

Table T10-0257
Bowles-Simpson Deficit Commission
Updated Illustrative Tax Reform Option with Individual Rates of 12, 22, and 28 Percent
Reduce Bracket Threshold for 22 Percent Rate and Increase Standard Deduction
Baseline: Current Law

Distribution of Federal Tax Change by Cash Income Percentile, 2020 Law at 2015 Income Levels ¹

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	0.8	3.8	-96	-14.0	-0.1	0.7	-0.8	4.7
Second Quintile	1.1	11.0	-316	-7.8	-0.2	4.1	-1.0	11.7
Middle Quintile	1.3	19.5	-621	-5.6	-0.3	10.4	-1.1	18.3
Fourth Quintile	2.0	40.9	-1,562	-6.7	-0.7	17.8	-1.6	21.7
Top Quintile	0.5	25.4	-1,109	-1.2	1.3	66.9	-0.3	29.3
All	1.0	100.0	-644	-3.0	0.0	100.0	-0.8	24.0
Addendum								
80-90	1.5	20.7	-1,789	-4.4	-0.2	14.1	-1.1	24.9
90-95	1.7	15.6	-2,751	-4.5	-0.2	10.3	-1.2	25.8
95-99	1.8	23.4	-5,142	-4.5	-0.2	15.5	-1.3	27.6
Top 1 Percent	-2.2	-34.2	29,492	4.2	1.9	26.9	1.4	35.6
Top 0.1 Percent	-5.5	-37.9	320,094	9.2	1.6	14.1	3.4	40.8

Baseline Distribution of Income and Federal Taxes
by Cash Income Percentile, 2020 Law at 2015 Income Levels ¹

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	683	11,697	5.5	3.7	4.6	0.8
Second Quintile	36,614	22.3	31,685	4,037	27,648	12.7	8.3	9.6	4.3
Middle Quintile	33,124	20.2	57,597	11,154	46,443	19.4	13.6	14.6	10.7
Fourth Quintile	27,665	16.9	99,859	23,191	76,668	23.2	19.7	20.1	18.5
Top Quintile	24,232	14.8	317,385	93,961	223,424	29.6	54.9	51.4	65.6
All	163,952	100.0	85,389	21,154	64,235	24.8	100.0	100.0	100.0
Addendum									
80-90	12,217	7.5	156,310	40,720	115,590	26.1	13.6	13.4	14.3
90-95	5,983	3.7	223,625	60,520	163,105	27.1	9.6	9.3	10.4
95-99	4,805	2.9	394,683	113,930	280,753	28.9	13.6	12.8	15.8
Top 1 Percent	1,226	0.8	2,076,558	709,262	1,367,296	34.2	18.2	15.9	25.1
Top 0.1 Percent	125	0.1	9,314,304	3,481,109	5,833,195	37.4	8.3	6.9	12.5

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

(1) Calendar year. Baseline is current law. The proposal implements a three-rate structure with statutory tax rates of 12, 22, and 28 percent; the threshold for the 22 percent rate would be 10 percent lower than the one for the 28 percent rate under current law; the threshold for the 28 percent rate would be the same as that for the 36 percent rate under the Administration's budget proposal. The standard deduction would be increased to \$6,900 for singles, \$13,800 for MFJ, and \$10,100 for HOH (up from \$6,100, \$12,200, and \$8,950, all in 2015). The proposal repeals the AMT; the limitation on itemized deductions (Pease); the personal exemption phase-out (PEP); most major tax expenditures in the individual income tax code, including preferential rates on capital gains and qualified dividends; all itemized deductions, 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 (CTC), and the earned income tax credit (EITC). The proposal extends the CTC and EITC provisions in the 2009 stimulus law. It replaces the mortgage interest deduction with a 12-percent non-refundable credit on interest on a primary residence up to an unindexed \$25,000 limit.

The proposal allows a non-refundable credit equal to 12 percent of charitable contributions in excess of 2 percent of AGI; caps the exclusion from taxable income of ESI benefits at the 75th percentile of the premium distribution in 2014, freezes that cap in nominal terms through 2018, and then phases out the ESI exclusion by 5% a year over 20 years; repeals the excise tax on high-cost health plans; taxes inside buildup on life insurance benefits at death; includes interest on municipal bonds issued on or after 01/01/12 in taxable income; taxes unrealized capital gains at death; repeals the foreign earned income exclusion; limits contributions to tax-deferred retirement accounts to \$20,000 or 20% of earnings; implements a refundable saver's credit of 12 percent of contributions not elected to be deductible from income; increases the Social Security wage base by an additional 2 percent per year until 2050 and phases in a 15 cent increase in the gasoline tax. 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.