

TPC's Preliminary Revenue and Distributional Estimates of the Wyden-Gregg Proposal

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Overview

1. Major provisions of Wyden-Gregg
2. The “Current Policy” and “Current Law” baselines
3. TPC’s revenue estimates
4. TPC’s distributional analysis
5. Some caveats



Summary

- Estimated against both the *Current Policy* and *Current Law* baselines
- Relative to the *Current Policy* baseline:
 - Approximately revenue neutral through 2020
 - Progressivity is modestly increased
- Relative to the *Current Law* baseline:
 - Loses \$4.1 trillion through 2020
 - Progressivity is modestly increased, except at bottom and very top incomes
- Main caveat: Revenue estimates are “static”



Major Provisions of Wyden-Gregg

Individual income and payroll tax

Three rates of 15%, 25% and 35%

35% rate for joint filers

starts at \$140,000 (\$373,650 currently)

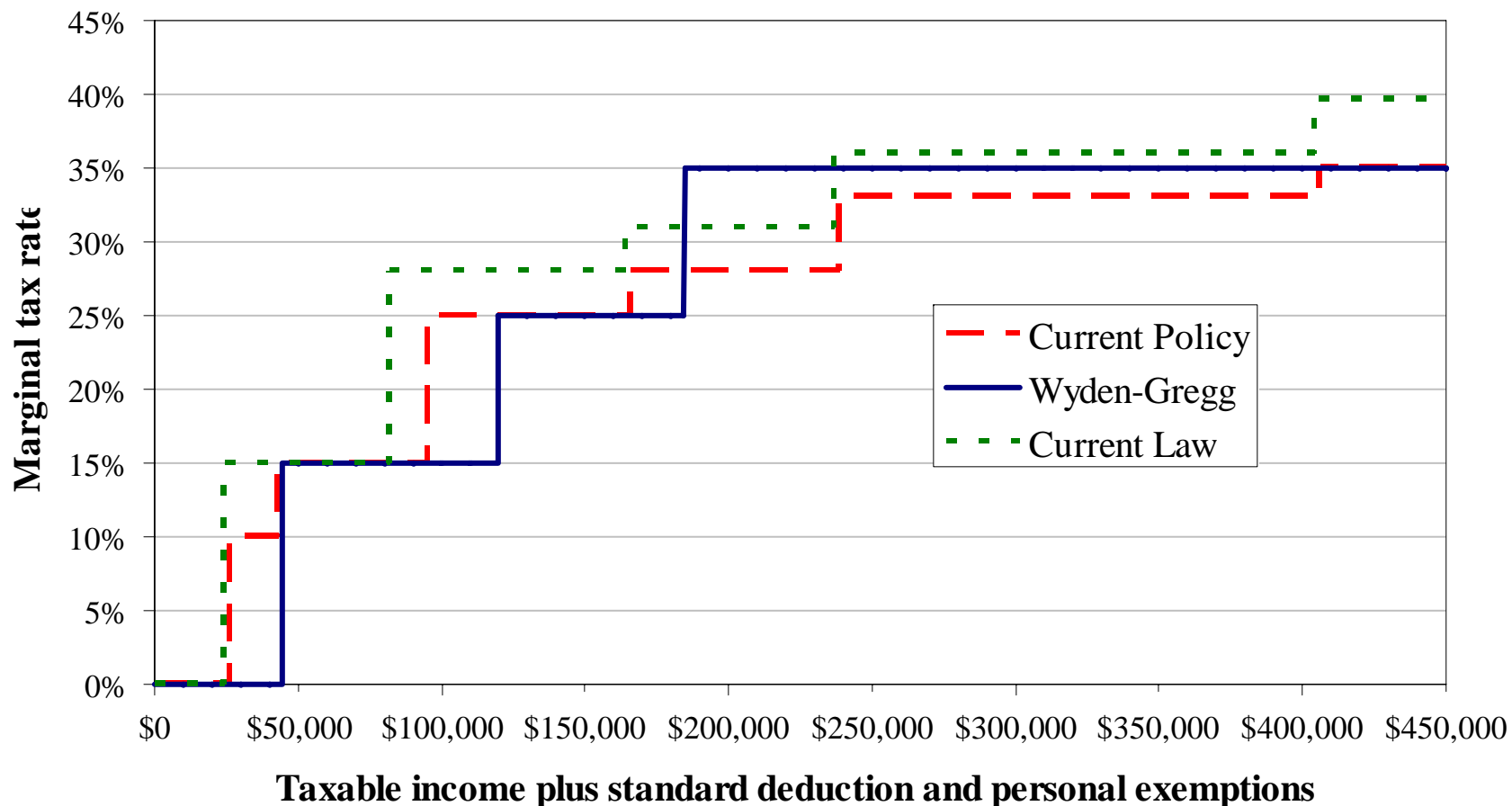
Increase in basic standard deduction

\$30,000 for joint filers

(\$11,400 currently)



**Figure 1: Tax Rate Schedule in 2011
for a Married Couple with Two Children**



Major Provisions of Wyden-Gregg – continued

Individual income and payroll tax – cont.

Nonrefundable 25% credit for interest
on state and local bonds

Permanent extension of \$1,000 child tax credit

Eliminate miscellaneous itemized deductions

35% exclusion for capital gains and dividends
and special rates repealed



Major Provisions of Wyden-Gregg – continued

Individual income and payroll tax – cont.

Repeal AMT

Change CPI measure used for indexation

Repeal Section 125 cafeteria plans

Other, mostly base-broadening, provisions



Major Provisions of Wyden-Gregg – continued

Corporate income and other business

Flat corporate tax rate of 24%

Unlimited expensing of equipment and inventories
for small businesses (receipts under \$1M)

Repeal deduction for domestic production activities

Repeal deferral of gain on non-dealer sales

Repeal sales source rule exception



Major Provisions of Wyden-Gregg – continued

Corporate income and other business – cont.

Repeal deferral of active income of CFCs

Require alternative depreciation schedule
(Applies to all structures and to equipment for “large” businesses)

Index corporate interest deduction for inflation

Other, mostly base-broadening, provisions



Major Provisions of Wyden-Gregg – continued

Internet Gambling

Regulate and tax internet gambling

Sports betting not allowed

Tax rate of 2% on all internet bets and wagers

States and Indian tribal governments could disallow internet gambling in their jurisdictions



Baselines– Current Policy

Permanently extend 2001 and 2003 individual income tax cuts

Retain and index 2009 individual AMT exemption and all parameters

Personal credits are not limited by the AMT

Expanded expensing for small business (Budget proposal)

Retain estate tax at 2009 levels
\$3.5 million exemption (indexed) and 45% top rate



Baselines – Current Policy continued

Continue major 2001 and 2003 individual income tax cuts

Rate reductions (39.6% to 35%, etc.) and new 10% rate

15% top rate for capital gains and dividends

Elimination of PEP and Pease

Increase in child tax credit from \$500 to \$1,000 and expanded refundability

Increase in rate and maximum CDCTC

Marriage penalty relief

higher standard deduction, 15% bracket,
and EITC phaseout range for joint filers



Baselines– Current Law

Individual income tax cuts enacted in 2001 and 2003 do expire

Individual AMT exemption amount reverts to its pre-2001 level
no indexation

Personal credits are limited by the AMT

Expensing for small business is not expanded

Estate tax exemption reverts to \$1 million (unindexed)
55% top rate and a state death tax credit



TPC's Revenue Estimates

- Revenue estimates using both baselines
- We used TPC's microsim model for most individual income and payroll tax estimates
- Other estimates are based on published estimates from JCT, CBO and Treasury
- Jane Gravelle provided some estimates and reviewed all estimates
- We made a few independent estimates



TPC's Revenue Estimates – continued

Ten-year revenue gain: \$22 billion

relative to the *Current Policy* baseline

Individual income and payroll tax provisions: **+\$232 billion**

Corporate income and other business tax provisions: **-\$222 billion**

Internet gambling provision: **+\$10 billion**



Table 1
TPC's Revenue Estimates for Wyden-Gregg
Relative to *Current Policy* Baseline (\$ billions), 2011-2020

Individual Income and Payroll Tax Provisions	
Three rates of 15, 25, and 35 percent	598.7
Increase in basic standard deduction	-1,576.5
Increase in child tax credit from \$500 to \$1,000	0.0
35-percent exclusion for capital gains and dividends	447.4
Repeal of alternative minimum tax	-297.9
Repeal Section 125 cafeteria plan benefits	567.2
Other individual income and payroll tax provisions	494.3
Total for individual income and payroll tax provisions	233.2
Corporate Income and Other Business Tax Provisions	
Corporate flat tax at 24 percent rate	-990.3
Other corporate and business tax provisions	768.2
Total for corporate and business tax provisions	-222.0
Internet Gambling Provisions	10.5
Total for all provisions	21.7



TPC's Revenue Estimates – continued

Ten-year revenue loss: \$4.1 trillion
relative to the *Current Law* baseline

Individual income and payroll tax provisions: **-\$3,812 billion**

Corporate income and other business tax provisions: **-\$251 billion**

Internet gambling provision: **+\$10 billion**



Table 2

**TPC's Revenue Estimates for Wyden-Gregg
Relative to *Current Law* Baseline (\$ billions), 2011-2020**

Individual Income and Payroll Tax Provisions	
Three rates of 15, 25, and 35 percent	-1,283.5
Increase in basic standard deduction	-736.2
Increase in child tax credit from \$500 to \$1,000	-367.5
35-percent exclusion for capital gains and dividends	-175.1
Repeal of alternative minimum tax	-2,123.4
Repeal Section 125 cafeteria plan benefits	567.2
All other individual income and payroll tax provisions	306.2
Total for individual income and payroll tax provisions	-3,812.3
Corporate Income and Other Business Tax Provisions	
Corporate flat tax at 24 percent rate	-990.3
Other corporate and business tax provisions	738.9
Total for corporate and business tax provisions	-251.3
Internet Gambling Provisions	10.5
Total for all provisions	-4,053.2



TPC's Distributional Analysis

Distributional effects estimated using TPC's microsim model

Effects estimated using both baselines

A few minor provisions excluded due to data limitations

Incidence Assumptions

Individual income tax borne by payers

Payroll tax (both shares) borne by workers

Corporate income tax borne by all capital



TPC's Distributional Analysis

Chart 1: **change in effective tax rates** under both baselines by quintile

Chart 2: **change in effective tax rates** by quantiles of the top quintile

Tax system slightly more progressive (except at lowest incomes)
relative to the *Current Policy* baseline

Increased progressivity except at bottom and very top
relative to the *Current Law* baseline



Chart 1
Change in Effective Tax Rates under Wyden-Gregg, 2014

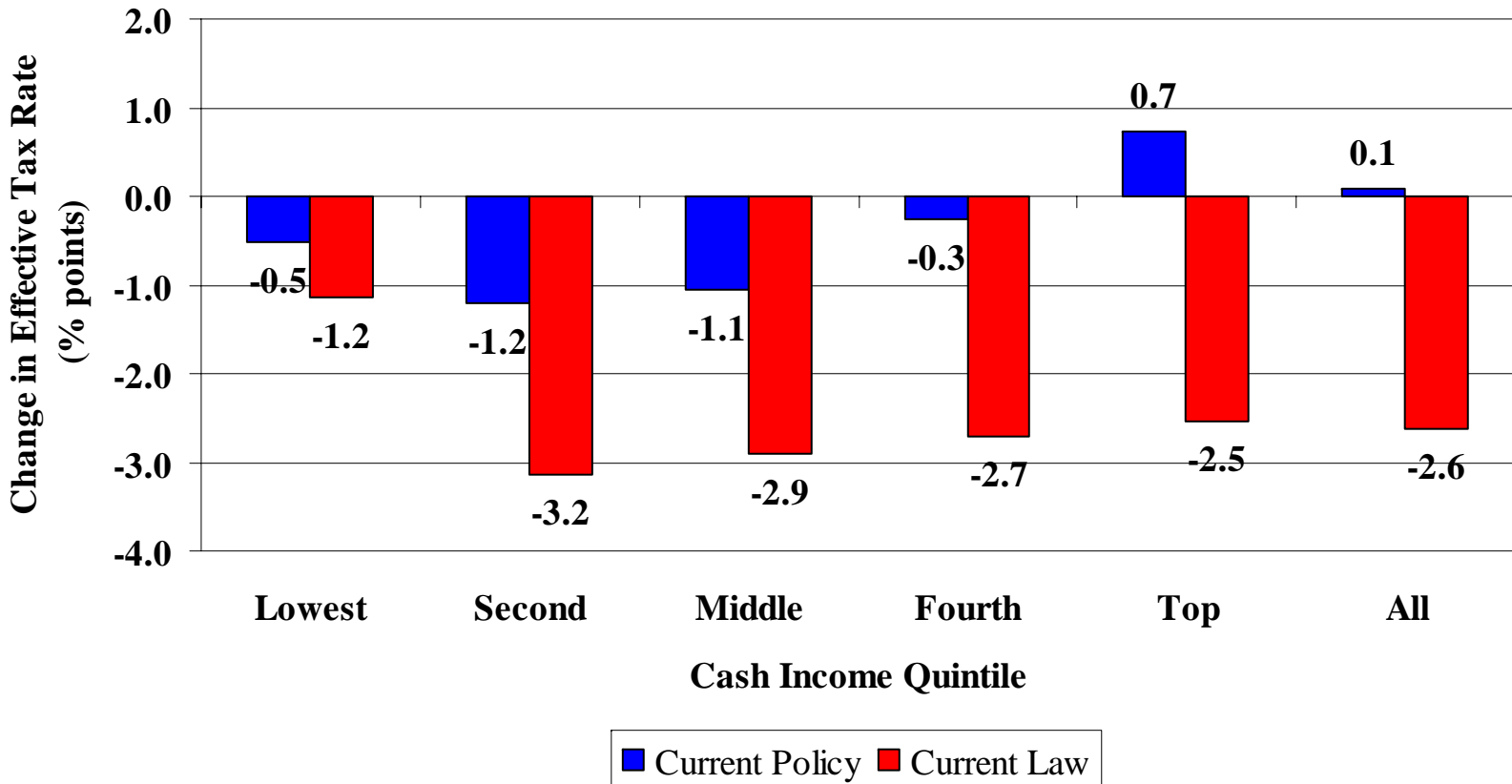
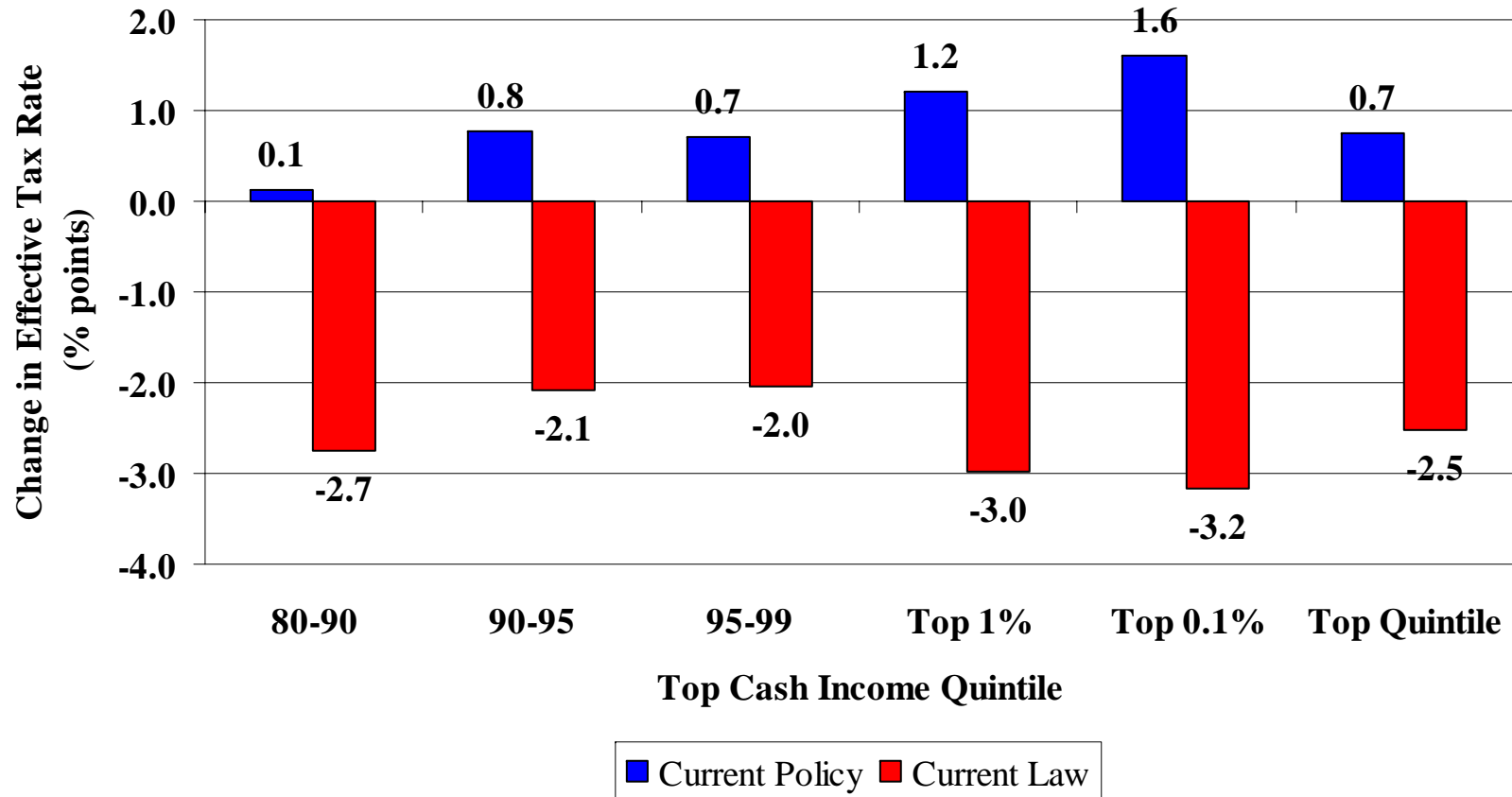


Chart 2
Change in Effective Tax Rates under Wyden-Gregg, 2014



Caveats

“Static” revenue estimates

- Relative to [either baseline](#), capital gains rates increase so realizations would likely fall, reducing the static revenue gain from the exclusion
- Relative to the [Current Policy baseline](#), MTRs on ordinary income increase for some taxpayers, which could decrease taxable income
- However, relative to the [Current Law baseline](#), MTRs on ordinary income decrease for high-income taxpayers, which would likely increase taxable income
- Relative to [either baseline](#), corporations might retain more earnings and more businesses might become C-corps due to much lower corporate than individual top rate
- Some other responses might increase revenue



Caveats – continued

- On balance, behavior is likely to:
 - reduce revenue from TPC’s static estimates under the *Current Policy* baseline
 - could increase revenue under the *Current Law* baseline
- *March 2009* CBO economic forecast used to extrapolate its microsim model
 - The current CBO forecast is generally more optimistic in the near term
 - Not clear what effect using the latest forecast would have on the estimates
- TPC’s baseline revenues excluded the effects of the recent health legislation

