The first full year of operation for the Tax Policy Center, 2003 was a busy year for tax policy and a productive year for the TPC. The year began with President Bush’s proposal to reduce taxes on corporate dividends, which led to the third significant federal income tax cut in three years, and ended with a new Medicare prescription drug benefit. Public policy discussions also focused on growing concern about mounting long-term fiscal deficits, tax credits for children, pension funding, health care proposals, and tax equity.

The Tax Policy Center was an enthusiastic participant in these discussions, engaging in an active and integrated program of research, policy analysis, and outreach.

A hallmark of the TPC is the ability to produce revenue and distributional estimates of tax policy proposals in real time. Overall, more than 200 distribution and revenue tables were posted on our website. These analyses were widely cited in major media outlets during the debate on fairness and other aspects of tax proposals, thus filling an especially important role, given the paucity of official estimates.

Our e-mail newsletter, which we use to publicize new TPC research and upcoming events, has a continually growing subscriber base of over 2,600 individuals. The newsletter is particularly helpful in distributing information on a timely basis. For example, when the President released his dividend plan in January, the TPC posted distributional estimates on the same day and circulated them to hundreds of interested parties via the newsletter.

We also convened eleven symposia. These include the first in a series of annual public forums on the State of the Income Tax and a very popular conference on the fiscal crisis currently facing states. We hosted Bill Gates, Sr., in a discussion of the estate tax, and held a symposium on what people really know about tax policy.

To support and expand our efforts on communication and public education, TPC scholars testified seventeen times in Congress and engaged in an active program of research that resulted in several books, 90 discussion papers, policy briefs, and other
commentaries on a vast array of tax and budget issues. Our research and commentary has generated widespread attention; the TPC and its scholars received citations in over 250 major media articles last year and countless citations in regional media.

While current policy issues were clearly in the forefront of TPC activity, we also engaged on several longer-term projects during the year. One major project was a complete overhaul of the already award-winning TPC website to make it cleaner and easier to navigate. The new site was launched in January 2004.

In addition, we focused on increasing our capacity to provide accurate and timely information by updating our tax model in early 2003. We enhanced its capabilities by adding retirement savings and estate tax modules. We also recently hired an additional researcher to work full-time on model development.

With the widespread dissemination of our estimates and research, the TPC enhanced its reputation as the place to turn for reporters, policymakers, advocacy groups, citizens, and academics interested in accurate, timely, and objective analysis of current and emerging issues.

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.
PUBLICATIONS AND REPORTS

Discussion Paper Series: TPC working papers

Issues and Options Series: TPC policy briefs

“Tax Facts” TPC’s semi-weekly column in Tax Analysts’ Tax Notes
- “Recent Expansions to the Child And Dependent Care Tax Credit.” Elaine Maag. October 27, 2003.

Testimony


• “Expanding the Saver's Credit.” Mark Iwry before the United States House of Representatives, Committee on Education and the Workforce, Subcommittee on Employer-Employee Relations. June 30, 2003.


Other Publications, Op-eds, and Commentaries


• “Social Program Spending and State Fiscal Crises.” Kenneth Finegold, Stephanie Schardin, Elaine Maag, Rebecca Steinbach, David Merriman, and Alan Weil. The Urban Institute, Assessing the New Federalism, Occasional Paper No. 70, November.


**Revenue and Distribution Tables: TaxPolicyCenter.org**

• 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. We produced two hundred tables in 2003.

**OUTREACH**

**Website**

The purpose of the TPC website (www.taxpolicycenter.org) is to communicate the research of the Tax Policy Center in an accessible and timely manner. The website has received kudos in *Forbes Magazine*, which named it a “Best Tax Website,” *National Journal,* and in *Business Week.*

Here are the goals of our website:

• 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 website. We have four distinct target audiences: press, legislators/policy analysts, private citizens, and academics. 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. Private citizens likely want to access information that directly affects them and may not understand the intricacies of tax structure. 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.

Website Redesign
We redesigned and updated the TPC website to make it even easier to use and more informative. The redesigned site, launched January 20, 2004, presents TPC products in a cleaner format with an improved navigation system. The Tax Facts database and TPC publications are now searchable. TPC microsimulation model tables are also accessible via a searchable database. The model section provides distribution and revenue estimates of tax laws, bills, and proposals. The new homepage highlights featured research reports and microsimulation estimates that are relevant to a topic currently at the center of tax policy debate. The homepage also provides links to the most recently published tables, publications, and media cites, as well as upcoming events. Finally, archives of the e-mail newsletters, media cites, and events are available on the new site.

Tax Facts (Website)
“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.

E-mail Newsletter
The Tax Policy Center sends e-mail announcements to our regular users about new research available online and upcoming TPC events. Users may sign themselves up on the website and have the opportunity to unsubscribe at any time. We have received positive feedback from our users about the value of our website and regular announcements. The TPC newsletter had over 2,600 subscribers by the end of 2003 and the number of subscribers continues to grow.

Public Forums


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 1999 public-use file (PUF) produced by the Statistics of Income (SOI) Division of the Internal Revenue Service (IRS). The PUF contains 132,108 records with detailed information from federal individual income tax returns filed to report income and tax due for the 1999 calendar year. Additional information on demographics and sources of income that are not reported on tax returns is obtained through a constrained statistical match of the public-use file with the March 2000 Current Population Survey (CPS) of the U.S. Census Bureau. There are also a number of low-income records in the CPS that do not match any PUF records. These records are used to create a sample of individuals who do not file income tax returns ("non-filers"). By combining the dataset of filers from the PUF (augmented by demographic and other information from the CPS) with the dataset of assumed non-filers from the CPS, we are able to carry out distributional analysis on the entire population rather than just the subset that files individual income tax returns.

The tax model consists of two components: a statistical routine that “ages” or extrapolates the 1999 data to create a representative sample of both filers and non-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.

We made several major enhancements to the tax model in 2003. The previous version of the tax model used data from 1996 and included information on only those individuals who file federal income tax returns. In 2003, we updated the model code in order to use the most recent public-use file containing data from 1999. We also added information on low-income individuals who do not file tax returns. In addition, we updated the routine that is used to age the data to future years, incorporating the latest economic forecast released by the Congressional Budget Office.

Using data from the Survey of Consumer Finances (SCF), the Survey of Income and Program Participation (SIPP), and the PUF, we estimated contributions by individuals to various tax-deferred retirement savings plans. This gives us the ability to examine the revenue and distributional effects of the retirement savings initiatives in EGTRRA, the Portman-Cardin legislation introduced in Congress, and other retirement-savings reform options.

We also completed work on a preliminary version of an estate tax module that will be fully incorporated into the tax model in early 2004. Our estate tax module uses data from the SCF to estimate the assets and liabilities of individuals in the tax model database. Combined with a detailed estate tax calculator, this allows us to determine the expected estate tax liability of all individuals in the event of death. Once completed, the estate tax module will allow us to estimate the revenue and distributional implications of various estate tax reform options. We also plan to use the model to examine in more detail the incentive effects of estate tax reforms, particularly on charitable giving.

We plan to continue to update and expand the tax model. We will incorporate the latest economic forecast to be released by CBO in late January 2004. Shortly thereafter, when the estate tax module is complete, we will be able to provide a more complete picture of the distribution of federal taxes in our tables. We plan to include individual and corporate income taxes, payroll taxes for Social Security and Medicare, and the estate and gift tax in our distribution tables. In addition, we are developing a broader measure of income for use in our analyses.

FUNDRAISING

The Tax Policy Center continues to raise funds in order to expand our current efforts. We have received support from foundations and organizations including Annie E. Casey Foundation, Brodie Price Philanthropic Fund, Charles Stewart Mott Foundation, Ford Foundation, George Gund Foundation, Lumina Foundation, Nathan Cummings Foundation, Open Society Institute, Sandler Family Supporting Foundation, and others.
MEDIA PLACEMENT

TPC research and analysis has appeared in articles around the nation. Following is a selected list from 2003:

- **Boost in Refunds on Tap, but Tax Debate Won't Die**, *Tacoma (WA) News Tribune* (December 27, 2003) by David Westphal.
- **Alternative Minimum Tax**, *WAMU - Kojo Namdi Show* (December 15, 2003) with Mary Tillotson.
- **Nine Steps To Tax Sanity**, *Forbes* (December 8, 2003) by Janet Novack.
- **Congress' Tax-free Savings Accounts Expanding, but the Rich Benefit Most**, *Austin American-Statesman* (December 7, 2003) by Marilyn Geewax.
- **Alternative Minimum Tax was Designed to Snare the Rich, but it Sneaks Up on Not-so-rich Taxpayers**, *Courier-Journal* (December 7, 2003) by Ken Berzof.


- **Website Reviews: Budget Deficit**, *National Journal* (December 6, 2003) by David Baumann.

- **Medicare Bill Holds Big Changes for Younger Workers**, *Scripps Howard News Service* (December 3, 2003) by Mary Deibel.


- **Alternative Minimum Tax: Warning: This Trap Hurts**, *Newsweek* (December 1, 2003) by Linda Stern.

- **Why America's Debt is a Risky Foreign Affair**, *Christian Science Monitor* (December 1, 2003) by David R. Francis.


- **Rx for a Budget Bomb?**, *CNN / Money* (November 24, 2003) by Mark Gongloff.


- **Start Planning Now on Taxes to Save Money Next Year**, *Scripps Howard News Service* (November 9, 2003) by Mary Deibel.

• **Debating the Economy**, *The New Republic* (November 6, 2003) by David Hale and Peter R. Orszag.


• **Horror Show: Deficits that Never Die**, *CBS Marketwatch* (October 29, 2003) by Paul B. Farrell.


• **A Pork Dinner for Multinationals**, *Business Week* (October 13, 2003) by Howard Gleckman.


• **The Other Lies of George Bush**, *The Nation* (October 13, 2003) by David Corn.


• **With 3 Million U.S. Jobs Lost, President's Gig at Stake**, *Chicago Sun-Times* (October 10, 2003) by Steve Neal.


• **Ignoring the Deficits (cont.)**, *Milwaukee Journal-Sentinel* (October 3, 2003).

• **Can California's Money Mess Be Fixed?**, *USA Today* (October 1, 2003) by Dennis Cauchon.


• The Tax Of Unintended Consequences, *CNN / Money* (September, 2003) by Amy Feldman.


• The American Government's Accounts Look About as Reliable as Enron's, *Economist* (July 31, 2003).


• Tax Experts Say IRS Has Improved Service, *Scripps Howard News Service* (July 18, 2003) by Mary Deibel.


• Alternative Tax Likely to Affect Many in the Middle Class, *Scripps Howard News Service* (July 11, 2003) by Mary Deibel.

• Be on Alert for the AMT, *Wall Street Journal* (July 6, 2003) by Tom Herman.


• The Decline and Fall of Distribution Analysis, *Tax Notes* (June 30, 2003) by Martin A. Sullivan.


• Reform May Mean Death of the Bequest, *Fortune* (June 26, 2003) by Paul Taylor.

• Repeal of Estate Tax 'Would Hit Charities', *Fortune* (June 26, 2003) by Lauren Foster.


• **Chatterbox - Can Bush Be Both Ignorant and a Liar?**, *Slate* (June 23, 2003) by Timothy Noah.


• **US Admin Promises Econ Research, Doesn't Always Deliver**, *Wall Street Journal* (June 18, 2003) by Rebecca Christie.

• **Tax Credit Windfall Provokes Conservatives**, *CNS News* (June 18, 2003) by Christine Hall.

• **Inured to Inequality**, *Washington Post* (June 16, 2003) by Steven Rattner.

• **Hidden Agenda**, *In These Times* (June 16, 2003) by David Moberg.


• **Senate Votes to Make Child Credit Refundable, Sends Bill to House**, *Tax Notes* (June 9, 2003) by Patti Mohr and Warren Rojas.


• **The Truth About Taxes**, *CNN / Money* (June 9, 2003) by Sarah Max.

• **Don't Blow It All In One Place**, *US News & World Report* (June 9, 2003) by Jodie T. Allen.


• **Tax Cut Creates Winners, Losers**, *Denver Post* (June 8, 2003) by John Aloysius Farrell.

• **GOP Changed the Way States React to Deficits**, *Austin American-Statesman* (June 8, 2003) by Bill Bishop.

• **Putting a Face on Low-Wage Workers**, *Baltimore Sun* (June 6, 2003) by Clarence Page.


• **Congress Taking a New Look at Child Tax Credit**, *Hartford Courant* (June 4, 2003) by David Lightman.

• **Middle Class Tax Share Set to Rise**, *Washington Post* (June 4, 2003) by Dana Milbank and Jonathan Weisman.


• **As Tax Plan Passes, Critics Blast GOP Priorities**, *Christian Science Monitor* (June 2, 2003) by David R. Francis.

• **Chatterbox - Meme Watch: A Unified Theory of Bush Lies?**, *Slate* (June 2, 2003) by Timothy Noah.


• **Of Sunsets and Pumpkins**, *Washington Post* (June 1, 2003) by Steven Mufson.


• **Happy Days For H&R Block**, *Forbes* (May 28, 2003) by Janet Novack.


• **Lazarus at Large: Thanks for Nothing**, *San Francisco Chronicle* (May 28, 2003) by David Lazarus.


• **Congress Oks $330 billion in tax relief**, *Baltimore Sun* (May 24, 2003) by Julie Hirschfeld Davis.

• **Dissecting the Tax Bill**, *NPR - All Things Considered* (May 24, 2003) Kathy Schalch.

• **Politics Behind Bush's Tax Reversal**, *USA Today* (May 23, 2003) by Judy Keen.

• **Taxpayers Get Break on Kids, Stocks**, *St. Petersburg Times* (May 23, 2003) by Mary Jacoby.


• **Tax Cuts Could Improve Growth**, *USA Today* (May 15, 2003) by Sue Kirchhoff.


• **Money & Markets**, *CNN* (May 16, 2003) hosted by David Haffenreffer, appearance by Elaine Maag.


• Tax Cut Madness, *The Record (Bergen County)* (April 23, 2003).
• Did the Supply Siders Just Get Sideswiped?, *Business Week* (April 21, 2003) by Peter Coy.
• Bush Opens Campaign for a Slimmer Tax Cut Plan, Los Angeles Times (April 16, 2003) by Maura Reynolds and Nick Anderson.
• Some Taxpayers Don't Owe a Penny, Los Angeles Times (April 15, 2003) by Doug Smith.
• Economists View AMT as Reform Engine, Tax Notes (April 14, 2003).
• Adjust Tax for Inflation, USA Today (April 13, 2003).
• Taking on Teddy, Newsday (April 13, 2003) by James Toedtman.
• Tech Firms Lobbying for Own Tax Cut, Washington Post (April 11, 2003) by Jonathan Krim.
• It's Still the Economy, Stupid, Seattle Post-Intelligencer (April 11, 2003) by Marianne Means.
• Boomers are Good at Saving, But Not Good Enough, Boston Globe (April 8, 2003) by Peter Svensson.
• A Different Kind of Tax Plan is in Order, Financial Times (March 27, 2003) by Paul Taylor.
• How Tax Cuts Trickle Down, New York Times (March 16, 2003), lead editorial.
• Bush Misleads the Average Joe on Tax Cuts, Los Angeles Times (March 3, 2003) by Isaac Shapiro.
• GOP Aides Revise Bill To Help Big Firms, Washington Post (March 1, 2003) by Jonathan Weisman.
• Deficit Warnings Increase in Urgency, USA Today (February 27, 2003) by Sue Kirchhoff.
• Bush Plan Leaves Tax Relief for Poor in Slow Lane, Reuters, Forbes, and ABC News (February 25, 2003) by Jonathan Nicholson.
• The President’s Tax Cut and Its Unspoken Numbers, New York Times (February 25, 2003) by David E. Rosenbaum.
• Alternative Minimum Tax is Nipping at Middle-Class Heels, USA Today (February 24, 2003) by Sandra Block.
• Law of Averages, Washington Post (February 21, 2003), lead editorial.
• **Gambling on Growth**, *Business Week* (February 17, 2003) by Richard S. Dunham, Howard Gleckman, and Lee Walczak.


• **Taking Liberties with Liberty**, *San Francisco Examiner* (February 5, 2003) by Debby Morse.


• **Deficit Spending**, *NPR - Talk of the Nation* (February 4, 2003) with Neal Conan.


• **Administration Proposes Changes to Encourage Savings**, *NPR - All Things Considered* (February 3, 2003) with Kathleen Schalch.


• **Why Deficits Matter**, *Chicago Tribune* (February 3, 2003).

• **Where Have All the Keynesians Gone?**, *Business Week* (February 3, 2003) by Robert Kuttner.

• **Accounts Chock-Full, or a Plan Half Empty?**, *New York Times* (February 1, 2003) by Daniel Altman.

• **Mutual Funds Set to be Big Winners**, *Financial Times* (February 1, 2003) by Lauren Foster and Julie Earle.


• **Background Checks**, *Washington Post* (January 28, 2003) by Dana Milbank.


• Bush Takes Tax Cut Plan on Road, Backs Snow, ABC News (January 22, 2003) by Adam Entous.


• Class Warfare?, *NPR - All Things Considered* (January 15, 2003) by Daniel Schorr.

• Class Warfare By (Fuzzy) Numbers, *The Nation* (January 14, 2003) by David Corn.


• Cooking the Books to Sell a Tax Plan..., *Boston Globe* (January 12, 2003) by Thomas Oliphant.


• All’s Not Fair In Stimulus Plan, *Newsday* (January 12, 2003) by Robert Reno.


• Some Economists See Minuses; Others See Pluses, *USA Today* (January 8, 2003) by Barbara Hagenbaugh.


• **Bush to Seek Job Search Money for People**, *Associated Press* (January 6, 2003).

• **Bush Plan Likely to Target Dividend Taxes**, *USA Today* (January 6, 2003) by Laurence McQuillan.


• **President to Seek Dividend Tax Cut**, *Washington Post* (January 3, 2003) by Mike Allen and Dana Milbank.