



A 1% Value-Added Tax

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<https://budgetmodel.wharton.upenn.edu/model-estimates-1/2019/11/18/a-1-value-added-tax>

Summary: We estimate the budgetary and economic effects of a new broad-based 1 percent value-added tax (VAT) with a progressive universal rebate calculated based on earnings, which is enacted on January 1st, 2021.

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Table 1. Conventional Budget Estimate, FY2021-2030

Billions of Dollars, Change from Current-Law Baseline

Policy	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2021-2030
A 1% value-added tax (VAT)	46	63	66	67	70	72	75	78	80	84	700



Table 2. Dynamic Macroeconomic Effects

Percent Change from Baseline

Year	GDP	Capital stock	Labor income	Hours worked	Consumption
2030	0.1%	0.4%	0.1%	0.0%	-1.6%
2040	0.4%	1.0%	0.4%	0.0%	-2.1%
2050	0.8%	2.2%	0.8%	0.1%	-3.6%

Note: Consistent with empirical evidence*, the projections above assume that the U.S. economy is 40 percent open and 60 percent closed. Specifically, 40 percent of new government debt is purchased by foreigners.

* <https://budgetmodel.wharton.upenn.edu/issues/2016/9/13/setting-behavioral-responses-in-pwbms-dynamic-simulations>