

Press Release



The Growth Impacts of Framework-Consistent Tax Reform

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The central questions in the tax reform debate are: Can tax reform spur greater investment and economic growth? Will that growth translate into higher wages and standards of living? And can this be accomplished in a fiscally responsible fashion? To quantify potential economic impacts, the American Action Forum (AAF) retained noted accounting firm EY to perform a macroeconomic analysis of the “AAF Plan”—a complete tax proposal similar to that being considered by Congress. The analysis indicates that well-designed, growth-focused tax reform can deliver on all of these fronts, making the United States a better environment in which to invest, work, and live.

The AAF Plan includes:

- Strong incentives for pro-growth investment: immediate and permanent expensing of non-structures investment, a 20 percent corporate tax rate, and a 25 percent pass-through tax rate.
- A pro-competitive move from worldwide to territorial income taxation.
- Aggressive base broadening totaling more than \$4 trillion over the 10-year budget window, yielding a static tax loss of \$1.1 trillion.

EY’s analysis found the AAF Plan would:

- Raise economic growth over the short, medium, and long-term, with the long-term Gross Domestic Product increasing by more than 3 percent, reflecting substantially greater investment.
- Lead to a more than 7 percent increase in after-tax wages for working Americans.
- Achieve revenue feedback from economic growth of between \$660 and \$690 billion over 10 years, substantially offsetting the “static” budget cost of \$1.1 trillion.

EY evaluated the macroeconomic impacts of the AAF Plan using two alternative approaches that closely resemble techniques used by the Joint Committee on Taxation. The EY approach to modeling the AAF Plan yields a conservative estimate of its growth consequences. In practice, there will likely be shorter-run, rapid increases in economic growth as GDP rises above the expected trend.

The AAF Plan does not pretend to be an ideal reform. Sweeping legislation always reflects the political reality of compromises and tradeoffs. But the EY analysis demonstrates that an imperfect yet *realistic* tax plan can still contribute to economic growth and prosperity.

To view the full AAF Plan and EY analysis, please [click here](#).

To read a related op-ed in today’s *The Huffington Post*, please [click here](#).