

# Tax Policy Center Annual Report: 2002

## The Urban-Brookings Tax Policy Center

2002 in Review

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### I. OBJECTIVES

The Urban-Brookings Tax Policy Center aims to provide independent analyses of current and longer-term tax issues and to communicate its analyses to the public and to policymakers in a timely and accessible manner. The Center combines top national experts in tax, expenditure, budget policy, and microsimulation modeling to concentrate on four overarching areas of tax policy that are critical to future debate:

- **Fair, simple, and efficient taxation:** Virtually everyone agrees that taxes should be simple, fair, and efficient. Disagreement arises over how to define and achieve those objectives. The TPC quantifies trade-offs among these goals and searches for reforms that increase simplicity, equity, and efficiency.
- **Social policy in the tax code:** Over the past decade, much of social policy has shifted from direct expenditures to tax subsidies. A full assessment of social policy as well as tax progressivity, marriage penalties, and related issues requires consideration of both tax and spending programs. The TPC is evaluating this revolution in tax and social policy.
- **Long-term implications of tax and budget choices:** Long-term projections paint a constrained picture of the nation's fiscal prospects because of unfunded public obligations related to rising health care costs and the retirement of the baby boomer generation. The TPC examines the implications of current policies and proposed tax changes for future generations.
- **State tax issues:** State and local taxes play important roles in assisting low- and moderate-income families, attracting business development, and affecting the cyclical properties of the economy, and serve as a laboratory for different approaches to resolving tax and fiscal issues. The TPC builds on lengthy traditions at the Urban Institute and the Brookings Institution in examining state issues.

## II. PUBLICATIONS AND REPORTS

### *Discussion Paper series: TPC working papers*

- “The Individual AMT: Problems and Potential Solutions.” Burman, Leonard E., William G. Gale, Jeffrey Rohaly, and Benjamin Harris. September 2002. Published in *National Tax Journal*, Vol. LV, No. 3, September 2002.
- “Providing Federal Assistance for Low-Income Families through the Tax System: A Primer.” Sammartino, Frank, Eric Toder, and Elaine Maag. July 2002.
- “An Economic Evaluation of the Economic Growth and Tax Relief Reconciliation Act of 2001.” Gale, William G., and Samara R. Potter. June 2002. Published in *National Tax Journal* Vol. LV, No. 1, March 2002; and *Tax Notes*, Vol. 96, No. 2, July 8.
- “The Effect of the 2001 Tax Cut on Low- and Middle-Income Families and Children.” Burman, Leonard, E., Elaine Maag, and Jeffrey Rohaly. May 2002. Published in *Tax Notes*, Vol. 96, No. 2, July 8.
- “How Marriage Penalties Change under the 2001 Tax Bill.” Carasso, Adam, and C. Eugene Steuerle. May 2002.

### *Issues and Options series: TPC policy briefs*

- “Saying ‘I Do’ After the 2001 Tax Cuts.” Carasso, Adam, and C. Eugene Steuerle. August, 2002.
- “The AMT: Out of Control.” Burman, Leonard E., William G. Gale, Jeffrey Rohaly, and Benjamin Harris. August, 2002.
- “EGTRRA: Which Provisions Spell the Most Relief?” Burman, Leonard, E., Elaine Maag, and Jeffrey Rohaly. June 2002.

### *“Tax Facts” TPC’s semi-weekly column in Tax Analysts’ Tax Notes*

- “Income Tax Burden Peaked in 1980s.” Leonard E. Burman and Elaine Maag. December 23, 2002.
- “Tax on Social Security Benefits Providing More Trust Fund Revenue.” Peter Orszag. December 9, 2002.
- “A Brief History of the Top Tax Rate.” C. Eugene Steuerle and Adam Carasso. November 25, 2002.
- “About Half of Dividend Payments Do Not Face Double Taxation.” William G. Gale. November 11, 2002
- “Individual and Corporate Capital Gains Are Highly Correlated.” Leonard E. Burman. October 28, 2002.
- “Use of State General Revenue for Higher Education Declines.” Peter Orszag. October 14, 2002.

- “The Remarkable Constancy in the Income Share of Corporate Capital.” C. Eugene Steuerle. September 30, 2002.
- “By 2008, The AMT Will Cost More to Repeal Than the Regular Income Tax.” Leonard E. Burman, William G. Gale. September 16, 2002.

### ***Testimony***

- “Corporate Inversions: An Economic Perspective.” William G. Gale before the United States Senate, Committee on Appropriations, Subcommittee on Treasury and General Government. October 16, 2002.
- “Social Security and the Trustees Report.” C. Eugene Steuerle before the U.S. House of Representatives Committee on the Budget. June 19, 2002.
- “The Tax Treatment of Foreign Income.” William G. Gale before the House Committee on Ways and Means, Subcommittee on Select Revenue Measures. May 9, 2002.
- “Macroeconomic Implications of Federal Budget Proposals and Scoring Process.” Peter Orszag before the House Rules Committee, Subcommittee on Legislative and Budget Process. May 2, 2002.
- “Issues in Budget Reform.” William G. Gale before the House Committee on the Budget. May 2, 2002.
- “Role of the Congressional Budget Office.” Rudolph G. Penner before the House Committee on the Budget. May 2, 2002.
- “Fundamental Tax Reform.” William G. Gale before the House Committee on Ways and Means. May 2, 2002.
- “Corporate Tax Integration.” William G. Gale before the House Committee on Ways and Means. April 11, 2002.
- “Framing the Budget Debate for the Future.” Robert D. Reischauer before the Senate Committee on the Budget. January 29, 2002.
- “The Budget and The Economy.” Peter Orszag before the Senate Committee on Budget. January 29, 2002.

### ***Other publications, op-eds, and commentary***

- “Consider a Gift of Giving.” C. Eugene Steuerle. *Tax Notes*. December 23, 2002.
- “The Big Fix: Stimulate, but Watch the Red Ink.” Rudolph G. Penner. *Los Angeles Times*. December 29, 2002.
- “Now Is the Time for All Good Feds to Come to the Aid of States.” William G. Gale. *Los Angeles Times*. December 20, 2002.
- “Taxes, Growth, and Dynamic Analysis of New Legislation.” William G. Gale. *Tax Notes* Thirtieth Anniversary Issue. December 9, 2002.

- “Ten Guidelines for Systematic Reform.” C. Eugene Steuerle. *Tax Notes* Thirtieth Anniversary Issue. December 9, 2002.
- “Fix a Real Tax Mess.” Leonard E. Burman and William G. Gale. *NEWSDAY*. November 14, 2002.
- “Harnessing the AMT.” Leonard E. Burman, William G. Gale, and Jeffrey Rohaly, *Personal Finance*, XXIX:19. October 9, 2002
- “Notes on Corporate Inversions, Export Subsidies, and the Taxation of Foreign Source Income.” William G. Gale. *Tax Notes International*. September 23, 2002
- “Corporate Integration: Think Twice About the Possibilities.” C. Eugene Steuerle. *Tax Notes*. September 9, 2002.
- “Some Implications of the Revenue Shortfall.” C. Eugene Steuerle. *Tax Notes*. September 2, 2002.
- “A New Round of Tax Cuts?” William G. Gale and Peter R. Orszag. *Tax Notes*. September 2, 2002.
- “Should Stock Options Be Preferred to 401(k) & Other Plans?” C. Eugene Steuerle. *Tax Notes*. August 5, 2002.
- “Bubble Markets and Pension Assumptions.” C. Eugene Steuerle. *Tax Notes*. July 22, 2002.
- “Objective Reporting: Where Can It Be Found?” C. Eugene Steuerle. *Tax Notes*. July 8, 2002.
- “The New Old Tax Expenditure Debate, Part 3.” C. Eugene Steuerle. *Tax Notes*. June 18, 2002.
- “The Budget Outlook and Options for Fiscal Policy.” Alan J. Auerbach, William G. Gale, and Peter R. Orszag. *Tax Notes*. June 11, 2002.
- “The New Old Tax Expenditure Debate, Part 2.” C. Eugene Steuerle. *Tax Notes*. June 11, 2002.
- “Tax Policy from 1990 to 2001.” C. Eugene Steuerle, in *American Economic Policy in the 1990s*, edited by Jeffrey Frankel and Peter Orszag. Cambridge, MA: MIT Press, 2002.
- “Comments.” Leonard E. Burman, *American Economic Policy in the 1990s*, edited by Jeffrey Frankel and Peter Orszag. Cambridge, MA: MIT Press, 2002.
- “The Bush Tax Cut: One Year Later.” William G. Gale and Samara Potter, Brookings Policy Brief No. 101, June 2002.
- “The Bush Tax Cut.” William G. Gale and Samara Potter, Brookings Policy Brief Series, June 5, 2002.
- “The Budget Outlook.” Alan Auerbach, William G. Gale, and Peter Orszag, Brookings Policy Brief Series, June 5, 2002.

- “Managing Charitable Giving in the Wake of Disaster.” C. Eugene Steuerle, Charting Civil Society Urban Institute Center on Nonprofits and Philanthropy Policy Brief Series, May 2002.
- “Fiscal Discipline Requires Public Support.” Rudolph G. Penner. *NikkeiNet Interactive*. May 23, 2002.
- “Defining Tax Shelters and Tax Arbitrage.” C. Eugene Steuerle. *Tax Notes*. May 20, 2002.
- “Can Policymakers Time the Ending of Macroeconomic Incentives? Last of Three Parts: New Versus Old Business and Complexity.” C. Eugene Steuerle. *Tax Notes*. April 29, 2002.
- “Can Policymakers Time the Ending of Macroeconomic Incentives? Part 2.” C. Eugene Steuerle. *Tax Notes*. April 15, 2002.
- “Can Policymakers Time the Ending of Macroeconomic Incentives?” C. Eugene Steuerle. *Tax Notes*. April 1, 2002.
- “Pension Reform Today and in 1974.” C. Eugene Steuerle. *Tax Notes*. March 11, 2002.
- “The Estate Tax is Down But Not Out.” Leonard E. Burman and William G. Gale. *Tax Notes*. February 25, 2002.
- “Temporary Wage Subsidies.” C. Eugene Steuerle. *Tax Notes*. February 25, 2002.
- “Will Enron Lead to Enhanced Retirement Security?” C. Eugene Steuerle. *Tax Notes*. February 11, 2002.
- “A Guns and Caviar Approach.” William G. Gale and Peter Orszag. *San Diego Tribune*. February 10, 2002.
- “Keep Existing Tax Cuts But Freeze New Ones.” William G. Gale and Peter Orszag. *Los Angeles Times*. January 28, 2002.
- “A New Year, A New Start?” C. Eugene Steuerle. *Tax Notes*. January 14, 2002.

**Web site reports: *TaxPolicyCenter.org***

- Revenue and Distribution Tables: Estimates of the impact of selected current and recent tax proposals on the distribution and level of tax revenues using the Tax Policy Center’s exclusive Microsimulation Model.
- “Policy Notes”: Short commentaries and explanations of the latest tax developments
- “Analysis of GAO Study of EITC Eligibility and Participation” Report by Leonard E. Burman and Deborah Kobes, January 1, 2002.

**III. OUTREACH**

### ***Web site***

The Tax Policy Center's web site ([www.taxpolicycenter.org](http://www.taxpolicycenter.org)) has recently been named a "Best Web site" by Forbes Magazine. The purpose of the TPC web site is to communicate the research of the Tax Policy Center in an accessible and timely manner. It serves the following functions:

- To be a resource for citizens, policy analysts, legislators, and the press looking for answers to *specific* questions about tax policy and related issues;
- To be a resource for people looking for current news and events about U.S. tax policy and related issues;
- To provide easy access to TPC papers and analysis;
- To disseminate the TPC Revenue and Distribution Estimates generated from our Microsimulation Model; and
- To distribute updates about TPC and its products through regular listserv announcements.

Our users differ in the ways they access our web site. We have four distinct target audiences: private citizens, press, legislators/policy analysts, and academics. Private citizens likely want to access information that directly affects them and may not understand the intricacies of tax structure. Members of the press are likely looking for concise descriptions and answers to specific questions about current policy issues. Legislative and policy analyst users likely want to access reports and commentary about tax model and budget proposals. Academics are interested in timely research and analysis of tax structures. The latter groups will benefit most from the microsimulation model, once posted as a web-based resource.

### ***Tax Facts (Web)***

"Tax Facts" provides tax information for citizens, policy analysts, legislators, and the press. Data are compiled from a variety of sources, including the Internal Revenue Service, the Joint Committee on Taxation, the Congressional Budget Office, the Department of the Treasury, the Federation of Tax Administrators, and the Organization for Economic Co-operation and Development. We also use data from our exclusive TPC Microsimulation model.

### ***Listserv***

The Tax Policy Center sends email announcements to our regular users about new research available online and upcoming TPC events. Users may sign themselves up on the web site and have the opportunity to unsubscribe at any time. We have received positive feedback from our users about the value of our web site and regular announcements. The TPC listserv had almost 1,800 users by the end of 2002 and the number of users continues to grow.

### ***Public forums***

December 17, 2002

"The Economic Effects of Long-Term Fiscal Discipline." Press Briefing, Brookings Institution.

December 9, 2002	Host: "Tax Systems and International Trade." Brookings Institution
November 14, 2002	National Tax Association Presidential Address C. Eugene Steuerle presented "Some Future Directions for Public Finance"
October 18, 2002	Host: SOI Consultant Panel Meeting
September 18, 2002	Tax Economists Forum Presentation: The Individual AMT
September 18, 2002	Press Briefing The Individual AMT: Problems and Potential Solutions
June 4, 2002	"The 2001 Tax Cut: One Year Later" Urban Institute "First Tuesdays" Series

#### IV. MEDIA PLACEMENT

TPC research and analysis has appeared in articles around the nation. Following is a selected list from 2002:

- **Washington Mulls How to Stimulate Economy**, *CNN* (December 31, 2002) by Brooks Jackson.
- **The Great Budget Debate**, *Business Week* (December 30, 2002) by Michael J. Mandel.
- **Deficit Spending Can Help Republicans**, *New York Times* (December 29, 2002) by Daniel Altman.
- **Review & Outlook: Flacking for Rubinomics**, *Wall Street Journal* (December 27, 2002).
- **White House Aides Push for 50% Cut in Dividend Taxes**, *New York Times* (December 25, 2002) by Edmund L. Andrews.
- **Tax Roulette**, *Forbes* (December 23, 2002) by Janet Novack.
- **Democrats Pondering Approach on Tax Cuts**, *New York Times* (December 21, 2002) by Edmund L. Andrews.
- **Tax Report**, *Wall Street Journal* (December 5, 2002) by Tom Herman.
- **A Scramble for Goodies Means They Will Go Fast**, *New York Times* (December 1, 2002) by Edmund L. Andrews.
- **How Bush Will Stoke the Engine**, *Business Week* (November 25, 2002).
- **Itching to Rebuild the Tax Law**, *New York Times* (November 24, 2002) by Richard W. Stevenson.
- **Talk in Capital of Easing Taxes on Dividends**, *New York Times* (November 20, 2002) by Floyd Norris.
- **Bush Economic Advisers Debate Ambitious Strategies for Stimulus**, *Wall Street Journal* (November 19, 2002) by John D. McKinnon and Shailagh Murray.
- **With Deficits Back in the Picture, Bush Agenda Faces Big Test**, *Wall Street Journal* (November 11, 2002) by Jackie Calmes and John McKinnon.

- **Meet the Press**, *NBC News* (November 10, 2002) with Tim Russert and Senator Trent Lott.
- **Income tax cut? U.S. law has an alternative: Minimum levy, More families abroad are liable**, *International Herald Tribune* (October 25, 2002) by Barbra D. Murray.
- **Tax Report**, *Wall Street Journal* (October 10, 2002) by Tom Herman.
- **Class Warfare Gone Awry: The Alternative Minimum Tax Has Grown Out of Control**, *National Review* (October 8, 2002) by Eric V. Schlecht.
- **The Incredible Swelling Tax**, *Business Week* (September 30, 2002) in Economic Trends.
- **Alternative Tax Can Be a Big Blow to Many**, *Los Angeles Times* (September 29, 2002) by Kathy M. Kristof.
- **Stealth Income-Tax Hike Soon to Attack Middle Class**, *Newsday* (September 26, 2002) editorial.
- **'Minimum Tax' Maximizes Pain**, *Saint Paul Pioneer Press* (September 25, 2002) by Dave Beal.
- **Bush Tax 'Cuts': a Dirty Deal for the Middle Class**, *Los Angeles Times* (September 22, 2002) by John Balzar.
- **The 'Anti-New York Tax' Lives On**, *Newsday* (September 22, 2002) by James Toedtman.
- **Week in Review**, *New York Times* (September 22, 2002) by David Cay Johnston.
- **'Alternative minimum' Will Hit with a Wallop**, *Orlando Sentinel* (September 22, 2002) by Myriam Marquez.
- **Time Is Running Out For More Tax Relief**, *Wall Street Journal* (September 20, 2002) by Tom Herman.
- **U.S. Middle Class Said to Lose Some Tax-Cuts Benefits, NYT Says**, *Bloomberg News* (September 19, 2002) by Jennifer Itzenon.
- **Money & Markets**, *CNN Financial News CNNFN* (September 19, 2002) with Kathleen Hays and Bruce Francis. Interview with Len Burman.
- **Crossfire**, *CNN* (September 19, 2002) with James Carville and Tucker Carlson.
- **Tax Cut Benefits Disappearing**, *CNN / Money* (September 19, 2002).
- **Your World with Neil Cavuto**, *Fox News* (September 19, 2002). Interview with Len Burman.
- **Middle Class Cut out of Tax Benefit**, *The Hotline* (September 19, 2002) by the National Journal Group, Inc.
- **Marketplace**, *NPR Marketplace* (September 19, 2002).
- **Study Says Middle Class to Lose Much of Bush Tax Cut's Benefit**, *New York Times* (September 19, 2002) by David Cay Johnston.

- **Tax Report**, *Wall Street Journal* (September 19, 2002) by Tom Herman.
- **Business in Brief**, *Washington Post* (September 19, 2002).
- **Obscure Tax to Affect 36 Million**, *Associated Press* (September 18, 2002) by Curt Anderson.
- **Tax Cut Plan Mired in Economic, Political Debate**, *Washington Post* (September 5, 2002) by Jonathan Weisman.
- **Policy Watch**, *Washington Post* (September 1, 2002).
- **Just Trust Us**, *New York Times* (August 30, 2002) by Paul Krugman.
- **Tax Experts Question Focus, Impact of Bush Recovery Plan**, *Tax Notes* (August 26, 2002) by Warren Rojas.
- **Brookings Study Says Latest Bush Tax Cut Proposal Is “Fundamentally Flawed,”** *White House Bulletin* (August 23, 2002).
- **Tax Analysis Says the Rich Still Win**, *New York Times* (July 14, 2002) by David Cay Johnston.

## V. MODELING CAPABILITIES

The Tax Policy Center developed a large-scale, state-of-the-art microsimulation model. We use the model to produce revenue and distribution estimates and information to support research and analysis. The model is similar to those used by the Congressional Budget Office (CBO), the Joint Committee on Taxation (JCT), and the Treasury’s Office of Tax Analysis (OTA).

The model is based on data from the 1996 public-use file produced by the Statistics of Income (SOI) Division of the Internal Revenue Service. The file contains 112,186 records with detailed information from federal individual income tax returns filed in the 1996 calendar year. In some cases, those data are augmented by imputations from other sources such as the Current Population Survey (CPS) of the U.S. Census Bureau supplement the SOI tax data. For example, we use information from the CPS to impute the ages of dependent children in order to model the child tax credit, which was enacted in 1997.

The tax model consists of two components: a statistical routine that “ages” or extrapolates the 1996 SOI data to create a representative sample of tax filers for future years, and a detailed tax calculator that computes the income tax liability for all filers in the sample under current law and under alternative policy proposals.

Much of our work in the first reporting period was devoted to development and improvement of this model. We will continue to update and expand the model.

## VI. FUNDRAISING

The Tax Policy Center continues to raise funds in order to expand our current efforts. As of June, 2003, we had received support from foundations and organizations including AARP, Annie E. Casey Foundation, Charles Stewart Mott Foundation, Cummings Foundation, Ford Foundation, George Gund Foundation, Lumina Foundation, Open Society Institute, and the Robert Wood Johnson Foundation.