

## Simple Tweak, Profound Effects

Roberton Williams

### Abstract

In a contribution to the New York Times' *Room for Debate*, Roberton Williams suggests Congress scale back on tax subsidies in a way that protects America's hard-hit middle class.

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### The New York Times Simple Tweak, Profound Effects

Most of the subsidies that litter the tax code are "upside-down." In other words, they benefit those in the top bracket far more than they help middle-income families. Now, Congress may look to scale back those tax breaks to help balance the budget — which is a good thing. But it should do so in a way that protects the hard-hit middle class.

Turning tax deductions into tax credits would make the revenue code "right-side up" and better target limited resources toward the middle class. Today, itemized deductions account for about a sixth of the roughly \$1.2 trillion of federal income tax revenue lost each year to tax expenditures (economists' term for tax breaks). But the more money you make, the more valuable those deductions are. For instance, take two families who have \$10,000 in deductions. A middle-class family in the 15 percent bracket saves \$1,500 in taxes while someone in the 35 percent top bracket saves \$3,500. Almost three-fifths of the tax savings go to households with income over \$163,000, even though they are just one-fifth of all itemizers.

Eliminating all itemized deductions would cut the deficit by more than \$225 billion each year but would impose large costs on the middle class, particularly homeowners who benefit from the mortgage interest deduction. But by turning those deductions into a 15 percent tax credit, Congress could still raise revenue by about \$50 billion annually while protecting most middle-class taxpayers. Such a plan would not harm those in the 15 percent tax bracket — couples with taxable income under \$69,000 — and would limit the tax increase on others in the bottom 90 percent of the income distribution. About three-fifths of the tax increase would be paid by the richest tenth of households.

Those in the middle class have fared poorly over the past quarter century. Since 1979, their income has grown by less than 1 percent a year after inflation. In contrast, incomes grew four times as fast for people in the top fifth and incomes for the top 1 percent tripled. Limiting tax increases on the middle class as we work to solve our budget problems could mitigate that growing inequality.

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### Other Publications by the Authors

- [Roberton Williams](#)

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