

Table T10-0253
Bowles-Simpson Deficit Commission
"Chairmen's Mark" Option 1: The Zero Plan Variant Retaining the Child Tax Credit and Earned Income Tax Credit
Retain Payroll Tax Exclusion for Employer-Sponsored Health Insurance (ESI) Benefits, Cafeteria Plan Benefits, and Employer Retirement Contributions
Reduce Mortgage, Health and Retirement Benefits under Individual Income Tax to 80 Percent of Current Level; Tax Rates of 12, 20, 27 Percent
Baseline: Current Law
Distribution of Federal Tax Change by Cash Income Percentile, 2015¹

Cash Income Percentile ^{2,3}	Percent Change in After-Tax Income ⁴	Share of Total Federal Tax Change	Average Federal Tax Change		Share of Federal Taxes		Average Federal Tax Rate ⁵	
			Dollars	Percent	Change (% Points)	Under the Proposal	Change (% Points)	Under the Proposal
Lowest Quintile	1.2	3.9	-135	-19.9	-0.1	0.7	-1.1	4.4
Second Quintile	0.7	4.6	-181	-4.6	0.0	4.2	-0.6	11.9
Middle Quintile	1.7	17.9	-776	-7.1	-0.3	10.3	-1.3	17.7
Fourth Quintile	2.7	40.6	-2,112	-9.2	-1.0	17.5	-2.1	20.8
Top Quintile	0.9	33.3	-1,976	-2.1	1.4	67.3	-0.6	28.8
All	1.4	100.0	-878	-4.2	0.0	100.0	-1.0	23.5
Addendum								
80-90	2.4	24.0	-2,824	-7.0	-0.4	13.9	-1.8	24.0
90-95	2.4	16.0	-3,846	-6.4	-0.2	10.2	-1.7	25.1
95-99	1.9	17.8	-5,321	-4.7	-0.1	15.7	-1.4	27.4
Top 1 Percent	-2.1	-24.4	28,704	4.1	2.2	27.4	1.4	35.5
Top 0.1 Percent	-5.2	-26.5	305,544	8.8	1.7	14.4	3.3	40.6

Baseline Distribution of Income and Federal Taxes
by Cash Income Percentile, 2015¹

Cash Income Percentile ^{2,3}	Tax Units ⁶		Average Income (Dollars)	Average Federal Tax Burden (Dollars)	Average After-Tax Income ⁴ (Dollars)	Average Federal Tax Rate ⁵	Share of Pre-Tax Income	Share of Post-Tax Income	Share of Federal Taxes
	Number (thousands)	Percent of Total					Percent of Total	Percent of Total	Percent of Total
Lowest Quintile	41,624	25.4	12,380	679	11,701	5.5	3.7	4.6	0.8
Second Quintile	36,614	22.3	31,685	3,964	27,721	12.5	8.3	9.6	4.2
Middle Quintile	33,124	20.2	57,597	10,978	46,619	19.1	13.6	14.6	10.6
Fourth Quintile	27,665	16.9	99,859	22,905	76,955	22.9	19.7	20.2	18.4
Top Quintile	24,232	14.8	317,385	93,498	223,887	29.5	54.9	51.4	65.9
All	163,952	100.0	85,389	20,984	64,405	24.6	100.0	100.0	100.0
Addendum									
80-90	12,217	7.5	156,310	40,331	115,979	25.8	13.6	13.4	14.3
90-95	5,983	3.7	223,625	60,048	163,577	26.9	9.6	9.3	10.4
95-99	4,805	2.9	394,683	113,341	281,343	28.7	13.6	12.8	15.8
Top 1 Percent	1,226	0.8	2,076,558	708,582	1,367,977	34.1	18.2	15.9	25.3
Top 0.1 Percent	125	0.1	9,314,304	3,480,315	5,833,989	37.4	8.3	6.9	12.6

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0509-4).

(1) Calendar year. Baseline is current law. Proposal replaces the mortgage interest deduction with a 15-percent refundable credit; replaces the exclusion from taxable income of ESI benefits with a refundable credit of \$1.1 for single-coverage ESI, \$2,433 for family-coverage ESI; reduces contribution limits on tax-deferred retirement saving accounts and IRAs to 43 percent of current limits; caps excluded accruals from defined benefit pension plans at \$177,000; and includes income from assets in retirement saving accounts in excess of \$6,330 in taxable income (all figures in 2015\$). These proposals provide roughly 80 percent of the benefits of the mortgage, health, and retirement provisions under CBO's alternative fiscal scenario baseline. The proposal also eliminates most major tax expenditures, including preferential rates on capital gains and qualified dividends; all itemized deductions, except deduction for miscellaneous expenses above a 2%-of-AGI floor; exemption on all municipal bond interest; all above-the-line deductions except those for the self-employment tax, moving expenses, and alimony paid; and all tax credits except the foreign tax credit, the child tax credit, and the earned income tax credit; includes 85% of Social Security benefits in taxable income; repeals the AMT; taxes inside buildup in life insurance and annuities;

repeals the foreign earned income exclusion; and taxes unrealized capital gains at death. The proposal implements a three-rate structure with statutory tax rates of 12, 20, and 27 percent; the threshold for the 20 percent rate would be the same as that for the 28 percent rate under current law; the threshold for the 27 percent rate would be the same as that for the 36 percent rate under the Administration's budget proposal.

The proposal increases the Social Security wage base by an additional 2 percent per year until 2050 (taxable maximum would be \$140,100 in 2015) and phases in a 15 cent increase in the gasoline tax (average increase in 2015 would be 13.5 cents). We assume corporate income tax revenue would be unchanged (lower corporate rate would be offset by base broadeners).

(2) Tax units with negative cash income are excluded from the lowest income class but are included in the totals. For a description of cash income, see

<http://www.taxpolicycenter.org/TaxModel/income.cfm>

(3) The cash income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2009 dollars): 20% 20681, 40% 39827, 60% 70585, 80% 121920, 90% 177321, 95% 250235, 99% 662637, 99.9% 3040915.

(4) After-tax income is cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); and estate tax.

(5) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, and the estate tax) as a percentage of average cash income.

(6) Includes both filing and non-filing units but excludes those that are dependents of other tax units.