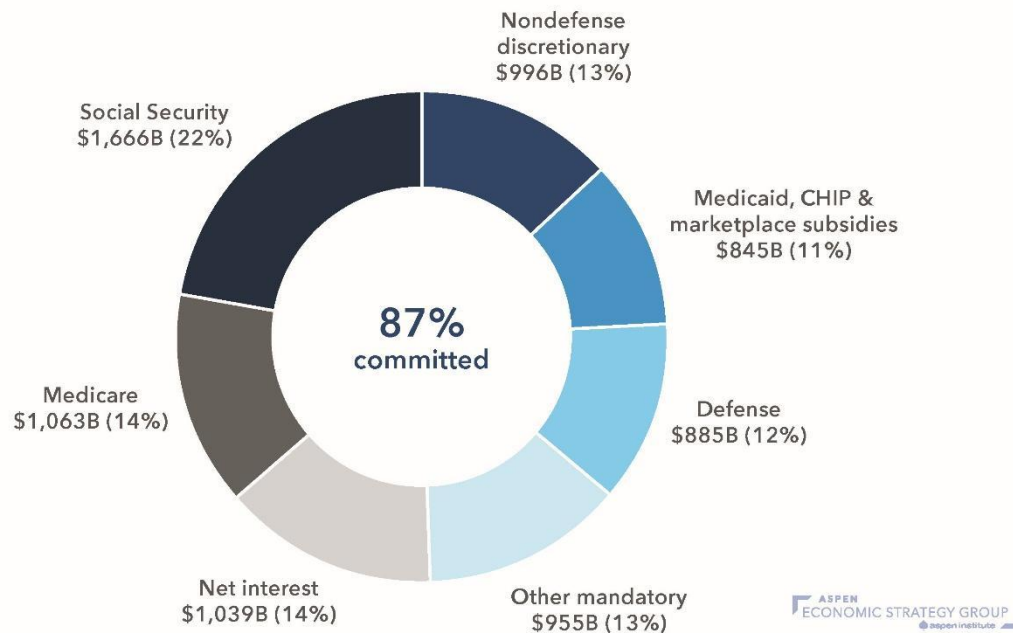
The Congressional Budget Office (CBO) projects that by 2039, the United States will have a debt-to-GDP ratio of almost 130 percent. If the CBO's underlying assumptions prove optimistic (e.g., due to a higher path of interest rates, higher defense spending, or a downturn), debt-to-GDP could easily reach even higher levels over the course of the next decade. On the other hand, developments in AI technology might boost productivity and generate large, unexpected increases in economic growth, improving budget outlooks. Even so, some of those budgetary gains could be offset by increased government support for displaced workers. Thus, while the ultimate details of the US fiscal future remain uncertain, current debt projections are undoubtedly a problem that requires a policy response.

The bleakness of our fiscal trajectory has significant macroeconomic consequences that bear on concerns about household affordability, a salient issue at present. For example, higher deficits put upward pressure on interest rates, which in turn raises borrowing costs for households—including on mortgages, auto loans, and credit cards. Higher debt levels also reduce the fiscal space that governments have to respond to downturns or shocks, which may exacerbate the harms from these events when they occur. Further, high debt levels are a drag on economic growth and risk spurring devastating fiscal crises. While the exact debt burden that pushes a country into fiscal crisis territory is unknown, that does not mean that a crisis will never arise.

For these reasons, fiscal responsibility should be a priority. But achieving a more responsible fiscal stance will not be easy. Simply put, one can reduce budget deficits in two ways: raising revenue or cutting spending. In this paper, we focus on the tax side of the ledger. In part, that choice reflects our expertise. However, this emphasis also reflects our view that there are substantial opportunities for raising revenue, while there seem to be more limited options for cutting spending. In part, this limitation is due to the current breakdown of government spending, which largely finances politically popular entitlement programs, national defense, and interest on prior debt (figure 1).

Within this short paper, we correct a few misperceptions about tax policy that have permeated public consciousness in recent history. The first is that it is possible to fund our government without raising significantly more tax revenue than we do today. The United States is a low-tax country: We rank 32nd out of 38 OECD countries in terms of total tax revenue (including sub-federal jurisdictions) that we collect relative to GDP. And yet many of us would like to see a government that is capable of doing more—investing in future generations, dealing with climate exigency, funding critical infrastructure, and meeting defense spending needs.

**Figure 1: Most federal spending is already spoken for**



*Source: Congressional Budget Office 2026b; FY 2026.*

However, meeting such goals is simply not possible without modifying our tax system to raise additional revenue. Indeed, due to our aging population, even funding the government services that we are currently able to provide is going to require increased revenue. The next president will have to confront this issue, given that the Social Security retirement trust fund and the Medicare hospital insurance trust funds are set to be exhausted by 2032 and 2040, respectively (Congressional Budget Office 2026b).

The second misperception we hope to correct in this paper is that novel tax instruments are needed to capture meaningful tax revenue. In recent years, there has been a lot of discussion about wealth taxes and mark-to-market taxation of capital income as potential tools to capture untaxed gains that accumulate to those at the top with the highest ability to pay into our tax system. Many of these ideas have gained significant traction; California is currently debating a wealth tax, and both the Biden administration and Senate Democrats have proposals that would tax unrealized capital gains for the wealthiest US households. These approaches are important and worthy of debate, but serious questions remain about their legal viability and implementation. In contrast, a well-functioning corporate tax is simple to implement and unquestionably constitutional, and it can achieve similar aims, since most wealth originates in businesses.

Likewise, proposals for the government to take stock in profitable corporations or AI firms are not unique in allowing for society to share in their success (Bearer-Friend and Polcz 2025); a well-functioning corporate tax can also respond to these challenges. If the government instead takes a small share of AI companies' equity, it would have to either sell shares or receive significant dividend issuance for meaningful revenues. It would also have to grapple with what it means for the state to be involved in the ownership and governance of private corporations.

In contrast, corporate tax reforms require a meaningful fiscal contribution from all successful companies, which could amount to more than 25 percent of the profits of top firms. This approach does not require government control of the underlying shares, nor would it entail distortions to private-sector decision-making. Further, the corporate tax is well designed to reach *any* profitable corporation, without having to adjudicate which firms are AI firms, whether profits result from AI, the nature of "windfalls," or whether profits were "good" or "bad" for society. This design keeps the government out of the role of blessing or condemning particular firms or industries and instead simply requires a reasonable tax contribution for firms that have prospered in the American economy. The corporate tax is also flexible and does not predetermine the consequences of AI, which remain highly uncertain. Expert opinions range widely regarding the nature and degree of changes that AI will bring and when it will bring them. Still, it remains important to have time-tested tax tools that can respond to rapid technological change, in part to assist those for whom change is particularly disruptive.

We highlight five key buckets of potential tax revenue that are available for policymakers to tap:

1. Strengthening the corporate and international tax system would raise approximately \$4 trillion (0.90 percent of GDP) over the 2030–2039 budget window, while also improving the efficiency of the corporate tax and better aligning US policy with international collective action.
2. Adequately funding the IRS would generate over \$1.3 trillion (0.29 percent of GDP) in revenue that is already owed under current law.
3. Implementing a menu of sin taxes would raise approximately \$1.6 trillion (0.36 percent of GDP), while correcting market distortions.
4. Returning individual and pass-through rates to 1990s rates for most taxpayers would raise approximately \$6.0 trillion (1.35 percent of GDP).
5. Reducing the preferential tax treatment of capital income would raise approximately \$2.1 trillion (0.47 percent of GDP), while improving the comprehensiveness of the income tax system.

In total, these five buckets contain nearly \$15 trillion in feasible revenue over the coming decade, or approximately 3.3 percent of GDP.

This proposed list of reforms is ambitious by recent historical standards—the 1993 Clinton deficit reduction effort, widely regarded as a major fiscal accomplishment, reduced the deficit by roughly 1.5 percent of GDP. We are not so naive that we think that a future Congress will legislate these revenue-raising options in full. Our hope is that by pointing out how much revenue sits in these buckets, we are giving policymakers viable options. From this list, they can decide which policies are most worthy of inclusion in future tax packages and what dials to turn with respect to rates and other policy parameters that will bear on total revenue collected.

From a policy perspective, we argue that an overhaul of corporate taxation, tax administration, and sin taxes should rise to the forefront of the next tax reform moment. Importantly, corporate taxation is the easiest tool by which to capture substantially more revenue from capital income, which is disproportionately held by those at the top of the distribution. Funding the IRS is also essential, both to administer the existing tax code fairly and efficiently and to address new challenges and priorities. Finally, excise taxation of harmful activities such as gambling and pollution is actually efficiency-enhancing. Such taxes can also be designed, as we discuss below, to address concerns about the distributional burden of these tools.

## **1. The Current Fiscal Picture**

The US government has a looming problem of fiscal sustainability, as many prominent observers from across the political spectrum have argued. At present, debt is about 100 percent of GDP, and interest costs have risen to roughly \$1 trillion per year, an amount that exceeds the US defense budget (Congressional Budget Office 2026b).

Unfortunately, most members of Congress and the nation’s political leadership have been ineffective at prioritizing deficit reduction, largely due to a failure to take the hard steps required to trim deficits. Cutting taxes and raising spending are far “easier” than the opposite actions, and both parties have contributed to the problem in recent years; the last major (policy-based) deficit reduction effort in the United States was in the 1990s.<sup>1</sup> As a result, US debt is high in both historical and comparative terms. Figure 2 shows how US debts compare to those in other OECD countries.

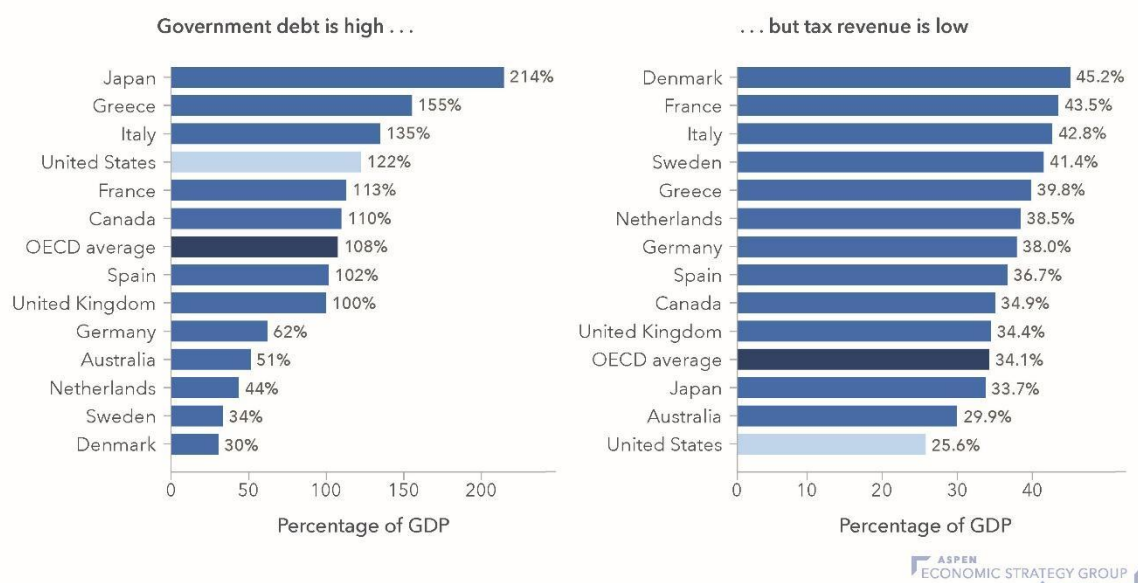
While budget imbalances can be addressed through either spending cuts or tax increases, in this paper we focus on the tax side of the picture. In part, this focus reflects our expertise and where we think we have the most to contribute to public discourse. But it also reflects other realities of

---

<sup>1</sup>The Budget Control Act of 2011 achieved some deficit reduction through discretionary spending caps and sequestration but included no revenue measures. Congress subsequently raised the caps multiple times, undermining much of the original savings (Driessen and Labonte 2015; Diamond and Engebretson 2023). The Fiscal Responsibility Act of 2023 was a more recent deficit-reduction effort; its projected savings were about 0.5% of cumulative GDP over the budget window (Congressional Budget Office 2023).

the US budget, where funding has been committed to areas that will be difficult to trim, including Social Security, Medicare, Medicaid, national defense, and the interest on prior debt.

**Figure 2: The United States has high government debt but collects little tax revenue**



*Source: IMF 2026 (debt); OECD Revenue Statistics 2025 (tax revenue). General government measures; includes subnational governments. Data are for 2024 where available; 2023 otherwise.*

Those components of spending alone account for 74 percent of government fiscal expenditures in fiscal year 2026 (Congressional Budget Office 2026b), and another 13 percent are committed to other mandatory programs such as veterans' benefits, SNAP, and Supplemental Security Income (figure 1).

While some spending cuts in these or other areas may prove feasible, we leave evaluation of these options to other analysts. The recent experience of the Department of Government Efficiency (DOGE) highlights how difficult it is in practice to find ways to meaningfully trim federal expenditures. Further, US demographic pressures alongside the need for other public investments—such as defense spending and workforce support for those displaced by AI—imply a need for more revenue (Dettling and Pardue 2026).

On the tax side of the ledger, there is potential for us to raise much more than we currently do, in ways that are relatively straightforward to implement. In part, that potential is a statement about where we are starting from: The United States is a low-tax country. Tax collections (including state and local taxes) pale relative to those of our peer countries: We raise about 25.6 percent—including state and local taxes—relative to the OECD average of 34.1 percent (OECD 2025).

Importantly, due to a series of tax cuts legislated in the last 25 years, federal tax collections have decreased from 17.7 percent of GDP over 1980–2000 to 16.5 percent over 2001–2025—a gap equivalent to more than \$300 billion per year in today’s economy (FRED 2026). Even if one were to reform the code to collect all the revenue from all the buckets laid out below—which is beyond what we think is feasible for even the most persuasive pro-tax advocate—we would still only collect 3.3 percent more of GDP annually, putting us 30th on the OECD’s list instead of 32nd. One of the benefits of our low-tax status is that it offers us plentiful options for tax revenue that can be collected in ways that are unlikely to be highly distortionary.

Table 1 evaluates several benchmarks that imply a large gap between current projected revenue and the country’s fiscal needs. For example, the *primary* deficit captures the current gap between spending and tax revenue, setting aside interest expense from prior debt. Eliminating the primary deficit as a share of GDP (now about 3 percent) would require almost \$5 trillion in new revenue over the coming ten-year budget period of 2030 to 2039.

Other fiscal targets could include stabilizing the debt-to-GDP ratio, holding deficits constant at 3 percent of GDP, addressing structural fiscal deficits, and returning to historical average deficits. All these goals entail between \$4.4 and \$10.5 trillion in deficit reduction over the budget window.

**Table 1: Fiscal target options**

| Approach                  | Target                                                 | 2039 baseline vs. target                                                                                                                                  | FY2030-2039 savings needed |
|---------------------------|--------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|
| Primary deficit reduction | Eliminate the primary deficit by 2039                  | Move from a projected 2.0% primary deficit to primary balance                                                                                             | ≈\$4.4T /<br>≈1.0% of GDP  |
| Debt/GDP target           | Hold debt/GDP at roughly 100%                          | Hold debt near 100% of GDP rather than allowing it to rise to roughly 130% of GDP under baseline                                                          | ≈\$10.5T /<br>≈2.4% of GDP |
| 3% total deficit target   | Reduce the total deficit to 3% of GDP by 2039          | Move from a projected 6.9% total deficit to a 3.0% total deficit                                                                                          | ≈\$8.6T /<br>≈1.9% of GDP  |
| Mankiw sustainability     | Close a 4% of GDP fiscal gap by 2039                   | Close the full fiscal gap (primary deficits plus recent legislation and debt-service costs) rather than the primary-deficit gap alone (4% vs. ~2% of GDP) | ≈\$8.9T /<br>≈2.0% of GDP  |
| Historical average        | Return total deficit to 50-year average of 3.8% of GDP | Move from a projected 6.9% total deficit to a 3.8% total deficit                                                                                          | ≈\$6.9T /<br>≈1.6% of GDP  |

*Note: Estimates are authors’ calculations for FY2030–2039, assuming enactment in 2029 and savings that phase in linearly to the end-state target unless otherwise noted. Percentage-of-GDP figures in the final column show estimated FY2030–2039 savings as a share of projected cumulative nominal GDP over 2030–2039 (Congressional Budget Office 2026c). The 3% deficit and historical-average targets use CBO’s projected 2039 total deficit; the primary-deficit target uses CBO’s projected 2039 primary deficit; and the historical-average target uses CBO’s reported 50-year average deficit of 3.8% of GDP*

*(Congressional Budget Office 2026c). The debt/GDP target is a 2030–2039 translation of the Committee for a Responsible Federal Budget (CRFB) ’s published FY2026–2035 estimate for holding debt to 100% of GDP, scaled by the ratio of cumulative nominal GDP across windows (Committee for a Responsible Federal Budget 2025). The Mankiw sustainability target applies Mankiw’s estimate of a 4% of GDP fiscal gap to the FY2030–2039 window under the same linear phase-in assumption (Mankiw 2025).*

One overarching question is: Why even bother with deficit reduction? While the notions of fiscal sustainability and global macroeconomic imbalances are abstract, they drive macroeconomic outcomes that affect everyone. In general, it is imperative to show the importance of fiscal imbalances to the lives of ordinary Americans, who can be affected through several mechanisms.

First, unsustainable fiscal trajectories can raise interest rates, raising costs for households through the channels of consumer debt finance, mortgage payments, and small business loan payments. Second, the accumulation of deficits entails large intergenerational transfers that harm future taxpayers relative to past taxpayers. Third, large debt levels can reduce the “fiscal space” that governments have to respond to unforeseen events such as pandemics, recessions, or wars. Finally, while a fiscal crisis is unlikely at any particular moment, any crisis brings large and damaging consequences for the entire economy, augmenting the case for prudent fiscal policy.

The risk is not merely theoretical. In 2022, the United Kingdom experienced a sharp fiscal crisis around the introduction of a “mini-budget” that triggered a sudden loss of market confidence, spiking yields and forcing an emergency intervention by the Bank of England. Earlier, in the period following the financial crisis, Eurozone countries (most significantly, Greece, Ireland, Italy, Portugal, and Spain) faltered as investors became concerned about the ability of some Euro economies to make good on their debt obligations. For a time, their sovereign debt traded at narrow spreads relative to more stable European counterparts before their interest burdens suddenly and aggressively increased.

These countries are of course not perfect analogues for the United States. But recent bond market turbulence in the United States, including a rise in long-term Treasury yields immediately following the April 2025 tariff announcement, suggests that investors may be starting to reassess the trajectory of US fiscal policy (Tedeschi 2025). If the United States were to lose its status as the world’s preeminent safe asset, the consequences would be severe: higher borrowing costs across the economy, reduced capacity for countercyclical policy, and potential contagion throughout the global financial system.

## **2. Guiding Policy Principles**

Throughout, the tax policy options we discuss are informed by traditional tax policy goals. Foremost is the need for revenue, described above, but beyond that goal, we focus on fairness, efficiency, and tax administration.

**Fairness** is in the eye of the beholder, but the tax policy ideas laid out are generally progressive as conventionally defined, asking more from those higher in the income distribution in terms of reductions in after-tax income.

The AI revolution could make progressivity an important tax policy goal. While substantial uncertainty remains, and opinions differ about the extent of disruption that the AI revolution will entail, there is concern that it will substantially increase corporate profits for a few systemically important firms and that it is likely to reduce wages (and thus labor income) for those most easily displaced by AI. Thus, tax policy instruments that can adequately collect revenue from the “winners” of any major structural change (including AI) and that can generate fiscal resources for helping “losers” from the same changes are welcome. Effective tools like the earned income tax credit, wage insurance, premium tax credit assistance, and the child tax credit are helpful but expensive. Expanding fiscal resources by effectively taxing capital income and profits is therefore especially important at present.<sup>2</sup>

**Efficiency** is another core policy objective. While most taxes impose some efficiency costs, we take care to suggest tax policy changes that minimize that negative consequence. For example, our extensive use of “sin” taxes actually reduces distortion due to excessive amounts of carbon, and other externalities, produced by unfettered markets.

Our corporate tax increases are also designed with efficiency in mind, moving the corporate tax base (even) closer to a tax on rents (or excess profits), which can be levied without distorting firm decisions regarding investment, employment, or production. The extent to which any particular corporate tax increase reduces investment depends on the design of the corporate tax itself and is ultimately an empirical question; we seek to minimize the downsides of a corporate tax increase.

**Horizontal equity** in the tax code requires that taxpayers with similar incomes, and ability to pay, pay similar amounts of tax. Currently, the combination of tax preferences (deductions and credits) and underlying differences in the tax treatment of different forms of income (e.g., capital versus labor income) results in those with similar incomes paying dramatically different tax rates. These differences exist throughout the income distribution, but they are especially pronounced for those at the top of the distribution, where some in the top 1 percent pay an effective tax rate of 3 percent while others face one as high as 45 percent. The primary drivers are preferential rates for capital gains and business profits, deductions available only to higher-income filers, and the favorable treatment of pass-through business income under section 199A.

---

<sup>2</sup> Arguably, such tools could have also helped with prior disruptions, including the “China shock” (which is likely a very small fraction of total US labor market disruption over those years) as well as waves of skill-biased technological change, market concentration, and declining unionization. These issues are discussed at length in Clausing 2019.

In addition to inequity, this significant dispersion distorts taxpayer behavior and wastes resources on excessive tax planning.

**Tax administration** is also an essential part of a well-functioning tax system, and a well-funded Internal Revenue Service (IRS) can benefit all Americans in four key ways (Rossotti, Sarin, and Summers 2020). First, by enforcing tax laws, the IRS can collect more of the tax that is due, lessening the need for some combination of tax increases, spending cuts, or deficits. Second, well-functioning tax administration also ensures that dishonest businesses do not enjoy a competitive advantage over honest ones, and that the relative size of tax-evasion-prone sectors does not grow at the expense of compliant industries. Third, a well-funded IRS provides better taxpayer service in terms of answering questions, processing tax returns, and handling disputes. Finally, fair and efficient tax collection can boost tax morale and ease taxpayer compliance burdens. Within this context, more third-party reporting and taxpayer assistance tools (such as electronic filing) could be helpful. The recent erosion of IRS capacity has moved the United States sharply in the wrong direction on all these dimensions but means that steps taken to undo the harm have significant potential.

**Global cooperation** in facing vexing international collective action problems can also be enhanced by this menu of tax policy changes. Three particularly large problems are those associated with climate change, tax competition, and a free and open trading system, all areas where the United States has retreated from international cooperation. Fortunately, the policies that are ideal for domestic reasons alone will also improve alignment with international efforts on these three problems. First, US carbon pricing will reduce US emissions and better align US climate policy with the efforts of other countries; at present, 17 of the G20 countries utilize carbon pricing. Second, a strong US minimum tax on foreign income will better align US policy with foreign efforts on tax competition, including the broad “Pillar Two” reforms discussed below. Third, an end to the Trump administration tariffs will better align US policy with the rules-based world trading system that the US government itself championed for seven decades prior to the first Trump administration.

### **3. Buckets of (Big) Revenue**

Below we describe reforms consistent with the above principles that fall into five buckets: corporate and international tax reform, investments in the IRS, a robust sin tax agenda, adjustment of broader income-tax parameters, and reforming personal capital income taxation. These five buckets are at the heart of the agenda.

#### **Bucket 1: Reforming corporate tax to meet the challenges of a modern global economy**

Of our five buckets, after adjustments to the rate structure, the most revenue comes from corporate and international tax reform, which raises 0.90 percent of GDP in new revenues. While

this may seem like a lot of revenue, it would still leave the United States well below the G20 and OECD corporate revenue/GDP ratios, since US corporate tax revenues begin from a relatively low starting point.

There are several reasons for low US corporate revenues, including the importance of the pass-through business sector, large corporate tax cuts in both the TCJA and the One Big Beautiful Bill Act (OBBBA) legislation, and the continued offshoring of the US corporate tax base. Of note, US public companies are the world's most profitable firms; they account for 42 percent of the *Forbes Global 2000* corporate profits, while the United States accounts for a far smaller share of world GDP (27 percent in dollar terms).

Beyond revenue potential, we focus on corporate tax reform for four core reasons. First, at present, labor income faces a much higher tax burden than capital income, suggesting that revenue might usefully be raised through greater capital taxation. In that context, the most holistic way to reach *all* capital income is at the entity level. At present, much of capital income escapes taxation at the individual level due to tax-exempt accounts (retirement, college savings, health savings accounts), US tax-exempt individuals (foreigners), and tax-exempt entities (endowments, pensions). Further, tax preferences reduce the taxation of even nominally taxable accounts, such as lower capital tax rates, step-up in basis at death, and deferral until realization. While an alternative approach would be to reform these myriad tax preferences, that path may prove difficult or impossible, as tax-preferred retirement accounts, tax-exempt charitable entities, and the exemption of many foreign shareholders are all long-standing and widely supported features of the US tax landscape.

Further, while individual-level capital tax proposals can reduce tax preferences that favor capital income (see below), proposals to tax unrealized capital gains or wealth may be difficult to enact swiftly, due to both legal and political constraints. However, taxing corporate income reaches many of the same policy goals as taxing billionaires; indeed, *most* billionaire wealth originates in their businesses (Smith, Zidar, and Zwick 2023; Imberg 2025).

Second, there is an efficiency rationale for redesigning corporate tax increases. In particular, reforms to the tax base could increase the overlap between the corporate tax base and a tax on rents, even beyond the current high degree of such overlap (Power and Frerick 2016; Fox 2020; Beer et al. 2020; González, Hansen, and Mooney 2026). Such reforms have the advantage of focusing any tax increase on those firms most likely to have economic rents or above-normal profits. This approach reduces the concern that higher rates might deter investment or economic activity.

Focusing corporate tax increases on just a tiny fraction of the corporate tax base (as we suggest here) would leave about 98 percent of taxpayers with no additional tax burden yet retain nearly all the revenue from the tax increase. Treating smaller firms more favorably could have

beneficial competitive effects, since firms that have lower profits may be new firms, smaller-scale enterprises, or firms that are struggling for various reasons. Likewise, firms with very high profits, whether due to windfalls, monopoly power, scale, or the AI revolution, can afford to contribute a bit more to government revenues without serious worries about negative consequences for their cash flow, investment decisions, or competitiveness.

Third, since the corporate tax burdens capital and excess profits, corporate tax increases are highly progressive, as these forms of income are more concentrated at the top of the distribution. For example, the top 1 percent of the income distribution holds 52 percent of positive capital income and 61 percent of supernormal capital income, far higher shares than their 12 percent share of labor income.<sup>3</sup> While most modelers assign *some* burden of the corporate tax to labor, that fraction is typically about 20 percent, whereas most alternative taxes fall nearly entirely on labor.

The pending AI revolution may make the progressivity of the corporate tax even more relevant, if it increases the capital share of income relative to the labor share of income, as many (but not all) predict. Accordingly, it is important to have adequate tax levers to reach corporate profits, since the labor tax base could shrink if some workers are displaced by AI.<sup>4</sup> The corporate tax automatically collects more tax on companies with excess profits due to the AI revolution, or for any other reason, without requiring an adjudication of which companies should face higher tax burdens.<sup>5</sup> Further, even if AI firms do not earn enormous profits from the AI revolution, the corporate tax remains a flexible tax-policy tool for reaching windfall profits wherever they arise, including the recent surge in profitability for many US oil and gas firms due to the war in Iran.

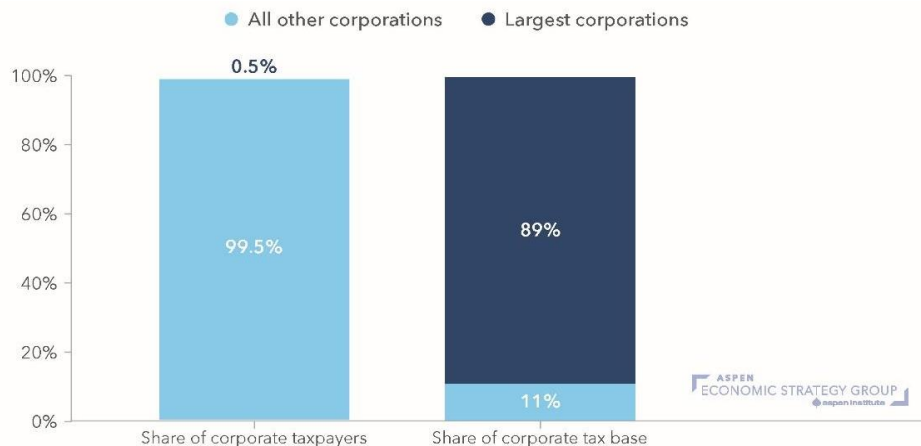
**Figure 3: A tiny share of corporations accounts for most corporate tax liability**

---

<sup>3</sup> In contrast, the bottom half of the population earns 14.4 percent of all labor income, but only 2.5 percent of positive capital income and 2.4 percent of supernormal capital income (US Treasury 2025).

<sup>4</sup> Of course, AI may also increase the productivity of some workers, raising their wages, so the full impact of this mechanism is unknown at present.

<sup>5</sup> For example, many firms may use AI to increase their profits and change their structure of production, despite not having AI as a dominant line of business themselves.



*Source: Internal Revenue Service 2022. Largest corporations are those with more than \$10 million in income tax after credits.*

Fourth, international tax reforms can help counter the substantial offshoring and profit-shifting incentives that are baked into current law. Evidence indicates that US multinational companies still disproportionately book their profits in the lowest-tax-rate jurisdictions, despite changes to the US tax law in 2017 that were meant to counter profit shifting (but also exacerbated profit-shifting incentives in other ways; Clausing 2020).

For example, table 2 shows the 20 largest-profit countries for US multinational corporations (MNCs). These economies together account for 85 percent of US MNC foreign profits, and they are divided into low-tax jurisdictions (those with effective tax rates below 15 percent) and other jurisdictions. The low-tax jurisdictions have only about 90 million people and \$5.6 trillion in GDP, yet US MNCs booked more than \$400 billion in such jurisdictions in 2023. These profits are far larger than what was booked in the other, much larger economies, which together account for 3.7 billion people and more than \$45 trillion in GDP.

International corporate tax reforms have often struggled with one big dilemma. Efforts to protect the corporate tax base from erosion due to offshoring and profit shifting risked disadvantaging US-headquartered firms relative to their most lightly taxed competitors abroad. However, matching the lightest tax treatment abroad for US MNC foreign income risked exacerbating the already-large income-shifting incentives favoring foreign activity and profits.

This dilemma stems from a global collective action problem. Countries may want to strengthen their corporate tax systems, but the mobility of international corporate income means that higher tax rates may risk the erosion of the tax base. As a consequence, recent decades witnessed strong tax-competition dynamics, as corporate tax rates fell and tax burdens were shifted onto labor income (or, relatedly, consumption).

**Table 2: Ratios of profits in low tax jurisdictions to other jurisdictions, 2023**

|                       | Profit<br>(USD, b.) | ETR<br>(positive sample) | Population<br>(billions) | GDP<br>(USD, b.) |
|-----------------------|---------------------|--------------------------|--------------------------|------------------|
| Low-tax jurisdictions | 423                 | 8.6%                     | 0.09                     | 5,600            |
| Other jurisdictions   | 277                 | 25.4%                    | 3.60                     | 45,100           |
| Ratio low / other     | 153%                |                          | 2.4%                     | 12.5%            |

ASPEN  
ECONOMIC STRATEGY GROUP  
aspen institute

*Source: Data are from the IRS country-by-country file for 2023, the most recent data available. Data are reported with tax rates and calculated using the positive profit sample, and overall profits using the full sample (thus including firms with losses).*

In the last few years, a system of international tax reforms has pushed back on this tax competition dynamic by implementing a global minimum-tax regime, based on the international tax agreement of 2021. After many large economies fully implemented this regime, it was poised to cover nearly all multinational income by 2025 (Bradbury and O'Reilly 2025), and the amount of profits shifted abroad was expected to fall by roughly half (Hugger et al. 2024).<sup>6</sup>

However, the Trump administration's stance has since weakened the regime by insisting on special treatment for US-headquartered firms and additional carve-outs. While the US position may seem to advantage US firms relative to those in other countries, it is far from clear that special treatment for US firms will be a sustainable equilibrium.

We therefore present a suite of corporate tax reforms that would strengthen US corporate taxation within the structure of current US law while better aligning our efforts with the large potential of international collective action, following Clausing (2026b). While all these options come with dials, we describe one possible set of choices here.

- The corporate rate could be raised for the largest-profit taxpayers to 27 percent for fewer than 2 percent of firms, with a small surtax of 2.7 percentage points for fewer than 0.5 percent of firms.
  - Such an increase would fall far short of historical US corporate tax rate levels in times past (46 percent prior to the 1986 tax reform; 35 percent prior to 2017). Further,

---

<sup>6</sup> Adopting countries are more than 50 percent of non-US world GDP, but a backstop provision in the agreement (the undertaxed profits rule, or UTPR) meant that 90 percent of large multinational companies were estimated to be in scope. The in-scope multinational companies are likely to be larger than average, so more than 90 percent of the tax base is covered.

- under this approach, the more-than-98 percent of C-corporations that are small-profit firms will not face any increase in tax burden relative to current law.<sup>7</sup>
- This reform would be pro-competitive, providing lighter tax treatment for smaller, more competitive firms.
  - The corporate tax base can be broadened to better tax pure profits, as suggested by Furman (2020). Full expensing—which allows investors to completely write off investments as they occur rather than taking deductions as the investment depreciates—achieves the goal of moving the corporate tax to a tax on pure profits, since it does not distort investment decisions in the expensed assets.
    - However, if expensing is allowed, it should be coupled with a complete disallowance of interest deductions. Otherwise, debt-financed investments receive a net subsidy due to the tax system; some investments are undertaken post-tax that would not be profitable absent tax considerations.
    - If complete disallowance of interest deductions is not possible, one starting point would be tightening the limits on interest deductibility, which is the policy scored here. Still, moving to complete expensing alongside disallowing interest deductions would also likely raise revenue in the ten-year budget window, and even more so in the second decade.<sup>8</sup>
  - The US international minimum tax regime could be strengthened by including a much stronger country-by-country tax on foreign income. Indeed, higher headline corporate rates would need to be coupled with serious international tax reforms to prevent increased international profit shifting from eroding the corporate tax base.

Fortunately, the global minimum tax (discussed above)—now adopted in many major countries throughout the world—makes strengthening the US regime more feasible. Foreign multinational companies are now subject to country-by-country 15 percent minimum taxes either due to adoption of their home countries, or through a backstop provision—the UTPR—that taxes firms based in nonadopting countries when they serve adopting country markets. This scheme reduces the gap between the proposed tax rate on US multinational foreign income and the lowest rate abroad.

A US minimum tax on foreign income could align with the approach of international reforms by adopting the country-by-country feature of the global minimum tax, and by adopting the backstop provision of the agreement (the UTPR—which counters the tax competition pressures that would otherwise stem from nonadopting countries). The minimum rate could also be raised

---

<sup>7</sup> Yet the surtax structure raises about \$400 billion more than a flat rate increase to 27 percent for all taxpayers.

<sup>8</sup> PWBM estimators indicate that the net revenue effect of fully ending interest deductibility alongside full expensing would be positive over the ten-year budget window, and more so over the second decade, but time limits prevented an estimation of that scenario. Older estimates considering this policy combination were more negative in the early period, due to the fact that expensing was not already built into the tax code to such a large extent.

beyond the global minimum (by providing only a 15 percent deduction for foreign income relative to the domestic rate). We also suggest repealing the current US export subsidy regime.

The implied minimum tax rate is equivalent to about 23 or 25 percent for the largest-profit firms, and it would dramatically reduce the tilt in the playing field that favors foreign income relative to domestic income. Still, we retain some preference for foreign income, to keep US rates on foreign income within ten percentage points of the lowest foreign rate, a differential that is similar to what applied in the wake of the Tax Cuts and Jobs Act (when the US minimum tax was 10.5–13.125 percent and the foreign minimum was effectively zero).

Further, these US reforms can be a strong starting point for further international cooperation around tax competition. By aligning with prior international reform efforts and exceeding minimum standards, the United States will be well positioned to help lead another round of cooperation that would strengthen and simplify the existing global minimum tax. A stock-take is already planned for the agreement in 2029. By legislating a strong regime ahead of that moment, the United States can regain credibility in this arena and encourage stronger international cooperation.

The suite of reforms discussed here would raise substantial revenue over the period 2030–2039, about 0.90 percent of GDP. These reforms would also be highly progressive. The top 0.1 percent of households experience a reduction in after-tax income of more than 3.7 percent, but the lowest four quintiles experience a loss in after-tax income that is less than 0.6 percent. Further, some of the tax burden is shouldered by foreign shareholders.<sup>9</sup>

That pattern holds even without accounting for the tax base redesign features discussed here, which would make the distributional effects of the policy even more progressive by focusing the burden more narrowly on shareholders. Of course, each of these provisions could be dialed up or down, which would change the revenue and distribution implications.

### **Table 3: Revenue from the corporate bucket, 2030–2039**

---

<sup>9</sup> The distributional estimates assign some burden to foreigners in proportion to foreign equity holding so that part of the tax does not burden US taxpayers.

| Provision                                                   | 10-year revenue score<br>(2030-2039) |
|-------------------------------------------------------------|--------------------------------------|
| Corporate rate (21/27/27+surtax)                            | \$2.2 trillion                       |
| Corporate tax base changes                                  | \$200 billion                        |
| Stronger per-country minimum tax, with 15 percent deduction | \$860 billion                        |
| Other international and base changes                        | More than \$710 billion              |
| <b>Total</b>                                                | <b>\$4.0 trillion</b>                |



*Source: Penn Wharton Budget Model Estimates, May 2026. Unpublished estimates prepared for the authors. Note that the stacking of the estimates does not follow the table order. The stack order begins with the corporate rate changes, then export subsidy repeal (FDDEI, listed under “other” here), then minimum tax changes, then the corporate tax base changes. The “other” category includes the repeal of the export subsidy (FDDEI).*

The corporate community will not be eager to pay more taxes, and they will raise concerns about competitiveness and deterrent effects on their activities.<sup>10</sup> While we take these concerns seriously, the corporate tax increases described here still leave US corporate tax burdens below both peer-country averages and US historical norms. Further, while concerns about US investment are real, the experience of the Tax Cuts and Jobs Act indicated that the investment effects of the large corporate tax cut were relatively minor, and we hope that the tax base redesign we have presented here would mitigate any such negative effects (Clausing 2024).

At the same time, a few complementary steps could be helpful to the corporate community. First, streamlining the US international tax regime for companies, by “turning off” existing minimum taxes (such as the BEAT and CAMT) when companies pay the reformed US minimum tax, will reduce compliance costs for the US multinational community.

Second, and most important, we recommend entirely eliminating the Trump tariff regime, which generates a net distortion in favor of those industries where the United States lacks international

<sup>10</sup> It is worth noting that even those in the corporate community might have been content with corporate rates above today’s 21 percent. When the Tax Cuts and Jobs Act was being legislated, industry hoped that the corporate rate would be cut to 25 percent. They ended up with an even lower rate—one that our approach would preserve for the vast majority of corporate taxpayers.

competitiveness, while harming US export industries in parallel.<sup>11</sup> These tariffs have been counterproductive across many dimensions: harming relations with our trading partners and allies; creating new regressive tax burdens that reduce affordability in US households; harming US manufacturing, productivity, and growth by introducing large negative supply shocks; and fueling corruption by moving taxing powers away from the legislative branch and into the hands of a mercurial executive (Clausing and Obstfeld 2026). While tariffs do raise some federal revenue, there are far better ways to raise equivalent revenue. Further, tariffs are unlikely to provide a stable substitute for broader tax reform, given the effects of substitution, exemptions, noncompliance, and ongoing legal uncertainty on tariff revenue projections; these factors have caused tariff revenue estimates to fall over time (Budget Lab 2026c; Budget Lab 2026b).

## **Bucket 2: Investing in the Internal Revenue Service**

The IRS is in an administrative crisis. It has lost nearly 28,000 employees since January 2025, including more than 3,600 revenue agents, or roughly 31 percent of the agency's entire auditing staff. It is currently at a staffing level not seen since the 1960s, when it processed fewer than half as many returns and administered a considerably simpler tax code. This filing season, a gutted IRS was forced to deploy employees from across the agency in efforts to try to keep tax processing on track. While some have suggested that advances in AI could allow the IRS to operate effectively with a smaller workforce, as we discuss below, AI is not a substitute for a functioning agency. It is certainly true that the IRS needs to invest in better technology, but doing so, in the short run at least, will require more employees, not fewer.

Recent upheaval has served to exacerbate longstanding problems in our system of tax administration. For years, the agency's enforcement capacity has been quietly eroding. Figure 4 shows that audit rates for high-income taxpayers collapsed from 16.5 percent to 2 percent between 2010 and 2021. The tax gap has grown to an estimated \$870 billion per year, or 2.7 percent of GDP,<sup>12</sup> and the true number is almost certainly larger, given the difficulty of measuring noncompliance at the top of the income distribution.

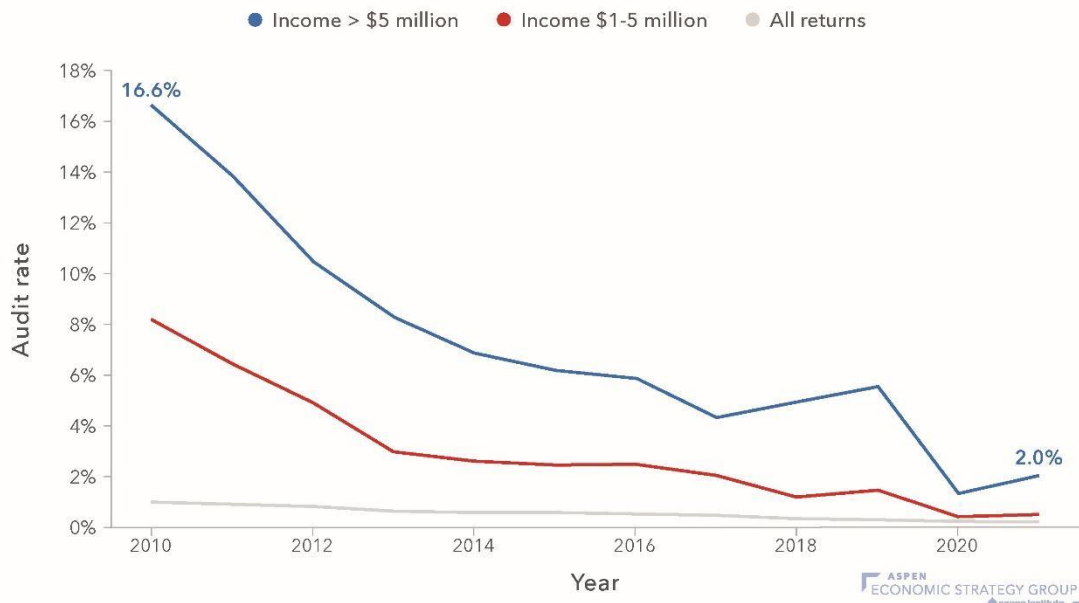
The Inflation Reduction Act of 2022 represented a hopeful turning point: an \$80 billion stream of mandatory funding intended to rebuild the agency's capacity and modernize its technology. Early returns were promising, but that progress has now been reversed. About \$54 billion of the original \$80 billion has been rescinded, leaving less than \$10 billion remaining. The combined effect of the funding rescissions and workforce reductions will reduce IRS revenue by approximately \$861 billion over the coming decade (Budget Lab 2025).

---

<sup>11</sup> We also recommend a rethinking and narrowing of the tariffs levied during the first Trump administration that were continued under the Biden administration in order to focus more narrowly on national security issues.

<sup>12</sup> The IRS's most recent tax gap estimate is \$696 billion (gross) for tax year 2022 (Internal Revenue Service 2024). We project this figure to 2026 using nominal GDP growth, yielding approximately \$870 billion.

**Figure 4: Audit rates for high-income taxpayers have collapsed**



*Source: IRS n.d. Income groups based on total positive income. Note: More recent audit-rate data are not publicly available as of this writing.*

One perverse benefit of the current situation is that an extraordinary amount of low-hanging revenue is now to be had simply by replenishing the IRS’s capacity. Our proposal would involve rebuilding the IRS and investing in its modernization.

While there is room to scale up or down, the plan we outline involves \$80 billion in investments over the ten-year budget window and has the capacity to generate \$1.4 trillion (\$1.3 trillion in net additional revenue). The timeline for modernization may be expedited—or slowed—by the fact that the agency will have to overhaul meaningfully from a place of substantial decline and to recruit new hires in a period when the federal government has been a volatile employer. But we believe these revenue estimates to be illustrative of the potential, which would allow more than \$1 trillion in revenue already owed under current law to be raised; no taxpayer’s legal obligation changes.

The challenge is also evolving. As AI tools become widely available, sophisticated tax-planning strategies that were once the exclusive province of high-end advisors are becoming accessible to a much broader population of taxpayers and preparers, threatening to widen the asymmetry between those seeking to minimize their tax liabilities and the agency charged with ensuring compliance. Well-deployed AI also offers substantial opportunities to improve detection and allocate enforcement resources more efficiently, but realizing those opportunities requires the

kind of sustained investment in technology and personnel that the current trajectory of cuts has made impossible.

The core idea of this bucket is straightforward: Give the IRS the resources it needs to do the job Congress has already assigned it. Additional third-party information reporting for opaque income streams would further improve compliance, though such reporting must be well designed and paired with the technological capacity to use it effectively.<sup>13</sup>

### **Bucket 3: Expanding tax efficiency and revenue through new “sin” taxes**

Excise taxes have a long history in the United States. When such taxes are applied to goods or services that impose a negative externality or social cost—such as alcohol or carbon—they are often referred to as “sin” taxes, or “Pigouvian taxes,” after the economist Arthur Pigou (1920). The whiskey tax was actually the first non-tariff tax introduced in this country, and it was implemented in large part due to a concern that drinking was a public-health issue and higher prices would help to curb it. By 1913, excise taxes made up 50 percent of all federal revenue. Since then, they have fallen in significance substantially and are down to just 3 percent today, in part because taxes on alcohol, tobacco, and guns were never indexed to inflation.

Historically, excise taxes have been criticized for their regressivity, both because they effectively serve as a consumption tax and because excise taxes—especially sin taxes—have historically been concentrated in lower- and middle-income populations (e.g., tobacco or sugar taxes). Recently, calls for a renewal of sin taxes have emerged in part to respond to a swell of socially harmful behavior in areas like online betting or social media. These types of tax policies aim to discourage certain activities that have lasting negative consequences. While such taxes are often criticized for being paternalistic in their explicit aim of modifying behavior, the long-term internal and external harms of activities such as tobacco consumption and alcohol abuse ultimately justify their use. Moreover, sin taxes can be designed, as we describe below, in ways that rebate revenues to consumers such that the tax is less burdensome. As a consequence, the revenue potential of the tax may be reduced, but socially undesirable activity will still be curbed.

A full menu of sin taxes could include many options beyond the suite we consider here. Below, we describe a few starter options in this domain.

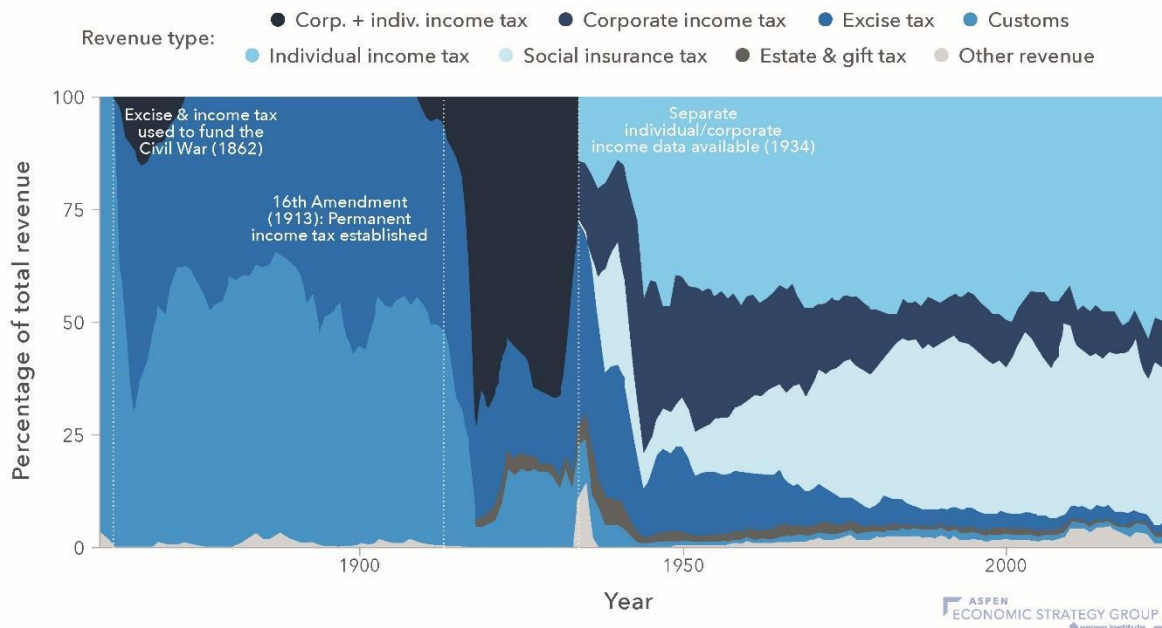
One such option is a tax on sports gambling. After the Supreme Court struck down a federal law that banned most sports gambling in 2018, sports gambling metastasized throughout the states. As of 2026, sports gambling is legal in 39 states and the District of Columbia, and online sports

---

<sup>13</sup> Outside the most recent administration, increasing funding for the IRS has a long history of bipartisan support, including from every recent president from Ronald Reagan through Joe Biden and the first Trump administration. Investments to better our system of tax administration are very much in keeping with that bipartisan tradition.

gambling is legal in 30 (American Gaming Association 2026). This adoption has serious costs: Since 2017, calls to the National Gambling Addiction Hotline have increased by roughly 150 percent in states with legal sports gambling.

**Figure 5: Excise taxes once did much more fiscal work**



*Sources: Hungerford 2006; Office of Management and Budget n.d.; Joulfaian 1998; Congressional Budget Office 2026a.*

There are also concentrated costs to young adults; recent surveys report that roughly 33 percent of young adults today will gamble on sports before they turn 21 (Huble 2026). In addition to the short-run costs of losing money on bets, sports gambling also carries substantial long-term effects. Recent studies find that states that legalize online sports gambling see increases in consumer bankruptcy rates of around 25 percent, which adds up to around 30,000 additional bankruptcies per year (Hollenbeck et al. 2025).

To help curb these kinds of negative effects, we include a gambling tax of 5 percent on the value of sports wagers; we pair this tax with one on prediction market winnings. This gambling levy would generate more than \$130 billion over the 2030–2039 budget window. One could also extend sin taxes to other forms of gambling. While gambling proceeds are already taxable under current law, and loss deductions are limited to 90 percent of gambling income in any given year (since the 2025 tax legislation), the strong negative consequences of gambling justify the consideration of additional sin taxes.

Further, aligning the tax treatment of prediction markets with that of gambling merits consideration, given that the underlying activities are similar. At present, the tax treatment of

prediction market winnings is unsettled: The IRS has not issued guidance, and taxpayers are using treatments ranging from ordinary income to capital gains to section 1256 regulated futures contracts, the last of which provides favorable tax treatment regardless of holding period (National Association of Tax Professionals 2026). To the extent that prediction market winnings receive capital income treatment rather than gambling treatment, the tax code effectively subsidizes an activity with similar social costs. While some have argued that taxing prediction markets could reduce the informational value of market-generated forecasts, prediction markets function like gambling for many participants. Thus, the case for consistent tax treatment is stronger than the case for a tax preference designed to subsidize price discovery.

The excise tax that raises the most revenue in our suite of options is a tax on carbon emissions. If someone burns a lump of coal, they create emissions that affect the entire planet. Thus, activities that generate greenhouse gas emissions (such as the burning of coal, natural gas, and oil) will be too plentiful in an unregulated market. Further, any given jurisdiction will have difficulty internalizing this externality on its own, since they will bear the full costs of their policy actions, but the benefits will accrue to the larger world. This point also suggests the need for more effective global collective action, since the world is lagging behind the policy action required to tackle the problem of climate change (Clausing 2026a; IPCC 2023).

At present, countries vary substantially in their ambition on climate change. In the case of the United States, the Biden era saw important policy initiatives on climate (including both stronger regulations and the Inflation Reduction Act, which enacted a robust set of refundable clean-energy tax credits). More recently, much of this policy effort has been rolled back under the second Trump administration.

A carbon fee would be compatible with three important tax-policy goals. First, it can raise a lot of revenue in an efficiency-enhancing manner. Second, it better aligns the US climate approach with that used in many countries, ultimately incentivizing coalitions that make climate ambition mutually advantageous. Third, it can be done in a way that employs carve-outs and rebates to ensure that US consumers are made whole (or even better off).

One approach would be a carbon fee that begins at \$40 per metric ton, rises by 5 percent in real terms over the budget window, and then increases with inflation thereafter. This carbon fee is more modest than many legislative proposals that have been floated in US congressional bills; see Bistline et al. (2025) for one comparison. The fee is also lower than that used in many developed economies, including the European Union and Canada, and well under most estimates of the social cost of carbon, but it is higher than that used in many poorer countries. For competitiveness reasons, and to prevent “carbon leakage” whereby foreign sources of production displace domestic production, such a fee could be accompanied by a carbon border adjustment

(CBAM) that would also apply to fossil fuel imports. (The revenue from the CBAM is likely to be modest in comparison with the fee; we do not estimate that feature of the idea here.)

The revenue from this carbon fee would be substantial, about \$1.2 trillion over the budget window (2030–2039). We “carve out” the household sector from this fee by exempting residential utilities and retail gas from the tax.<sup>14</sup> Given the sensitivity of US consumers to gas and utility prices, this approach will make the policy more feasible, while still preserving the vast majority of the revenue and emissions benefits. As an optional feature, one could even “over-rebate” the carbon fee for utility consumers, helping lower their energy bills at a time when affordability may be particularly salient.

One important benefit of the carbon fee approach is that it aligns the United States with a highly effective emissions-reduction tool that is being widely adopted abroad. At present, about 29 percent of global emissions are covered by some sort of pricing regime, and of the G20 economies (the world’s largest economies), 17 of the 20 either have a regime in place (16) or are actively developing one (Brazil); the three exceptions are the United States, Saudi Arabia, and Russia (World Bank Group 2026).

A key advantage of aligning with these efforts is that trade measures (such as carbon border adjustments) that provide credits for existing carbon prices can serve as a lever to help overcome global collective action problems. Border adjustments help address two types of interjurisdictional spillovers at once, both by reducing the incentive for countries to free ride off each other’s efforts and by countering a policy “race to the bottom” due to competitiveness worries. Since foreign firms will be subject to a carbon price whenever they sell into an adopting country, foreign governments will have an incentive to adopt carbon pricing themselves, to convert foreign tariff revenue into domestic revenue. They will also have a response to domestic firms that worry about competitiveness. These dynamics can help incentivize governments’ climate ambition (Clausing et al. 2024).

Implementing new excise taxes and shoring up old ones requires public support. But understanding public opinion on sin taxes is complex. On the one hand, sin taxes receive mixed support in polling. Polls indicate that less than 30 percent of Americans support a federal sugar tax (Norton 2013) while around 70 percent support some form of carbon tax (EPIC 2019). On the other hand, states derive (on average) roughly 11 percent of their revenue from excise taxes, far more than the federal government’s 3 percent (Loughead 2018). State governments are generally seen as more politically accountable and less sclerotic than the federal government; this lends some support to the view that mixed support for sin taxes in polls does not carry over

---

<sup>14</sup> There are several ways that this carve-out could be implemented, including rebating refiners based on the fractions of fuel sold and providing contingent utility-level relief subject to consumer price benchmarks.

to the ballot box. Improving our understanding of public support for various forms of excise taxes is an important part of enacting a larger sin-tax agenda.

One hope from sin taxes is that the tax base actually shrinks over time, as the underlying negative externalities are discouraged. While behavior could therefore reduce tax revenues over time, such an outcome may be considered a feature, not a bug, of the policy. At present, the estimators' best guess of behavioral responses is included in these estimates. For the sports gambling tax included here, Budget Lab (2026a) suggests that adolescent gambling could be reduced by 4 percent.

Finally, rather than suggest new taxes on guns, alcohol, and tobacco, we include revisions to the federal policies in this area that would both raise revenue and hopefully marginally curb some use of these products. One approach that we present would be to merely index these taxes to their prior levels retroactively.<sup>15</sup> These ideas should be understood as a non-exhaustive list of potential excise taxes to consider; more work can be done on a broader suite of options.

#### **4. Additional Revenue Buckets**

The three buckets described above—corporate reform, IRS investment, and sin taxes—represent what we view as the most compelling combination of revenue potential, economic efficiency, and political feasibility. Together, they raise approximately 1.6 percent of GDP. The remaining two buckets address the taxation of individual capital income and broader income-tax parameters. We present them because there is substantial revenue available in each, but we note two important considerations. First, a policymaker interested in adjusting individual rate parameters without also addressing capital income preferences would exacerbate existing horizontal equity problems: Raising the tax on labor income while leaving capital income preferentially treated increases the incentive to reclassify income, a dynamic already visible in areas like carried interest and pass-through structures. Second, returning to a prior rate structure such as that of 1997 would fall significantly on the top quintile but would also fall meaningfully on middle-income households. There are tools to ameliorate distributional concerns, but the tradeoff should be explicit. Policymakers will have different appetites and different views on which parameters they find most promising.

##### **Bucket 4: Adjusting income tax parameters**

---

<sup>15</sup> Federal excise tax rates on alcohol were last increased in 1991, tobacco in 2009, and firearms and ammunition in 1955. Because these rates are set in nominal dollar-per-unit terms and are not indexed to inflation, their real value has eroded substantially over time. For example, the 1991 distilled-spirits rate of \$13.50 per proof gallon would be approximately \$28 in 2026 dollars (Cilluffo and Gravelle 2024).

As one illustrative approach, we examine returning to the individual income-tax rate structure of 1997, adjusted for inflation since that period. However, a hybrid approach could leave the bottom two tax brackets at their current law levels.

**Table 4: Individual income-tax rate structure, Married Filing Jointly (2030)<sup>16</sup>**

| Rate  | Current law         | Hybrid approach                |
|-------|---------------------|--------------------------------|
| 10%   | \$0–\$27,200        | \$0–\$27,200 (no change)       |
| 12%   | \$27,200–\$111,150  | \$27,200–\$111,150 (no change) |
| 22%   | \$111,150–\$217,850 | —                              |
| 24%   | \$217,850–\$426,800 | —                              |
| 28%   | —                   | \$111,150–\$226,350            |
| 31%   | —                   | \$226,350–\$344,850            |
| 32%   | \$426,800–\$534,650 | —                              |
| 35%   | \$534,650–\$842,700 | —                              |
| 36%   | —                   | \$344,850–\$615,950            |
| 37%   | over \$842,700      | —                              |
| 39.6% | —                   | over \$615,950                 |

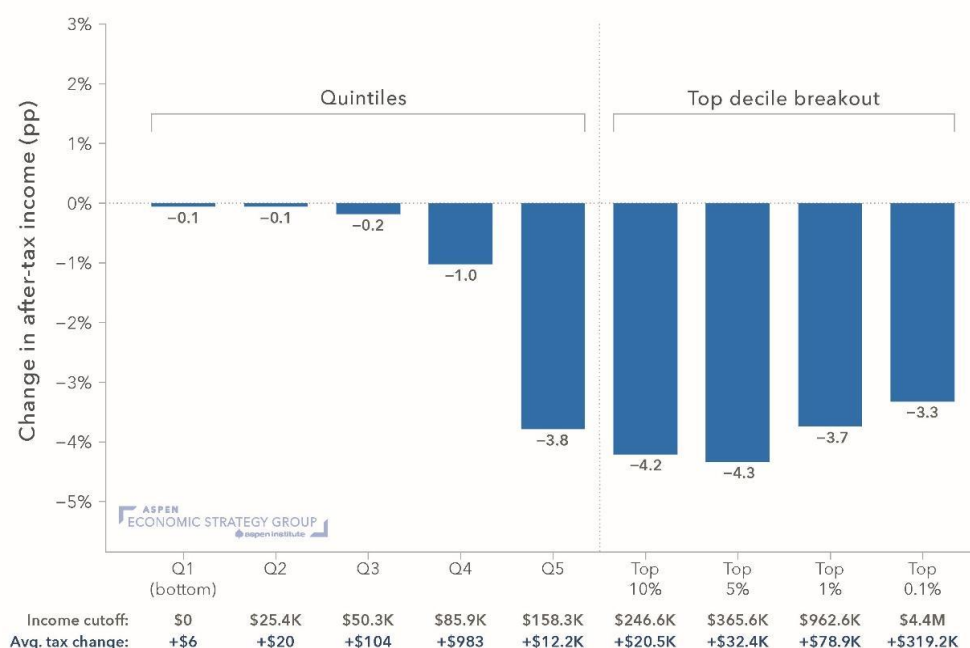
Retaining the lowest two brackets is not narrowly directed at poorer Americans—unlike the earned income tax credit (EITC)—because even taxpayers higher in the bracket structure will receive benefits from the fact that some of their income is more lightly taxed in the first two brackets. However, such a hybrid insulates lower-income Americans from changes in the rate structure, at the same time that it reduces the tax increase for most Americans. Figure 6 shows the change in after-tax income due to the rate changes described here.

To more narrowly address poverty, expanding the EITC, the child tax credit (CTC; it would be especially desirable to make the CTC fully refundable), and the health insurance premium tax credit could all help meet the needs of lower-income households. However, we leave it to the policy process to weigh these tax expenditures against other fiscal needs. These are tried and true anti-poverty tools.

<sup>16</sup> 2030 thresholds are computed using CBO CPI-U projections (Congressional Budget Office 2026b). Current-law brackets are from Internal Revenue Service 2025a, projected forward. 1997 brackets are from Internal Revenue Service 1996, indexed using CPI-U annual average ratio of 2.272 (1997 to 2030).

Another revenue option is to repeal the pass-through business income deduction under section 199A. The provision allows owners of pass-through businesses (partnerships, S-corporations, and sole proprietorships) to deduct up to 20 percent of their qualified business income, effectively lowering the top marginal rate on that income from 37 percent to 29.6 percent. Repeal would generate approximately \$1.2 trillion over the 2030–2039 budget window, making it one of the larger single-provision changes in our menu.

**Figure 6: Rate reform can raise revenue while shielding lower-income households**



*Source: Budget Lab calculations. Note: Estimate universe is nondependent tax units, including nonfilers. “Income” is measured as adjusted gross income (AGI), plus above-the-line deductions, nontaxable pension income (including OASI benefits), nondeductible capital losses, employer-side payroll taxes, and inheritances.*

But the case for repeal goes beyond revenue. Section 199A is a textbook illustration of the horizontal equity problems we describe above. Consider two taxpayers earning \$400,000 in identical professional services: one as a salaried employee and one as a partner in a pass-through firm. They have the same income, the same ability to pay, and in many cases are performing the same work. Yet they face meaningfully different effective tax rates, because the provision rewards the organizational form in which income is earned rather than the economic activity that generates it. The provision also creates strong incentives for taxpayers to reclassify labor income as business income in order to claim the deduction, compounding income classification distortions. The more the tax code rewards particular organizational structures over others, the more resources flow into tax planning rather than productive activity.

Repeal is also a useful complement to the corporate rate increase we consider above. If the corporate rate rises to 27 percent or higher while 199A continues to deliver a sub-30-percent

effective rate on pass-through income, the result would be a widening gap between the taxation of C-corporations and pass-throughs, creating new incentives for firms to reorganize out of the corporate sector. The TCJA itself acknowledged this logic: 199A was enacted in large part to offset the effect of the corporate rate cut on pass-through businesses. If the corporate rate goes back up, the rationale for the provision falls away.

While the pass-through income deduction has been widely panned by experts from across the political spectrum (Committee for a Responsible Federal Budget 2024), it will nonetheless be politically difficult to repeal. An additional policy alternative worth consideration—but not included in this bucket—would be to require large pass-through businesses to file as C-corporations. This idea is discussed by Johnson et al. (2026), who report Tax Policy Center estimates indicating that such an approach would raise about \$140 billion over 2027–2036 at the current 21 percent corporate tax rate, and more at higher rates.

Finally, while the new “Trump” tax provisions providing tax breaks for tips, overtime workers, seniors, and auto-loan interest were central to the Trump campaign in 2024 and temporarily enacted by Congress under the 2025 OBBBA legislation, they are not well grounded in any tax policy principles, and they would be expensive to extend. Thus, the simplest approach would be to let them expire at the end of 2028. (Doing so would not raise revenue in our analysis, or under conventional scoring, since they are already scheduled to expire.)

The tax increases in this section are substantial, raising about 1.4 percent of GDP in new tax revenue over 2030–2039, more than \$6 trillion in nominal terms. Reworking individual income tax brackets raises \$4.8 trillion over the window, and 199A repeal raises about \$1.2 trillion over 2030–2039.

However, one should bear in mind that the tax policy changes in this section would be politically difficult, as many taxpayers would experience significant tax increases. Further, both real income growth since the late 1990s and the limits on state and local tax (SALT) deductibility since 2018—eased under OBBBA, but only through 2029—increase the impact of these rate changes.

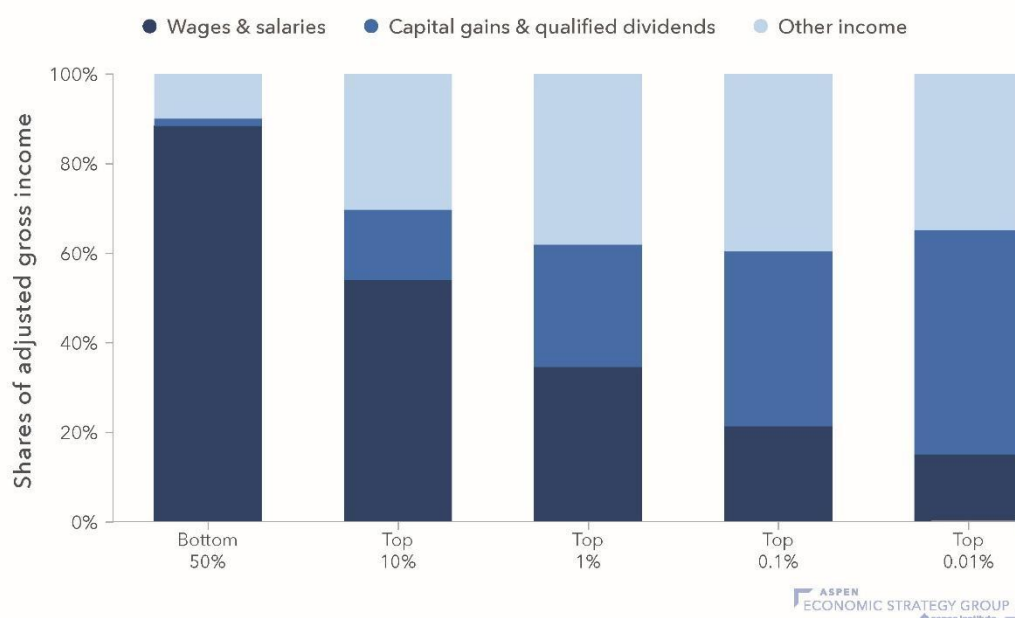
### **Bucket 5: Reforming capital income taxation**

Under current law, capital income enjoys substantial tax preferences that are both regressive and inefficient and that allow much of the income accruing to the wealthiest Americans to escape taxation entirely. These preferences are poorly suited to a moment that demands both serious revenue and a fairer distribution of the tax burden.

The core problem is straightforward. At higher levels of income, capital income becomes more important relative to labor income; as figure 7 illustrates, for the top 0.001 percent, wages and

salaries that are taxed at ordinary rates make up less than 10 percent of income, while capital gains and dividends account for around 60 percent (Internal Revenue Service 2025b). Yet capital income faces lower statutory rates, benefits from deferral until realization, and can escape taxation altogether when appreciated assets are passed to heirs through step-up in basis at death.

**Figure 7: At the very top, income is mostly capital income**



*Source: Table 4.3, in Internal Revenue Service 2023. Cumulative percentiles. “Other” includes interest, business income, partnership/S-corp income, and other AGI components.*

This status quo is both unjust and inefficient. The distortions are also economic: The current regime provides incentives to hold assets rather than sell them to their most productive owner, encourages the misclassification of labor income as capital income, and drives an excessive share of economic activity toward tax-preferred forms of compensation.

The ideas in this area are designed to be complementary and mutually reinforcing. Increasing tax rates on long-term capital gains and dividends by 5 percentage points would bring the top rate to 25 percent (28.8 percent with the net investment income tax). Combined with the higher corporate tax rates described above, the total tax burden on corporate equity income would move closer to parity with the taxation of labor income. Still, the comparison is imperfect given the preferences that capital income continues to enjoy, including deferral advantages and the fact that much capital income goes untaxed by the US government at the individual level.

A rate increase alone would strengthen lock-in incentives (the tendency to hold assets to avoid realizing taxable gains), but paired with basis reform, this effect is substantially mitigated. A 5-

percentage-point increase could generate approximately \$530 billion over the 2030–2039 budget window.

Ending step-up in basis at death and moving to carryover basis would complement any rate increase. 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 approach would improve the efficiency of capital allocation. The Budget Lab estimates a ten-year score of approximately \$260 billion over the 2030–2039 budget window. Importantly, carryover basis also strengthens the revenue potential of higher capital-gains rates. The two options are therefore more powerful together than either would be alone.

There are also complementary reforms to estate and gift taxation. The TCJA doubled the estate tax exemption, and OBBBA made those higher thresholds permanent, reducing the already-small number of Americans subject to estate taxation by more than half. Given the twin goals of progressivity and revenue raising, one option is to broaden the estate tax base by lowering thresholds substantially. Although the current estate-tax rate is 40 percent, the effective estate-tax rate is in the single digits; even excluding bequests to surviving spouses, the effective rate is only about 15 percent (Center on Budget and Policy Priorities 2025). This gap between statutory and effective rates is the product of a wide array of tax planning tools, including gifts to family members, transfers of assets to trusts, and charitable giving arrangements (such as donor-advised funds) that lower estate tax liability while sometimes being free from any requirement to disburse dollars to charitable causes. Lowering the estate exemption to \$5 million per individual (\$10 million per couple) and raising the top rate from 40 to 45 percent would raise more than \$500 billion over the budget window.<sup>17</sup> A suite of loophole reforms, including reforming the tax treatment of grantor trusts, restricting related-party basis shifting, and limiting fair-market-value deductions for appreciated gifts, is also viable.<sup>18</sup>

Finally, several well-known loophole closures would further address the disparate tax treatment of capital and labor income. Prominent examples include the carried-interest loophole, through which investment fund managers have performance-based compensation taxed at preferential capital-gains rates (~\$130 billion over the 2030–2039 budget window); the Self-Employment Contributions Act (SECA)/the net investment income tax (NIIT) payroll tax loophole, through which many pass-through business owners avoid the 3.8 percent Medicare surtax (~\$360 billion); and reforms to the tax treatment of borrowing against appreciated assets to limit the buy, borrow, die strategy (~\$150 billion).

---

<sup>17</sup> These thresholds are similar to the 2009 estate and gift tax exemption levels (\$3.5 million per individual, \$7 million per couple) when indexed for inflation.

<sup>18</sup> For additional detail on these estate and gift tax loophole reforms, see Treasury, “General Explanations of the Administration’s Fiscal Year 2025 Revenue Proposals,” in US Treasury 2024.

Taken together, this suite of capital income reforms would raise about \$2.1 trillion over the 2030–2039 budget window. These approaches are not exotic or untested; each has been scored by official estimators, debated in prior reform cycles, and could be legislated without novel administrative infrastructure. They are ready to go.

## 5. Meeting the Fiscal Moment

Table 5 summarizes our five buckets in terms of revenue impacts. Including all five buckets would raise substantial revenue, nearly \$15 trillion in nominal terms over the 2030–2039 window, or about 3.3 percent of GDP. The nominal numbers would look smaller in the current (2026–2035) window, at about \$12 trillion. By the benchmarks in table 1, even the first-tier package alone (1.6 percent of GDP) would be sufficient to eliminate the primary deficit, while the full suite would meet or exceed every fiscal target we identify.

A smaller package of our three prioritized buckets would instead raise nearly \$7 trillion over 2030–2039 (about \$5.7 trillion in the current window of 2026–2035), about 1.6 percent of GDP.

Of course, policymakers could choose to dial these ideas in various ways, and these tax approaches vary in terms of political feasibility. The largest share of revenue is raised from returning (all but the lowest two) tax brackets to the levels that prevailed in 1997; intermediate bracket structures could be desired. One could also tweak the corporate rate, or indeed nearly any tax policy parameter we have discussed here.

Figure 8 shows a distributional analysis of the core buckets: corporate and international tax reform, IRS investment, and sin taxes. Unlike recent tax legislation (TCJA in 2017, OBBBA in 2025), the distributional effects of these tax policy changes are highly progressive. Figure 9 shows the distributional effects of the full five-bucket package; the full combination remains highly progressive.

The bottom quintiles' increased tax burdens are largely driven by the sin tax increases, which are typically regressive on a percentage-of-income basis since they are consumption-based taxes (and poorer quintiles save less of their income). Budget Lab estimation methods also overstate the regressivity of these sin taxes in the bottom of the distribution, since they do not account for the importance of transfers in the denominator of effective tax rate changes. (Since incomes appear lower than they are, effective tax rates appear higher than they are.)

This distribution analysis does not account for any choice by policymakers to affirmatively offset those increases in tax burdens. As we note above, there are ways to do that. For example, one could over-rebate utility bills from carbon fee revenue, which would reduce energy costs for lower-income households while preserving the emissions-reduction benefits of the fee.

Perhaps even more desirable, one could earmark some of the revenues toward tax relief in other forms, reducing poverty and expanding the safety net through more-generous CTC, EITC, or premium tax credit (PTC) policies.

Further, putting the fiscal house in order can help ordinary Americans through many channels. If the government is less strapped for resources, it will be able to fulfill its commitments to seniors and the vulnerable through adequate Social Security, Medicare, and Medicaid funding. The government will also be able to respond to adverse events, such as recessions or other shocks, with more resources, cushioning households (and the economy) from more perilous outcomes. We are struck by the fact that when Americans discuss concerns about their finances, they often focus on high costs of housing, healthcare, and childcare—not on tax burdens. Raising more revenue could allow for investments in policies that address these concerns.

**Table 5: Revenue effects of five buckets of tax ideas**

| Proposal                                                       | 2030<br>revenue (\$B) | 2030<br>(% GDP) | 2030-2039<br>revenue (\$B) | 2030-2039<br>(% GDP) |
|----------------------------------------------------------------|-----------------------|-----------------|----------------------------|----------------------|
| <b>I. Corporate and international tax reform</b>               |                       |                 |                            |                      |
| Corporate and international package                            | 340                   | 1.08%           | 4,000                      | 0.90%                |
| <i>Subtotal</i>                                                | <i>340</i>            | <i>1.08%</i>    | <i>4,000</i>               | <i>0.90%</i>         |
| <b>II. IRS investment</b>                                      |                       |                 |                            |                      |
| Restore and extend IRS enforcement funding                     | 73                    | 0.23%           | 1,300                      | 0.29%                |
| <i>Subtotal</i>                                                | <i>73</i>             | <i>0.23%</i>    | <i>1,300</i>               | <i>0.29%</i>         |
| <b>III. Pigouvian ("sin") taxes</b>                            |                       |                 |                            |                      |
| Corporate carbon fee                                           | 100                   | 0.32%           | 1,200                      | 0.27%                |
| Sports gambling excise tax                                     | 11                    | 0.03%           | 140                        | 0.03%                |
| Other sin taxes††                                              | 21                    | 0.07%           | 260                        | 0.06%                |
| <i>Subtotal</i>                                                | <i>130</i>            | <i>0.41%</i>    | <i>1,600</i>               | <i>0.36%</i>         |
| <b>Additional revenue buckets</b>                              |                       |                 |                            |                      |
| <b>IV. Tax system parameters</b>                               |                       |                 |                            |                      |
| Restore 1997 rate structure (hybrid)‡                          | 300                   | 0.95%           | 4,800                      | 1.08%                |
| Repeal QBI deduction                                           | 79                    | 0.25%           | 1,200                      | 0.27%                |
| <i>Subtotal</i>                                                | <i>380</i>            | <i>1.21%</i>    | <i>6,000</i>               | <i>1.35%</i>         |
| <b>V. Reforming capital income taxation</b>                    |                       |                 |                            |                      |
| Increase capital gains and dividend rates by 5pp               | 38                    | 0.12%           | 530                        | 0.12%                |
| Medicare tax on all income above \$250k                        | 23                    | 0.07%           | 360                        | 0.08%                |
| Institute carryover basis for inherited assets                 | 18                    | 0.06%           | 260                        | 0.06%                |
| Lower estate tax exemption to \$5M/\$10M and raise rate to 45% | 0                     | 0.00%           | 530                        | 0.12%                |
| Tax carried interest as ordinary income                        | 7                     | 0.02%           | 130                        | 0.03%                |
| Other capital income reforms†                                  | 26                    | 0.08%           | 320                        | 0.07%                |
| <i>Subtotal</i>                                                | <i>110</i>            | <i>0.35%</i>    | <i>2,100</i>               | <i>0.47%</i>         |
| <b>Package interaction adjustment</b>                          |                       |                 |                            |                      |
| Income and estate tax offset from higher corporate taxes       | -34                   | -0.11%          | -390                       | -0.09%               |
| <i>Subtotal</i>                                                | <i>-34</i>            | <i>-0.11%</i>   | <i>-390</i>                | <i>-0.09%</i>        |
| <b>Grand total</b>                                             | <b>1,000</b>          | <b>3.17%</b>    | <b>14,600</b>              | <b>3.29%</b>         |

† Other capital income reforms include repeal of the qualified small business stock (QSBS) preference, repeal of the Opportunity Zone preference, and reforms to the tax treatment of borrowing against appreciated assets.

†† Other sin taxes include retroactively indexed excise taxes on guns, alcohol, and tobacco.

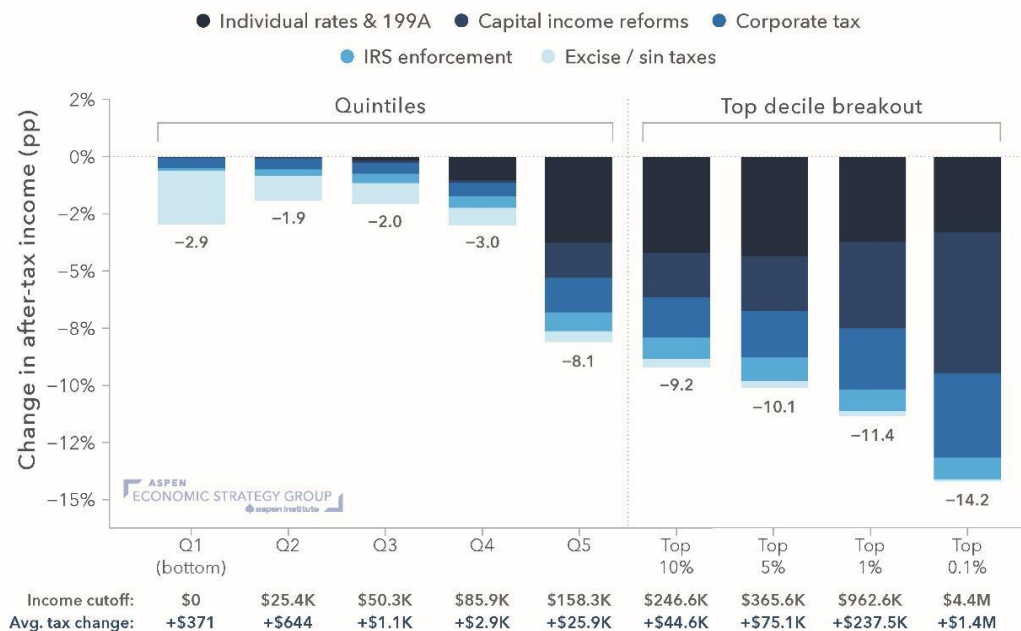
‡ Net of full 1997 rate restoration and cost of bottom-bracket exemption.

**Figure 8: Core revenue options are highly progressive**



Source: Budget Lab calculations. First-tier buckets only (corporate/international, IRS enforcement, and Pigouvian/sin taxes). Figure shows the average annual effect over 2030–2039, with dollar averages in 2026 dollars (chained CPI). The corporate burden is allocated 80% capital and 20% labor; IRS enforcement revenue is distributed in proportion to estimated tax gap by income group (Budget Lab 2025); excise components are imputed off-model from consumption. Universe is nondependent tax units including nonfilers.

**Figure 9: The full revenue package remains highly progressive**

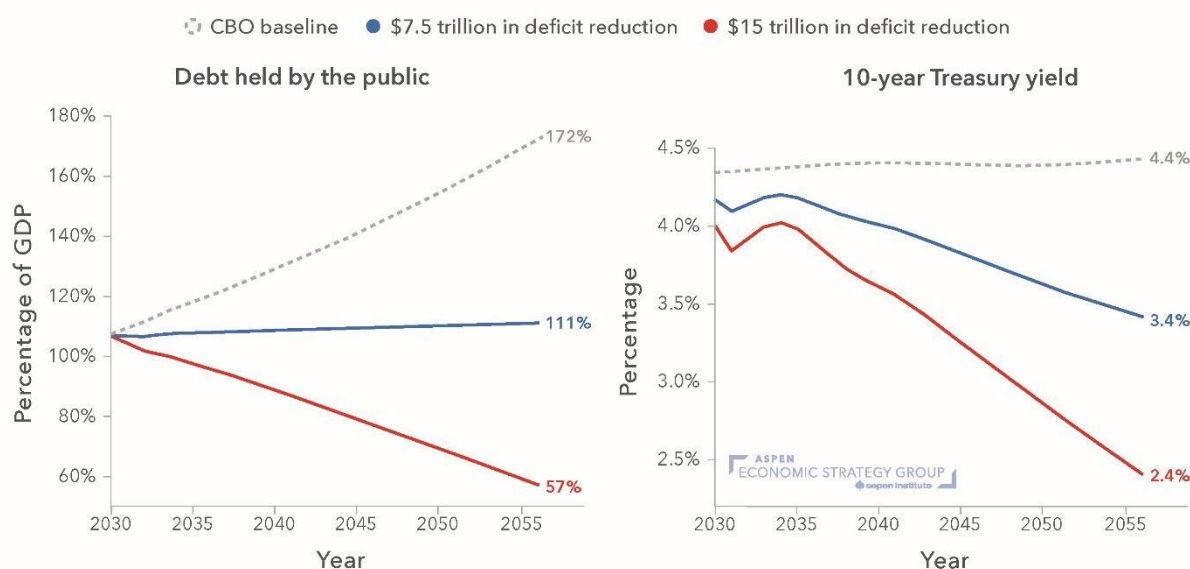


Beyond those mechanisms, fiscal responsibility will pay macroeconomic dividends, making it easier for the Federal Reserve to simultaneously manage inflation and lower interest rates. Lower interest rates will help household finances, crowd in domestic investment, and reduce our international imbalances. Indeed, these sorts of dynamics can help fuel economic growth.

Using the Budget Lab’s Small Macro Model, we examine illustrative deficit reduction packages of \$7.5 trillion and \$15 trillion over the 2030–2039 budget window. In the model, a \$7.5 trillion package roughly stabilizes the debt-to-GDP ratio through the mid-2050s, while a \$15 trillion package would bring debt steadily downward, to roughly 57 percent of GDP by 2056. Lower debt also reduces borrowing costs: By 2056, ten-year Treasury yields are about 1 percentage point lower under the \$7.5 trillion scenario and about 2 percentage points lower under the \$15 trillion scenario.

By 2040 and thereafter, neither deficit reduction path changes real GDP by more than 0.1 percent relative to baseline in either direction. The model should be understood as illustrative of some of the salient macro effects of deficit reduction rather than as painting a complete picture. As some examples of its limitations, it is agnostic as to how deficit reduction is achieved and does not capture wealth effects associated with changes in interest rates or asset values. The model captures demand-side effects and the interest rate response to lower debt, but it does not model supply-side effects of specific tax instruments.

**Figure 10: Deficit reduction lowers debt and borrowing costs with minimal drag on growth**



Source: Budget Lab Small Macro Model (BLSMM). Deviations from CBO February 2026 Long-Term Budget Outlook baseline. Revenue increases are held as a fixed share of GDP after 2039.

## 6. Comparison to Other Reform Options

Our approach is complementary to many other reform proposals. We align ourselves with Zidar and Zwick (2023), who share our view that tried-and-true tax-policy instruments are best equipped to meet this fiscal moment. Writing prior to the OBBBA tax legislation, Zidar and Zwick suggest many of the same tax reform elements that we highlight in our revenue buckets, including returning to earlier rate structures, repealing the pass-through income tax break, instituting higher corporate rates, making international tax reforms, and investing in the IRS.

Like us, these authors observe that business income is a sizable portion of the overall tax base and particularly the income and wealth that accrue to those at the top of the distribution. Accordingly, business tax reform can achieve many desirable revenue and progressivity objectives, and thus it is unsurprising that it is a core pillar of the option set that we marshal in this paper.

We differ here from the approach of other tools that tackle top wealth inequality, namely wealth taxes or the mark-to-market taxation of unrealized capital gains, some of which are considered by Batchelder and Kamin (2019). In our view, corporate tax reform has a lot to recommend relative to these approaches, particularly since it does not stand on any legally uncertain grounds yet can still reach much of the same wealth. (The current Supreme Court does not appear to look favorably on some of those taxes.) But the proposals we highlight here could also be pursued as an addition to, rather than a substitute for, some more-novel tax instruments.

Recent proposals to adopt a destination-based cash flow tax, or DBCFT (including Gale et al. 2026, building on Auerbach 2010) share many of the same core objectives as our corporate reforms. Both emphasize the objective of streamlining the corporate tax base to focus most on taxing economic profits, exempting the normal return to capital from taxation. And both are centrally focused on the problematic incentives in current law to offshore both economic activity and profits. One of the benefits of a shift to a DBCFT-style approach is that although it is distinct from a stand-alone tariff regime, it employs a border adjustment that could be marketed as a replacement for our current deleterious trade policy—and indeed the Gale, Looney, and Patel (2026) reform more than replaces tariff revenues.

Where we differ with DBCFT proponents is on two key considerations. First, it is important that any DBCFT adoption be internationally coordinated, and we fear that international coordination around such a large reform is exceedingly unlikely. In contrast, reckless unilateral adoption by the United States comes with many serious risks, including a hodge-podge of double-tax and double-nontax outcomes, serious disruption to business, and betting entire sectors of the economy on a massive exchange rate appreciation that may not occur and, even if it does occur, is unlikely to be desirable (Clausing 2026b). Second, we are less optimistic than many proponents of the DBCFT that the US Congress would be capable of handling the myriad important design issues that are instrumental to a successful implementation of such a

transformative reform. Instead, we may end up with a hybrid approach that delivers confusion and transition costs but that does not deliver on the underlying promise of the reform.

## **Conclusion**

Fiscal responsibility is of paramount importance. Given the scope of our challenges, achieving it will not be easy. The next president will likely inherit a fiscal situation that is in worse shape than today's outlook; deficits are slated to rise to 6.7 percent of GDP by the end of the decade, even under current forecasts. The next administration will also face an important fiscal challenge due to the upcoming depletion of the Social Security and Medicare trust funds, making new revenue especially welcome to forestall across-the-board benefit cuts. We hope that these challenges will focus policymakers' attention on the importance of finding better ways to tax our corporations and our citizens. This aim can be achieved in ways that maintain America's status as a low-tax country yet do more to meet the fiscal moment.

Policymakers have a host of options to explore as they seek to find revenue in the years ahead. We have described five ordinary, time-tested approaches: corporate tax reform, IRS funding, sin taxes, changes to rate structure, and individual capital tax reforms. Together, these buckets hold about \$15 trillion of additional tax revenue over the 2030–2039 decade, about 3.3 percent of GDP. On policy grounds, we find the first three of these buckets especially compelling; together they would raise about 1.6 percent of GDP in new revenue. Using simple tax tools, we can make meaningful progress on our pressing fiscal needs.

## References

- American Gaming Association. 2026. “State of Play.” American Gaming Association. <https://www.americangaming.org/research/state-of-play-map/>.
- Auerbach, Alan. 2010, December 3. “A Modern Corporate Tax.” Brookings. <https://www.brookings.edu/articles/a-modern-corporate-tax/>.
- Batchelder, Lily, and David Kamin. 2019. “Policy Options for Taxing the Rich.” In *Maintaining the Strength of American Capitalism*, edited by Melissa S. Kearney and Amy Ganz, 200–230. Aspen Institute. <https://www.economicstrategygroup.org/publication/policy-options-for-taxing-the-rich/>.
- Bearer-Friend, Jeremy, and Sarah Polcz. 2025, January 1. “Sharing the Algorithm: The Tax Solution to Generative AI.” *GW Law Faculty Publications and Other Works*. [https://scholarship.law.gwu.edu/faculty\\_publications/1822](https://scholarship.law.gwu.edu/faculty_publications/1822).
- Beer, Sebastian, Ruud Mooij, Shafik Hebous, Michael Keen, and Li Liu. 2020, February 27. “Exploring Residual Profit Allocation.” International Monetary Fund. <https://www.imf.org/en/publications/wp/issues/2020/02/28/exploring-residual-profit-allocation-48998>.
- Bistline, John, Kimberly Clausing, Neil Mehrotra, James Stock, and Catherine Wolfram. 2025. “Climate Policy Reform Options in 2025.” *Environmental and Energy Policy and Economy* 6, no. 1: 1–212. <https://doi.org/10.1086/733358>.
- Bradbury, David, and Pierce O’Reilly. 2025, March 3. *The Global Minimum Corporate Tax: Outcomes and Options*. Econstor. <https://www.econstor.eu/bitstream/10419/314444/1/1920194746.pdf>.
- Budget Lab. 2025, March 13. “The Revenue and Distributional Effects of IRS Funding.” Budget Lab, Yale University. <https://budgetlab.yale.edu/research/revenue-and-distributional-effects-irs-funding>.
- Budget Lab. 2026a, February 5. “The Real Super Bowl LX Postgame Show: Reporting and Taxing Sports Betting and Fantasy Winnings.” Budget Lab, Yale University. <https://budgetlab.yale.edu/research/real-super-bowl-lx-postgame-show-reporting-and-taxing-sports-betting-fantasy-winnings>.
- Budget Lab. 2026b, April 2. “One Year of Tariff Analysis: What We Got Right, What Changed, and What We Learned.” Budget Lab, Yale University. <https://budgetlab.yale.edu/research/one-year-tariff-analysis-what-we-got-right-what-changed-and-what-we-learned>.

- Budget Lab. 2026c, April 8. “State of U.S. Tariffs: April 8, 2026.” Budget Lab, Yale University. <https://budgetlab.yale.edu/research/state-us-tariffs-april-8-2026>.
- Center on Budget and Policy Priorities. 2025, December 19. “The Federal Estate Tax.” Center on Budget and Policy Priorities. <https://www.cbpp.org/research/federal-tax/the-federal-estate-tax>.
- Cilluffo, Anthony A., and Jane G. Gravelle. 2024, September 12. *Alcohol Excise Taxes: An Overview*. R48181. Congressional Research Service. <https://www.congress.gov/crs-product/R48181>.
- Clausing, Kimberly. 2019. *Open: The Progressive Case for Free Trade, Immigration, and Global Capital*. Harvard University Press. <https://www.hup.harvard.edu/books/9780674248212>.
- Clausing, Kimberly. 2020. “Profit Shifting Before and After the Tax Cuts and Jobs Act.” *National Tax Journal* 73, no. 4: 1233–66. <https://doi.org/10.17310/ntj.2020.4.14>.
- Clausing, Kimberly. 2024. “US International Corporate Taxation After the Tax Cuts and Jobs Act.” *Journal of Economic Perspectives* 38, no. 3: 89–112. <https://doi.org/10.1257/jep.38.3.89>.
- Clausing, Kimberly. 2026a, April 1. “Lessons from Three Global Collective Action Problems.” Working paper no. 26-6. Peterson Institute for International Economics. <https://www.piie.com/publications/working-papers/2026/lessons-three-global-collective-action-problems>.
- Clausing, Kimberly. 2026b, June 16. “The Future of US International Corporate Tax Reform.” *Hamilton Project*. <https://www.hamiltonproject.org/publication/policy-proposal/the-future-of-us-international-corporate-tax-reform/>.
- Clausing, Kimberly, Milan Elkerbout, Katarina Nehrkorn, and Catherine Wolfram. 2024, October 10. *How Carbon Border Adjustments Might Drive Global Climate Policy Momentum*. Resources for the Future. <https://www.rff.org/publications/reports/how-carbon-border-adjustments-might-drive-global-climate-policy-momentum/>.
- Clausing, Kimberly, and Maurice Obstfeld. 2026. “Tariffs as Fiscal Policy.” *National Tax Journal* 79, no. 1: 163–206. <https://doi.org/10.1086/739420>.
- Committee for a Responsible Federal Budget. 2024. *Plans to Address TCJA Expirations*. Committee for a Responsible Federal Budget. <https://www.crfb.org/sites/default/files/media/documents/Plans%20to%20Address%20TCJA%20Expirations.pdf>.

- Committee for a Responsible Federal Budget. 2025, August 25. “Meeting Fiscal Goals Under CRFB’s August Baseline.” Committee for a Responsible Federal Budget. <https://www.crfb.org/blogs/meeting-fiscal-goals-under-crfbs-august-baseline>.
- Congressional Budget Office. 2023, June 9. *How the Fiscal Responsibility Act of 2023 Affects CBO’s Projections of Federal Debt*. Congressional Budget Office. <https://www.cbo.gov/publication/59235>.
- Congressional Budget Office. 2026a. “Key Budget and Economic Data.” Congressional Budget Office. <https://www.cbo.gov/data/budget-economic-data#2>.
- Congressional Budget Office. 2026b, February 11. *The Budget and Economic Outlook: 2026 to 2036*. Congressional Budget Office. <https://www.cbo.gov/publication/61882>.
- Congressional Budget Office. 2026c, February 25. *The Long-Term Budget Outlook Data: 2026 to 2056*. Congressional Budget Office. <https://www.cbo.gov/publication/62044>.
- Dettling, Lisa, and Luke Pardue. 2026. “Low Fertility and Fiscal Sustainability: The Effects of Past and Future Fertility Rates on the US Federal Budget Outlook.” In *Demographic Headwinds: The Economic Consequences of Lower Birth Rates and Longer Lives*, edited by Melissa S. Kearney and Luke Pardue, 38–53. Aspen Institute. <https://www.economicstrategygroup.org/publication/pardue-dettling-budget/>.
- Diamond, John W., and Autumn Engebretson. 2023, February 16. “Reflecting on the Budget Control Act of 2011 and Its Relevance Now.” Rice University’s Baker Institute for Public Policy. <https://www.bakerinstitute.org/research/reflecting-budget-control-act-2011-and-its-relevance-now>.
- Driessen, Grant A., and Marc Labonte. 2015, December 29. *The Budget Control Act of 2011 as Amended: Budgetary Effects*. R42506. Congressional Research Service. <https://www.congress.gov/crs-product/R42506>.
- Energy Policy Institute at the University of Chicago (EPIC). 2019, January 22. “New Poll: Nearly Half of Americans Are More Convinced Than They Were Five Years Ago That Climate Change Is Happening, with Extreme Weather Driving Their Views.” EPIC. <https://epic.uchicago.edu/news/new-poll-nearly-half-of-americans-are-more-convinced-than-they-were-five-years-ago-that-climate-change-is-happening-with-extreme-weather-driving-their-views/>.
- Federal Reserve Bank of St. Louis (FRED). 2026, April 9. “Federal Receipts as Percent of Gross Domestic Product.” FRED. <https://fred.stlouisfed.org/series/FYFRGDA188S>.
- Fox, Edward. 2020. “Does Capital Bear the U.S. Corporate Tax After All? New Evidence from Corporate Tax Returns.” *Journal of Empirical Legal Studies* 17, no. 1: 71–115. <https://doi.org/10.1111/jels.12243>.

- Furman, Jason. 2020, January 28. “How to Increase Growth While Raising Revenue: Reforming the Corporate Tax Code.” *Hamilton Project*. [https://www.hamiltonproject.org/assets/files/Furman\\_LO\\_FINAL.pdf](https://www.hamiltonproject.org/assets/files/Furman_LO_FINAL.pdf).
- Gale, William, Adam Looney, and Elena Patel. 2026, June 16. “Corporate Tax Reform in the Wake of the 2025 Tax Law: Completing the Shift to a Corporate Cash-Flow Tax.” *Hamilton Project*. <https://www.hamiltonproject.org/publication/policy-proposal/corporate-tax-reform-in-the-wake-of-the-2025-tax-law-completing-the-shift-to-a-corporate-cash-flow-tax/>.
- González, Ignacio, Mary Hansen, and William Mooney. 2026. *Increasing Excess Returns in U.S. Corporations: New Estimates and Policy Implications*. Institute for Macroeconomic and Policy Analysis. <https://doi.org/10.57912/31301950>.
- Hollenbeck, Brett, Poet Larsen, and Davide Proserpio. 2025, December 8. “The Financial Consequences of Legalized Sports Gambling.” SSRN Scholarly Paper no. 4903302. Social Science Research Network. <https://doi.org/10.2139/ssrn.4903302>.
- Huble, Cait. 2026, March 2. “National Survey Finds Widespread Gambling Participation Before Age 21 amid Public Concern About Youth Exposure Risk.” Press release. National Council on Problem Gambling. <https://www.ncpgambling.org/news/survey-finds-widespread-gambling-participation-before-age-21/>.
- Hugger, Felix, Ana Cinta González Cabral, Massimo Bucci, Maria Gesualdo, and Pierce O’Reilly. 2024, January 9. “The Global Minimum Tax and the Taxation of MNE Profit.” OECD Taxation Working Paper, ahead of print. OECD. <https://doi.org/10.1787/9a815d6b-en>.
- Hungerford, Thomas. 2006, September 25. *U.S. Federal Government Revenues: 1790 to the Present*. Report for Congress. Congressional Research Service. [https://www.everycrsreport.com/files/20060925\\_RL33665\\_4a8c6781ce519caa3e6b82f95c269f73021c5fdf.pdf](https://www.everycrsreport.com/files/20060925_RL33665_4a8c6781ce519caa3e6b82f95c269f73021c5fdf.pdf).
- Imberg, Maya. 2025, November 19. “Billionaires and the Divide Between Public and Private Business Ownership.” *Altrata*. <https://altrata.com/articles/billionaires-and-the-divide-between-public-and-private-ownership>.
- Intergovernmental Panel on Climate Change (IPCC). 2023. *Climate Change 2023: Synthesis Report*. IPCC. <https://doi.org/10.59327/IPCC/AR6-9789291691647>.
- Internal Revenue Service. 1996, December 30. “1996. Revenue Procedure 96-59.” *Internal Revenue Bulletin* 1996-53. <https://www.irs.gov/pub/irs-irbs/irb96-53.pdf>.

- Internal Revenue Service. 2022. “IRS Statistics of Income, Corporate Income Tax Returns 2022.” IRS.gov. <https://www.irs.gov/statistics/soi-tax-stats-corporation-income-tax-returns-complete-report-publication-16>.
- Internal Revenue Service. 2023. “SOI Tax Stats—Country by Country Report.” IRS.gov. <https://www.irs.gov/statistics/soi-tax-stats-country-by-country-report>.
- Internal Revenue Service. 2024. “IRS: The Tax Gap.” IRS.gov. <https://www.irs.gov/statistics/irs-the-tax-gap>.
- Internal Revenue Service. 2025a. *26 CFR 601.602: Tax Forms and Instructions*. Internal Revenue Service. <https://www.irs.gov/pub/irs-drop/rp-25-32.pdf>.
- Internal Revenue Service. 2025b. “SOI Tax Stats—Individual Statistical Tables by Tax Rate and Income Percentile.” IRS.gov. <https://www.irs.gov/statistics/soi-tax-stats-individual-statistical-tables-by-tax-rate-and-income-percentile>.
- Internal Revenue Service. n.d. “SOI Tax Stats—2023 IRS Data Book Table 17 (Revised).” IRS.gov. Accessed July 1, 2026. <https://www.irs.gov/statistics/soi-tax-stats-2023-irs-data-book-table-17-revised>.
- International Monetary Fund (IMF). 2026, April. “General Government Gross Debt.” *World Economic Outlook Database*. IMF Data Mapper. [https://www.imf.org/external/datamapper/GGXWDG\\_NGDP@WEO/OEMDC/ADVEC/WEOWORLD?year=2024](https://www.imf.org/external/datamapper/GGXWDG_NGDP@WEO/OEMDC/ADVEC/WEOWORLD?year=2024).
- Johnson, Miles, Thalia Spinrad, Kathleen Bryant, and Chye-Ching Huang. 2026, June 16. “Toward a Uniform Business Tax System: Examining Proposals to Tax Large Pass-through Entities as Corporations.” *Hamilton Project*. <https://www.hamiltonproject.org/publication/policy-proposal/toward-a-uniform-business-tax-system-examining-proposals-to-tax-large-pass-through-entities-as-corporations/>.
- Joulfaian, David. 1998, December 1. “The Federal Estate and Gift Tax: Description, Profile of Taxpayers, and Economic Consequences.” OTA Paper no. 80. Office of Tax Analysis. <https://home.treasury.gov/system/files/131/WP-80.pdf>.
- Loughead, Katherine. 2018, June 7. “How Much Does Your State Collect in Excise Taxes?” Tax Foundation. <https://taxfoundation.org/data/all/state/excise-tax-collections-per-capita-2018/>.
- Mankiw, Gregory. 2025, July 10. “The Fiscal Future: 17th Annual Martin Feldstein Lecture, 2025.” *Reporter 3*: 1–8. <https://www.nber.org/reporter/2025number3/17th-annual-martin-feldstein-lecture-2025-fiscal-future>.
- National Association of Tax Professionals. 2026, May 27. “Prediction Market Contracts Are Showing Up on Client Returns.” National Association of Tax Professionals.

- <https://www.natptax.com/news-insights/blog/prediction-market-contracts-are-showing-up-on-client-returns/>.
- Norton, Amy. 2013, April 25. “Most Americans Oppose Soda, Candy Taxes.” *U.S. News and World Report*. <https://health.usnews.com/health-news/news/articles/2013/04/25/most-americans-oppose-soda-candy-taxes>.
- OECD Revenue Statistics. 2025, December 9. *Disentangling Personal Income Tax Revenue in OECD Countries*. OECD Revenue Statistics. <https://doi.org/10.1787/3a264267-en>.
- Office of Management and Budget. n.d. “Historical Tables.” White House. Accessed July 1, 2026. <https://www.whitehouse.gov/omb/information-resources/budget/historical-tables/>.
- Penn Wharton Budget Model. 2026, May. Unpublished revenue estimates prepared for Kimberly Clausing.
- Pigou, Arthur Cecil. 1920. *The Economics of Welfare*. Macmillan and Co. <https://archive.org/details/dli.bengal.10689.4260>.
- Power, Laura, and Austin Frerick. 2016. “Have Excess Returns to Corporations Been Increasing Over Time?” *National Tax Journal* 69, no. 4: 831–45. <https://doi.org/10.17310/ntj.2016.4.05>.
- Rossotti, Charles, Natasha Sarin, and Lawrence Summers. 2020, November 30. “Shrinking the Tax Gap: A Comprehensive Approach.” *Tax Notes*. <https://www.taxnotes.com/featured-analysis/shrinking-tax-gap-comprehensive-approach/2020/11/25/2d7ht>.
- Smith, Matthew, Owen Zidar, and Eric Zwick. 2023. “Top Wealth in America: New Estimates Under Heterogeneous Returns.” *Quarterly Journal of Economics* 138, no. 1: 515–73. <https://doi.org/10.1093/qje/qjac033>.
- Tedeschi, Ernie. 2025, May 1. *What Is the Bond Market Telling Us?* Psaros Center for Financial Markets and Policy, McDonough School of Business. [https://finpolicy.georgetown.edu/wp-content/uploads/2025/05/What-is-the-Bond-Market-Telling-Us\\_.pdf](https://finpolicy.georgetown.edu/wp-content/uploads/2025/05/What-is-the-Bond-Market-Telling-Us_.pdf).
- US Treasury. 2024. “Revenue Proposals.” Treasury.gov. <https://home.treasury.gov/policy-issues/tax-policy/revenue-proposals>.
- US Treasury. 2025. “2025 Distribution Table.” Treasury.gov. <https://home.treasury.gov/system/files/131/Distribution-of-Income-by-Source-2025.pdf>.
- World Bank Group. 2026. “Compliance Coverage Map Block.” Carbon Pricing Dashboard. <https://carbonpricingdashboard.worldbank.org/compliance/coverage>.
- Zidar, Owen, and Eric Zwick. 2023. “The Next Business Tax Regime: What Comes After the TCJA?” In *Building a More Resilient US Economy*, edited by Melissa S. Kearney, Justin

Schardin, and Luke Pardue, 129–47. Aspen Institute.

<https://www.economicstrategygroup.org/publication/the-next-business-tax-regime-what-comes-after-the-tcja/>.