

OFRA SIMULATION S2024-003

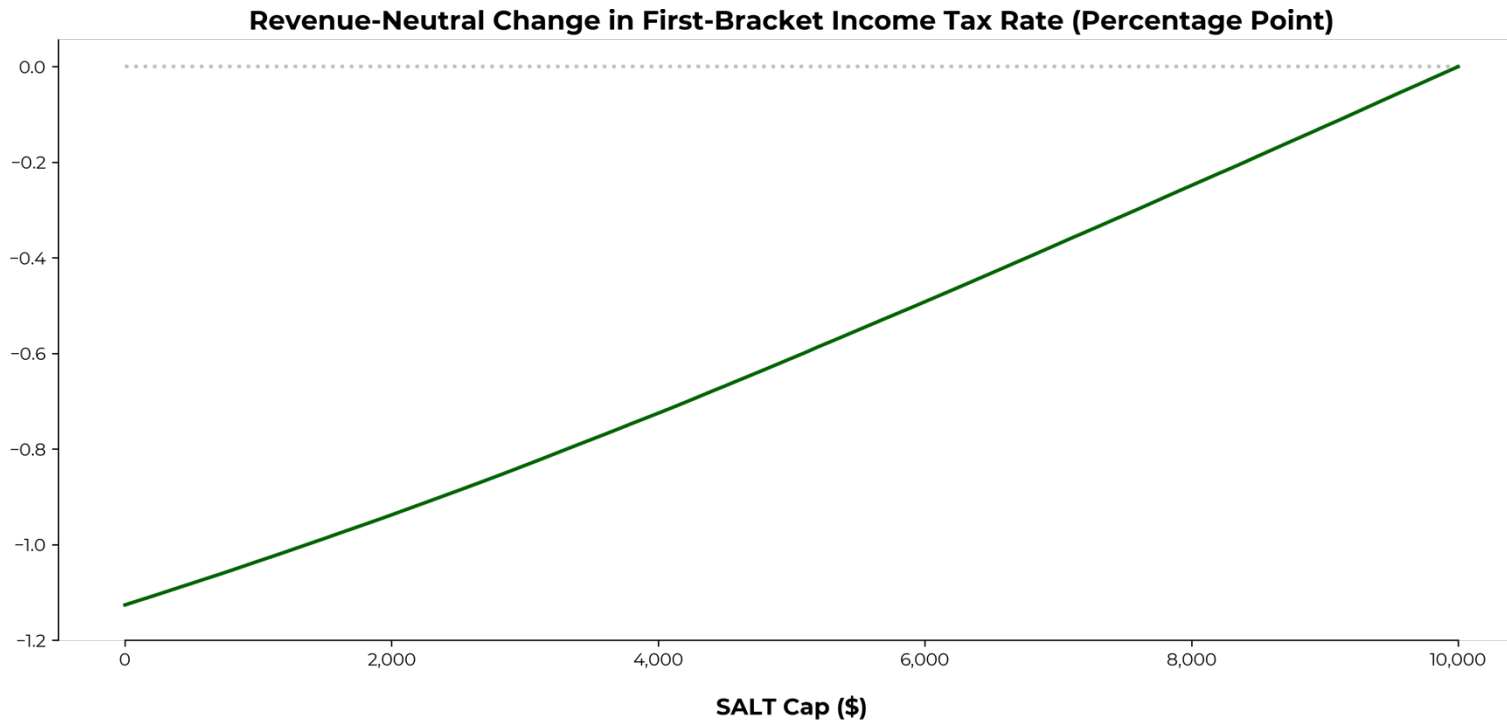
Figure: Substitute SALT Cap with Lower Income Tax

Baseline: Current Policy¹

Reform: Lowering SALT Cap in Exchange for Lowering Tax Rate on Lowest Income Bracket, Starting 2026²

Calibration: Joint Committee on Taxation-Style Conventional Models³

Budget Window: 2026-2035



Source: Tax-Brain (v.2.7.1), Tax-Calculator (v.4.3.0), Behavioral-Response (v.0.11.0), and Tax-Microdata-Benchmarking (as of September 30, 2024). See github.com/PSLmodels for open-source code.

1. The baseline assumes that Tax Cuts and Jobs Act temporary provisions are extended beyond 2025.
2. All the simulated proposals assume that the first-bracket income threshold remains the same when the first-bracket tax rate changes.
3. The revenue modeling is calibrated to the Joint Committee on Taxation's conventional models and considers two types of behavioral response triggered by the reform: (1) the substitution elasticity of taxable income, defined as proportional change in taxable income divided by proportional change in marginal net-of-tax rate on taxpayer earnings, and (2) the semi-elasticity of long-term capital gains, defined as change in logarithm of long-term capital gains divided by change in marginal tax rate on long-term capital gains. The first parameter ("be_sub" in the Behavioral-Response model) is set at 0.25, and the second parameter ("be_cg") is set at -3.45.