Preliminary Revenue Estimates and Distributional Analysis of the Tax Provisions in the Bipartisan Tax Fairness and Simplification Act of 2010

Jim Nunns
Jeffrey Rohaly

The Bipartisan Tax Fairness and Simplification Act of 2010 ("Wyden-Gregg," introduced as S. 3018) is a broad reform of the federal income tax system. Some provisions would also expand the Social Security payroll tax base. This paper presents the Tax Policy Center's estimates of the revenue and distributional effects of the income and payroll tax provisions in Wyden-Gregg.

Compared with a baseline that assumes all of the 2001 and 2003 tax cuts are extended and that the 2009 AMT exemption level is maintained and indexed, the Tax Policy Center estimates that Wyden-Gregg would

- Be roughly revenue-neutral over the next decade, with an increase in individual income and payroll tax revenues offsetting a decline in corporate tax revenues.

- Make the federal tax system more progressive, with after-tax incomes declining on average for the top 20 percent of tax units and increasing on average for the other 80 percent of tax units.

These estimates are all static, in that they do not incorporate potential behavioral responses to the tax changes. On balance, such responses would likely reduce revenues under the proposal.

A guide to TPC tables related to Wyden-Gregg, including estimates relative to a baseline that assumes the 2001 and 2003 tax cuts are not extended and that the AMT exemption level reverts to its pre-2001 level is available at http://www.taxpolicycenter.org/taxtopics/Wyden-Gregg-Tax-Reform-Tables.cfm.

Summary Description of Tax Provisions[1]

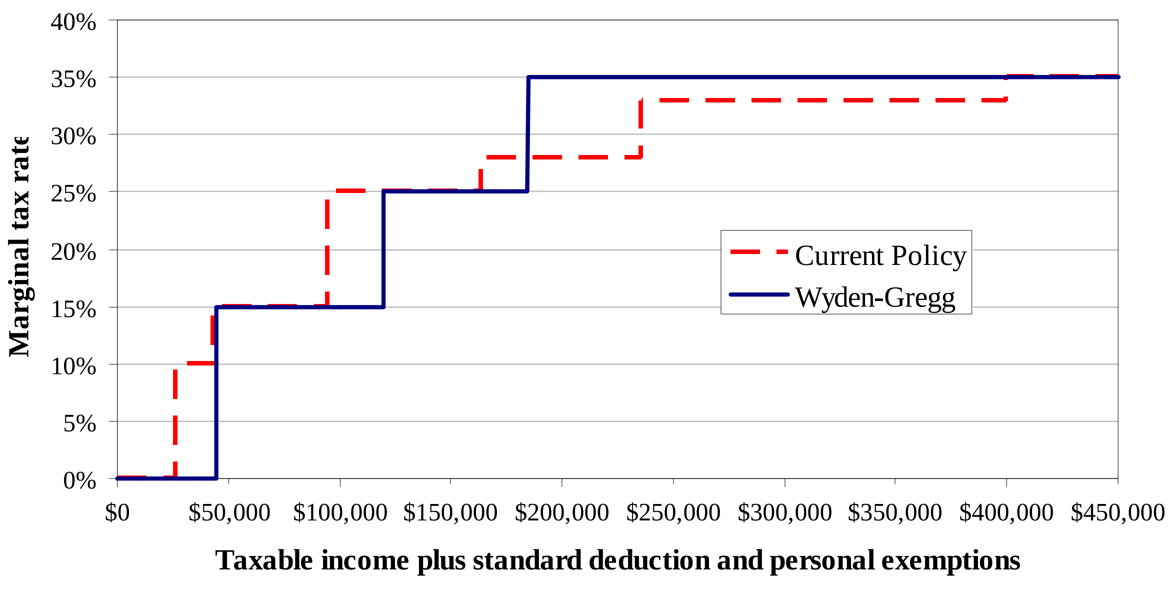
Individual Income Tax Provisions

Three rates of 15, 25, and 35 percent. The Wyden-Gregg proposal reduces the number of individual income tax rates from six to three: 15, 25, and 35 percent. For joint filers, the 15 percent bracket would extend to $75,000 of taxable income, the 25 percent bracket would apply between $75,000 and $140,000 of taxable income, and the 35 percent rate would apply above $140,000. (In comparison, for 2010, the 35 percent rate bracket begins at $373,650 for all filers.) The rate brackets for heads of households would be three-fourths the amounts for joint filers. The rate brackets for singles would be half the amounts for joint filers. All brackets would be indexed for inflation.

Increase in basic standard deduction. The basic standard deduction amounts would be increased to $30,000 for joint filers, $22,500 for heads of households, and $15,000 for singles. (In comparison, for 2010 the basic standard deduction amounts are $11,400 for joint filers, $8,400 for heads of households, and $5,700 for singles.) These amounts would be indexed for inflation.

Figure 1 illustrates how marginal tax rates for a married couple with two children are affected by the combination of the three-bracket rate structure and higher standard deduction under the Wyden-Gregg proposal compared to current law.

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



Eliminate miscellaneous itemized deductions. The proposal would eliminate the itemized deductions for unreimbursed employee expenses and investment-related expenses (these expenses are currently allowable in excess of 2 percent of adjusted gross income).

---

[1] These descriptions are based on the language in S. 3018 (http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=111_cong_bills&docid=f:s3018is.txt.pdf), summary descriptions provided by Senators Ron Wyden and Judd Gregg (http://wyden.senate.gov/issues/Legislation/wyden-gregg/wyden-gregg2page.pdf and http://wyden.senate.gov/issues/Legislation/wyden-gregg/offsets_handout.pdf), and e-mail and phone communications with the Senators' staffs and with Jane Gravelle of the Congressional Research Service.

35 percent exclusion for capital gains and dividends. The special tax rates that apply to long-term capital gains and qualified dividends under current law would be replaced by a 35 percent exclusion.[2] This would make the maximum rates on long-term gains and qualified dividends equal to 22.75 percent. In addition, the holding period for the capital gains exclusion would be reduced to six months for the first $500,000 of a taxpayer's gains.

Nonrefundable 25 percent credit for interest on state and local bonds. The proposal would replace the current law exclusion for interest on state and local bonds with a nonrefundable 25 percent credit. The credit would apply in place of the exclusion for interest on state and local bonds issued after December 31, 2010.

Repeal of alternative minimum tax (AMT). The individual AMT would be repealed.

Change CPI measure used for indexation. The consumer price index (CPI) used for computing inflation adjustments for individual income tax parameters would be replaced by the chained CPI for calendar years after 2012. This change would reduce the size of inflation adjustments and increase tax liability.

Repeal exclusion for Section 125 cafeteria plans. The exclusion for employee expenses for health and child care under Section 125 plans established by employers (cafeteria plans) would be repealed. (Note that this change does not affect the much larger exclusion for employer-provided health benefits.)

Other individual income tax provisions. The proposal includes other individual income tax provisions, most of which are included in the Tax Policy Center's revenue and distributional estimates:

- consolidation of tax credits and deductions for education expenses;
- restructuring of savings incentives;
- repeal of the moving expenses deduction;
- repeal of exclusions for certain employee achievement awards, group term life insurance purchased for employees, employee meals and lodging, and miscellaneous fringe benefits with the exception of transportation benefits;
- repeal of deferral of tax on interest from savings bonds;
- repeal of the exclusion of income earned by voluntary employees' beneficiary associations (VEBAs);
- repeal of the exclusion of earned income of citizens or residents of the United States living abroad; and
- repeal of the exclusion of certain allowances for federal employees abroad.

The proposal would also apply the Medicare payroll tax to all state and local government employees.

In addition, the proposal would permanently extend expansions of the earned income tax credit (EITC), the dependent care credit, and the child tax credit (CTC) that are scheduled to expire after 2010, but these provisions are already assumed to be extended permanently in the current policy baseline that the Tax Policy Center uses for estimates, and therefore are not included in the revenue or distribution tables.[3] Similarly, the proposal would permanently repeal the personal exemption phaseout and the limitation on itemized deductions, but these permanent

[2] Repeal of the special tax rates is not included in S. 3018, but is included in the summary descriptions provided by the Senators and their staffs confirm that the repeal is part of the proposal.
[3] The proposal would extend the EITC and CTC provisions in the 2001 tax act (EGTRRA), but would not extend the provisions relating to credits enacted by the 2009 stimulus legislation.

repeals are already in the policy baseline and therefore are not included in the revenue or distribution tables.

Corporate Income and Other Business Tax Provisions

Flat tax rate of 24 percent. The Wyden-Gregg proposal would replace the current graduated corporate rate structure and top rate of 35 percent with a flat rate of 24 percent.

Other corporate and business tax provisions. The proposal includes a number of other corporate and business-related provisions, many of which reduce business tax preferences, while others seek to simplify tax accounting for small businesses and improve compliance. The Tax Policy Center's revenue and distributional estimates include the following provisions:

- allowance of unlimited expensing of equipment and inventories for small businesses (defined as businesses with average receipts of no more than $1 million);
- repeal of the deduction for domestic production activities;
- repeal of deferral of gain on nondealer sales;
- repeal of the inventory property sales source rule exception;
- repeal of deferral of active income of controlled foreign corporations;
- disallowance of depreciation in excess of alternative depreciation on equipment for large businesses and on structures for all businesses;
- indexing the corporate interest deduction for inflation; and
- a number of other provisions with smaller revenue effects.[4]

The Tax Policy Center's revenue and distributional estimates do not include provisions related to requiring economic substance that were recently enacted, or the provision requiring reporting on identification of beneficial owners of certain foreign financial accounts for which a similar provision was recently enacted.

Internet Gambling

The Wyden-Gregg proposal includes provisions that would regulate and tax internet gambling. Sports betting would not be allowed. The tax would be imposed at a rate of 2 percent on all internet bets and wagers. States and Indian tribal governments would have the option to disallow internet gambling in their jurisdictions.

[4] These provisions are the following: a limitation on the deduction for travel on corporate aircraft; termination of various preferences not listed above (the enhanced oil recovery credit, expensing of intangible drilling and development costs for oil and gas wells, the exception from net operating loss limitations for corporations in bankruptcy proceedings, special rules for sales or dispositions to implement FERC restructuring policies, the completed contract rules, percentage depletion for oil or gas wells, development costs of mines or other natural deposits, and the special tax rate on nuclear decommissioning reserve funds); modification of the effective date of the leasing provisions of American Jobs Creation Act of 2004; revaluation of LIFO inventories of large integrated oil companies; modification of foreign tax credit rules applicable to large integrated oil companies which are dual capacity taxpayers; repeal of the lower of cost or market value of inventory rule; reinstitution of the per country foreign tax credit limitation; application of rules treating inverted corporations as domestic corporations to certain transactions occurring after March 20, 2002; prohibition of advanced refunding of bonds; tax compliance provisions (increase in information return penalties, e-filing requirement for certain large organizations, implementation of standards clarifying when employee leasing companies can be held liable for their clients' federal employment taxes, expansion of IRS access to information in National Directory of New Hires, modification of criminal penalties for willful failures involving tax payments and filing requirements, and penalties for failure to file certain returns electronically); and denial of a deduction for punitive damages.

Methodology

The revenue effects of the Wyden-Gregg proposal were estimated using the Tax Policy Center's microsimulation model and a variety of other sources. The distributional effects of the proposal were estimated using the Center's microsimulation model. Details on the revenue and distributional estimates are provided below. Both sets of estimates are relative to the "current policy baseline" (prior to the enactment of health reform) and are based on CBO's March 2009 forecast (CBO 2009a).

Current Policy Baseline

The current policy baseline assumes that the individual income tax cuts enacted in 2001 and 2003 do not expire after 2010, as scheduled under current law. The major provisions assumed to continue are the following:

- *Rate reductions.* The 10 percent rate and the reduction of the 28 percent rate to 25 percent, the 31 percent rate to 28 percent, the 36 percent rate to 33 percent, and the 39.6 percent rate to 35 percent.
- *Special rates for capital gains and dividends*. The 15 percent top rate for dividends and capital gains.
- *Personal exemption phaseout and limitation on itemized deductions*. Repeal of these two provisions.
- *Child tax credit*. The increase in the child tax credit from $500 to $1,000 and expanded refundability.
- *Child and dependent care tax credit (CDCTC)*. The increase in the credit rate from 30 to 35 percent and the increase in the maximum allowable expenses per qualifying individual from $2,400 to $3,000.
- *Marriage penalties.* Making the joint standard deduction and the top of the 15 percent bracket double the amount for singles, and increasing the phaseout range for the EITC for joint filers by $3,000.

The current policy baseline also assumes that the 2009 individual AMT exemption amounts are retained and indexed for inflation, there is no AMT limitation on personal credits, the expansion of expensing for small business proposed in the President's Budget for FY2011 is enacted, and the estate tax is retained at its 2009 levels including a $3.5 million exemption, indexed for inflation, and a 45 percent top rate.[5]

Revenue Estimates

The Tax Policy Center's microsimulation model was used to estimate the revenue effect of most of the major individual income tax provisions of the Wyden-Gregg proposal. Estimates for individual income tax and payroll tax provisions that could not be modeled directly were based on several sources, primarily the tax expenditure estimates published by the Joint Committee on Taxation (JCT 2010).

---

[5] The Wyden-Gregg proposal does not modify the estate tax. The Tax Policy Center assumed that the proposal would simply maintain the estate tax provisions in the baseline.

Table 1
Bipartisan Tax Fairness and Simplification Act of 2010
Static Impact on Individual, Corporate, and Payroll Tax Liability ($ billions) against Current Policy Baseline, 2011–20

	Fiscal Years	
	2011–15	2011–20
Individual Income Tax Provisions[a]		
Three rates of 15, 25, and 35 percent	265.8	598.7
Increase in basic standard deduction to $30,000/$22,500/$15,000	-713.0	-1,576.5
Elimination of miscellaneous itemized deductions	50.4	130.9
35-percent exclusion for capital gains and qualified dividends[b]	180.5	447.4
Nonrefundable personal credit for interest on state and local bonds[c]	7.4	37.9
Repeal of alternative minimum tax	-121.7	-297.9
Change CPI measure used for indexation[d]	13.8	100.4
Repeal exclusion of Section 125 cafeteria plan benefits	248.0	567.2
Other individual income tax provisions	103.1	225.1
Total for individual income tax provisions	**34.2**	**233.2**
Corporate Income and Other Business Tax Provisions		
Corporate flat tax at 24 percent rate	-469.6	-990.3
Other corporate and business tax provisions	328.8	768.2
Total for corporate and business tax provisions	**-140.8**	**-222.0**
Internet Gambling Provisions	**3.8**	**10.5**
Total for all provisions	**-102.8**	**21.7**

Sources: Urban-Brookings Tax Policy Center Microsimulation Model (version 0509-4); Joint Committee on Taxation 2010; JCT Letter to Rep. McDermott, October 23, 2009; CBO 2009b; and TPC calculations.
Note: Proposal is effective January 1, 2011.
a. Includes impact of provisions on payroll tax liability.
b. Taxpayers could exclude from gross income 35 percent of all long-term capital gains plus 35 percent of up to $500,000 of gains on assets held between six months and one year. Preferential rates on capital gains and dividends would be repealed.
c. Interest on state and local bonds would be included in gross income; taxpayers could claim a nonrefundable personal credit equal to 25 percent of the amount of interest earned.
d. The chained CPI-U would be used to index the tax system, effective January 1, 2013.

Revenue estimates for corporate and other business provisions were based on several sources, including the JCT's tax expenditure estimates, Treasury's estimates for the tax proposals in the President's FY 2011 Budget, JCT's estimates for the Tax Relief Act of 2005, CBO's Budget Options, estimates supplied by Jane Gravelle of the Congressional Research Service, and estimates made by the Tax Policy Center (U.S. Department of the Treasury 2010; Joint Committee on Taxation 2005; Congressional Budget Office 2009b).

The revenue estimate for the internet gambling tax is from an October 23, 2009, letter from Thomas A. Barthold, chief of staff of the Joint Committee on Taxation, to Rep. Jim McDermott.

Table 1 shows the Tax Policy Center's revenue estimates for the Wyden-Gregg proposal, with detail shown for major provisions.[6] We estimate that the proposal loses $103 billion over the first five years but raises $22 billion over the 10-year budget window from 2011 to 2020. The revenue gain increases over time for several reasons: (1) realized gains gradually recover from their recessionary lows early in the 10-year period, causing the revenue gain from the capital gains provisions to grow rapidly in the first few years; (2) rising health care costs cause the revenue gain from repeal of Section 125 cafeteria plan benefits to increase faster than the growth of income; and (3) the use of the chained CPI-U to index the tax system cumulatively raises more revenue over time as indexed tax parameters increase at a lower rate each year.

As discussed more fully below, these estimates are "static" and do not take into account behavioral responses of taxpayers to the provisions of the proposal. Behavioral responses to some provisions could be quite large, which would make the revenue expected from those provisions significantly different from the amounts included in table 1.

Distributional Estimates

We use the Tax Policy Center's microsimulation model to estimate the distributional effects of all of the provisions of the Wyden-Gregg proposal shown in table 1.[7] The incidence assumptions underlying the distributional estimates are that individual income taxpayers bear the burden of their individual income tax payments, that workers bear the burden of both the employee and employer shares of the payroll tax, and that tax units bear the burden of the corporate income tax in proportion to their share of (positive) capital income.

Table 2 shows the distributional estimates by cash income percentiles.[8] The proposal would increase the progressivity of the federal tax system relative to the current policy baseline. After-tax incomes would rise on average for tax units in the bottom four quintiles with the second and middle quintiles seeing the largest increase. After-tax income would fall on average for those with higher incomes. The top 1 percent would see a decrease in after-tax income of 1.7 percent; the top 0.1 percent of the income distribution would see a 2.3 percent average decrease. High-income households are particularly affected by the repeal of the preferential rates on capital gains and qualified dividends. The proposal's 35 percent exclusion results in an effective top rate on gains of 22.75 percent, significantly greater than the 15 percent top rate under the current policy baseline. Only part of this effect is offset for high-income households by the net reduction in the tax on corporations and other businesses.

Overall, 51 percent of all tax units would see a tax cut compared with 29 percent who would face tax increases. Although the proposal's large standard deduction exempts most low-income

[6] Appendix table A1 provides year-by-year estimates.

[7] Because of data limitations, the provisions affecting moving expenses, the deferral of interest on savings bonds, VEBAs, and Medicare taxes for state and local government employees were not included in the distribution estimates.

[8] Appendix table A2 provides detailed estimates by cash income level. Appendix table A3 provides more detail by cash income percentile.

households from paying any individual income tax, close to a fifth of those in the bottom two quintiles experience a tax increase. The primary reason for this is a decrease in the earned income tax credit from substitution of the more slowly increasing chained CPI-U for the CPI-U to index the tax system.[9] Some low-income households also pay higher payroll taxes under the proposal because of the repeal of the exclusion from income of Section 125 cafeteria plan and other employee benefits. At the top end of the income distribution, the increased effective rates on capital gains, the lower threshold for the 35 percent tax rate, and the repeal of various exclusions and deductions cause most taxpayers to face tax increases. More than 8 in 10 of those in the top 1 percent of the income distribution would see increased taxes; that figure rises to 9 in 10 for the top 0.1 percent.

Table 2
Bipartisan Tax Fairness and Simplification Act of 2010
Distribution of Federal Tax Change by Cash Income Percentile, 2014

Cash income percentile[a,b]	Percent of Tax Units[c]		Percent change in after-tax income[d]	Average federal tax change ($)	Average Federal Tax Rate[e]	
	With tax cut	With tax increase			Change (% points)	Under the proposal
Lowest quintile	26.7	17.1	0.6	-64	-0.5	4.1
Second quintile	65.4	18.8	1.4	-369	-1.2	9.0
Middle quintile	72.2	23.6	1.3	-581	-1.1	15.3
Fourth quintile	58.3	41.0	0.3	-250	-0.3	19.1
Top quintile	38.8	61.1	-1.0	2,227	0.7	25.6
All	51.4	29.1	-0.1	71	0.1	20.8
Addendum						
80–90	48.9	50.9	-0.2	196	0.1	22.0
90–95	32.1	67.8	-1.0	1,622	0.8	23.9
95–99	26.6	73.3	-0.9	2,594	0.7	25.5
Top 1 percent	18.0	82.0	-1.7	23,861	1.2	29.0
Top 0.1 percent	9.2	90.8	-2.3	144,858	1.6	31.6

Source : Urban-Brookings Tax Policy Center Microsimulation Model (version 0509-4).
Notes: Calendar year. Baseline is current policy. Proposal includes individual, corporate, and payroll tax provisions.
a. 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
b. 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%, $19,925; 40%, $38,371; 60%, $67,991; 80%, $116,859; 90%, $169,290; 95%, $237,098; 99%, $632,966; 99.9%, $2,923,051.
c. Includes both filing and nonfiling units but excludes those that are dependents of other tax units.
d. 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.
e. 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.

Behavioral Responses

The Tax Policy Center did not take into account potential behavioral responses in making its revenue estimates for the Wyden-Gregg proposal. Capital gains realizations are sensitive to the

[9] Since the difference between the chained CPI-U and the CPI-U that is currently used to index the tax system will grow over time, both the magnitude of the decrease in the EITC, and the number of those with a smaller EITC relative to the baseline, will also grow over time.

applicable tax rate, so the proposed substitution of a 35 percent exclusion for the current preferential rates on capital gains (which would increase the maximum rate on gains) would likely lower realizations, thereby reducing the revenue gain from higher rates relative to the static estimate. There is also likely to be some reduction in reported incomes in response to the increase in marginal rates at some income levels, due to the lower beginning point for the 35 percent rate (see Saez, Slemrod, and Giertz 2009). Retained corporate earnings would be subject to a much lower rate of tax than other business earnings that are taxed at the individual level, which could lead some closely held business entities to switch from partnership or S-corporation status to become taxable corporations, thereby reducing revenues.

The behavioral responses to some provisions could lead to higher revenues than estimated on a static basis. For example, the reduction in the corporate income tax rate from 35 to 24 percent and provisions affecting the taxation of foreign-source income might discourage income shifting and increase reported corporate earnings.

It is likely, however, that the overall effect of taking account of behavioral responses would be lower revenues than those we have estimated on a static basis.

References

Congressional Budget Office. 2009a. “A Preliminary Analysis of the President’s Budget and an Update of CBO’s Budget and Economic Outlook.” Washington, DC: Congressional Budget Office. http://www.cbo.gov/ftpdocs/100xx/doc10014/03-20-PresidentBudget.pdf.

———. 2009b. *Budget Options, Volume 2.* Washington, DC: Congressional Budget Office. http://www.cbo.gov/ftpdocs/102xx/doc10294/08-06-BudgetOptions.pdf.

Joint Committee on Taxation. 2005. “Estimated Revenue Effects of the Chairman’s Modification to the ‘Tax Relief Act of 2005’ Scheduled for Markup by the Committee on Finance on November 15, 2005.” JCX-78-05. Washington, DC: Joint Committee on Taxation. http://www.jct.gov/publications.html?func=startdown&id=1537.

———. 2010. “Estimates of Federal Tax Expenditures for Fiscal Years 2009–2013.” JCS-1-10. Washington, DC: Joint Committee on Taxation. http://www.jct.gov/publications.html?func=startdown&id=3642.

Saez, Emmanuel, Joel Slemrod, and Seth H. Giertz. 2009. “The Elasticity of Taxable Income with Respect to Marginal Tax Rates: A Critical Review.” Working Paper 15012. Cambridge, MA: National Bureau of Economic Research.

U.S. Department of the Treasury. 2010. “General Explanations of the Administrations’ Fiscal Year 2011 Revenue Proposals.” Washington, DC: U.S. Department of the Treasury. http://www.ustreas.gov/offices/tax-policy/library/greenbk10.pdf.

Appendix Table A1
Bipartisan Tax Fairness and Simplification Act of 2010
Static Impact on Individual, Corporate, and Payroll Tax Liability ($ billions) against Current Policy Baseline, 2011–20

	Fiscal Years											
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2011–15	2011–20
Individual Income Tax Provisions[a]												
Three rates of 15, 25, and 35 percent	37.6	53.5	56.3	58.2	60.2	62.4	64.6	66.7	68.6	70.7	265.8	598.7
Increase in basic standard deduction to $30,000/$22,500/$15,000	-102.0	-145.2	-151.9	-155.3	-158.6	-163.3	-168.1	-173.1	-177.1	-181.8	-713.0	-1,576.5
Elimination of miscellaneous itemized deductions	2.1	10.8	11.5	12.5	13.5	14.4	15.2	16.1	17.0	17.9	50.4	130.9
35-percent exclusion for capital gains and qualified dividends[b]	13.2	36.0	41.4	43.8	46.2	48.5	50.9	53.4	55.8	58.3	180.5	447.4
Nonrefundable personal credit for interest on state and local bonds[c]	0.2	0.7	1.4	2.1	3.0	3.9	4.9	6.0	7.2	8.5	7.4	37.9
Repeal of alternative minimum tax	-10.6	-26.2	-26.5	-28.3	-30.0	-31.6	-33.3	-35.1	-37.0	-39.3	-121.7	-297.9
Change CPI measure used for indexation[d]	0.0	0.0	1.5	5.1	7.3	10.5	13.5	16.4	20.9	25.3	13.8	100.4
Repeal exclusion of Section 125 cafeteria plan benefits	43.4	46.6	50.1	52.6	55.3	58.0	60.8	63.7	66.8	70.0	248.0	567.2
Other individual income tax provisions	17.8	21.0	20.9	21.4	22.0	24.0	24.2	24.4	24.7	24.8	103.1	225.1
Total for individual income tax provisions	**1.8**	**-2.8**	**4.6**	**12.1**	**18.6**	**26.7**	**32.7**	**38.3**	**47.0**	**54.2**	**34.2**	**233.2**
Corporate Income and Other Business Tax Provisions												
Corporate flat tax at 24 percent rate	-53.0	-105.1	-105.1	-101.7	-104.8	-103.8	-103.5	-104.2	-102.9	-106.2	-469.6	-990.3
Other corporate and business tax provisions	17.7	49.0	76.8	90.2	95.0	93.6	90.4	88.4	85.5	81.5	328.8	768.2
Total for corporate and business tax provisions	**-35.2**	**-56.1**	**-28.3**	**-11.4**	**-9.7**	**-10.2**	**-13.2**	**-15.8**	**-17.4**	**-24.7**	**-140.8**	**-222.0**
Internet Gambling Provisions	**0.5**	**0.6**	**0.8**	**0.9**	**1.0**	**1.2**	**1.3**	**1.4**	**1.4**	**1.5**	**3.8**	**10.5**
Total for all provisions	**-33.0**	**-58.3**	**-22.9**	**1.5**	**9.9**	**17.6**	**20.8**	**23.9**	**31.1**	**31.0**	**-102.8**	**21.7**

Sources : Urban-Brookings Tax Policy Center Microsimulation Model (version 0509-4); Joint Committee on Taxation 2010; JCT Letter to Rep. McDermott, October 23, 2009; CBO 2009b; and TPC calculations.

Note: Proposal is effective January 1, 2011.

a. Includes impact of provisions on payroll tax liability.

b. Taxpayers could exclude from gross income 35 percent of all long-term capital gains plus 35 percent of up to $500,000 of gains on assets held between six months and one year. Preferential rates on capital gains and dividends would be repealed.

c. Interest on state and local bonds would be included in gross income; taxpayers could claim a nonrefundable personal credit equal to 25 percent of the amount of interest earned.

d. The chained CPI-U would be used to index the tax system, effective January 1, 2013.

Appendix Table A2
Bipartisan Tax Fairness and Simplification Act of 2010
Distribution of Federal Tax Change by Cash Income Level, 2014

Cash income level (thousands of 2009 dollars) [a]	Percent of Tax Units [b]		Percent change in after-tax income [c]	Share of total federal tax change	Average Federal Tax Change		Share of Federal Taxes		Average Federal Tax Rate [d]	
	With tax cut	With tax increase			Dollars	Percent	Change (% points)	Under the proposal	Change (% points)	Under the proposal
Less than 10	9.1	11.1	-0.1	0.4	3	0.9	0.0	0.2	0.1	5.8
10–20	36.6	19.8	0.7	-22.7	-105	-15.0	-0.1	0.5	-0.7	3.7
20–30	61.5	19.2	1.3	-60.8	-326	-14.4	-0.3	1.5	-1.2	7.3
30–40	71.9	19.0	1.4	-64.8	-450	-9.8	-0.3	2.5	-1.2	11.2
40–50	69.8	24.9	1.2	-57.3	-502	-6.9	-0.3	3.3	-1.1	14.3
50–75	72.6	24.9	1.2	-124.6	-628	-5.5	-0.6	9.1	-1.0	16.6
75–100	58.4	40.8	0.4	-38.5	-298	-1.7	-0.2	9.4	-0.3	18.7
100–200	47.6	52.2	-0.3	62.4	318	1.0	0.2	26.2	0.2	21.9
200–500	26.6	73.4	-1.1	144.3	2,482	3.4	0.5	18.5	0.8	25.2
500–1,000	28.0	72.0	-0.7	40.4	4,026	2.2	0.1	7.9	0.6	25.8
More than 1,000	12.9	87.1	-1.9	221.3	42,501	4.7	0.9	20.7	1.3	29.9
All	51.4	29.1	-0.1	100.0	71	0.4	0.0	100.0	0.1	20.8

Baseline Distribution of Income and Federal Taxes
by Cash Income Level, 2014

Cash income level (thousands of 2009 dollars) [a]	Tax Units [b]		Average income (dollars)	Average federal tax burden (dollars)	Average after-tax income [c] (dollars)	Average federal tax rate [d]	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
Less than 10	16,395	10.1	5,731	331	5,400	5.8	0.7	0.9	0.2
10–20	24,950	15.4	15,992	698	15,294	4.4	3.0	3.7	0.6
20–30	21,464	13.3	26,534	2,269	24,265	8.6	4.3	5.0	1.8
30–40	16,563	10.2	37,088	4,588	32,499	12.4	4.7	5.2	2.8
40–50	13,107	8.1	47,849	7,328	40,520	15.3	4.8	5.1	3.5
50–75	22,796	14.1	65,785	11,522	54,263	17.5	11.4	11.8	9.6
75–100	14,829	9.2	92,580	17,642	74,937	19.1	10.4	10.6	9.6
100–200	22,547	13.9	145,308	31,545	113,764	21.7	24.9	24.6	26.1
200–500	6,681	4.1	302,126	73,499	228,627	24.3	15.3	14.6	18.0
500–1,000	1,152	0.7	725,130	182,745	542,385	25.2	6.3	6.0	7.7
More than 1,000	598	0.4	3,175,497	906,327	2,269,170	28.5	14.4	13.0	19.9
All	161,771	100.0	81,418	16,855	64,563	20.7	100.0	100.0	100.0

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0509-4).
Notes: Calendar year. Baseline is current policy. Proposal includes individual, corporate, and payroll tax provisions.
a. 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
b. Includes both filing and non-filing units but excludes those that are dependents of other tax units.
c. 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.
d. 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.

Appendix Table A3
Bipartisan Tax Fairness and Simplification Act of 2010
Distribution of Federal Tax Change by Cash Income Percentile, 2014

Cash income percentile[a,b]	Percent of Tax Units[c]		Percent change in after-tax income[d]	Share of total federal tax change	Average Federal Tax Change		Share of Federal Taxes		Average Federal Tax Rate[e]	
	With tax cut	With tax increase			Dollars	Percent	Change (% points)	Under the proposal	Change (% points)	Under the proposal
Lowest quintile	26.7	17.1	0.6	-22.0	-64	-11.2	-0.1	0.7	-0.5	4.1
Second quintile	65.4	18.8	1.4	-116.0	-369	-11.9	-0.5	3.6	-1.2	9.0
Middle quintile	72.2	23.6	1.3	-165.4	-581	-6.4	-0.7	10.1	-1.1	15.3
Fourth quintile	58.3	41.0	0.3	-59.6	-250	-1.4	-0.3	18.2	-0.3	19.1
Top quintile	38.8	61.1	-1.0	463.0	2,227	3.0	1.7	67.3	0.7	25.6
All	51.4	29.1	-0.1	100.0	71	0.4	0.0	100.0	0.1	20.8
Addendum										
80–90	48.9	50.9	-0.2	20.6	196	0.6	0.0	14.4	0.1	22.0
90–95	32.1	67.8	-1.0	82.9	1,622	3.3	0.3	10.8	0.8	23.9
95–99	26.6	73.3	-0.9	107.3	2,594	2.8	0.4	16.5	0.7	25.5
Top 1 percent	18.0	82.0	-1.7	252.2	23,861	4.3	1.0	25.6	1.2	29.0
Top 0.1 percent	9.2	90.8	-2.3	154.8	144,858	5.3	0.6	12.8	1.6	31.6

Baseline Distribution of Income and Federal Taxes
by Cash Income Percentile, 2014

Cash income percentile[a,b]	Tax Units[c]		Average income (dollars)	Average federal tax burden (dollars)	Average after-tax income[d] (dollars)	Average federal tax rate[e]	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	39,416	24.4	12,314	575	11,740	4.7	3.7	4.4	0.8
Second quintile	36,129	22.3	30,366	3,097	27,269	10.2	8.3	9.4	4.1
Middle quintile	32,694	20.2	55,193	9,022	46,171	16.4	13.7	14.5	10.8
Fourth quintile	27,378	16.9	95,202	18,406	76,797	19.3	19.8	20.1	18.5
Top quintile	23,893	14.8	301,906	74,902	227,005	24.8	54.8	51.9	65.6
All	161,771	100.0	81,418	16,855	64,563	20.7	100.0	100.0	100.0
Addendum									
80–90	12,052	7.5	148,490	32,479	116,011	21.9	13.6	13.4	14.4
90–95	5,875	3.6	211,074	48,811	162,263	23.1	9.4	9.1	10.5
95–99	4,752	2.9	372,043	92,395	279,648	24.8	13.4	12.7	16.1
Top 1 percent	1,215	0.8	1,988,880	553,527	1,435,353	27.8	18.3	16.7	24.7
Top 0.1 percent	123	0.1	9,038,534	2,712,962	6,325,572	30.0	8.4	7.4	12.2

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0509-4).
Notes: Calendar year. Baseline is current policy. Proposal includes individual, corporate, and payroll tax provisions.
a. 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
b. 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%, $19,925; 40%, $38,371; 60%, $67,991; 80%, $116,859; 90%, $169,290; 95%, $237,098; 99%, $632,966; 99.9%, $2,923,051.
c. Includes both filing and non-filing units but excludes those that are dependents of other tax units.
d. 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.
e. 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.