

How Could We Improve the Federal Tax System?

Debt Reduction Task Force, "Restoring America's Future," November 2010

RECENT COMPREHENSIVE TAX REFORM PROPOSALS
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Q. Debt Reduction Task Force proposal, "Restoring America's Future," Bipartisan Policy Center, November 2010.

A. The task force proposed changes to the tax system, federal spending, health care spending, and Social Security to improve America's fiscal condition.

The Debt Reduction Task Force, chaired by Senator Pete Domenici and Alice Rivlin, created a plan to recover from the 2008 recession in the near term and reduce the national debt in the long term. The task force provided recommendations to reduce and stabilize the debt, streamline the tax code, restrain health care costs, strengthen Social Security, and freeze defense and domestic discretionary spending. The plan would reduce the debt to 60 percent of gross domestic product (GDP) by 2020 and balance the primary budget (excluding interest payments) by 2020. Federal spending would shrink to 23 percent of GDP by 2020, with revenues at 21.4 percent of GDP.

REVIVE THE ECONOMY AND CREATE JOBS

The task force recommended a one-year payroll tax holiday to create between 2.7 and 7 million new jobs over two years.

TAX REFORM

The task force's plan would cut tax rates and broaden the base by eliminating tax expenditures and establishing a new debt reduction sales tax.

Major Reform Proposals

- Consolidate individual income tax rates into two brackets: 15 and 27 percent.
- Set the corporate income tax rate at 27 percent.
- Tax capital gains and dividends as ordinary income, while allowing a \$1,000 exclusion for capital gains.
- Eliminate the standard deduction and personal exemptions, along with most tax expenditures.
- Replace the earned income tax credit and other family and child provisions with a \$1,600 per child universal credit and a credit of 21.3 percent on the first \$20,300 of earnings for each worker.
- Replace the mortgage interest deduction and deduction for charitable contributions with 15 percent credits available to everyone regardless of income (the 15 percent mortgage interest credit would only be available for expenses on a principal residence, and only up to \$25,000).
- Eliminate deduction for state and local taxes.
- Allow individuals and employers to contribute up to 20 percent of annual earnings to qualified retirement plans, up to \$20,000 per year.
- Introduce an expanded refundable savings credit for taxpayers in the 15 percent tax bracket.
- Repeal the alternative minimum tax.

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- Increase the excise tax on alcohol from about 21 cents per ounce to 25 cents.
- Phase in a 6.5 percent debt reduction sales tax over two years. The tax would be structured similarly to a broad-based value-added tax

DOMESTIC DISCRETIONARY AND DEFENSE SPENDING

The task force recommended that domestic discretionary spending be frozen for four years and defense spending be frozen for five years. After this time, spending growth would be allowed to increase at the rate of GDP growth. All spending limits would be enforced through statutory caps. If the caps were exceeded, spending would automatically be cut across the board. Cuts to domestic discretionary spending would save \$1 trillion, and cuts to defense spending would save \$1.1 trillion through 2020.

HEALTH CARE

The task force proposed short-term and long-term changes to all aspects of the health care system. As a whole, the reforms would save \$756 billion through 2020.

Changes to Medicare

- Raise Part B premiums from 25 to 35 percent of program costs over five years.
- Use the government's bargaining power to increase rebates from pharmaceutical companies.
- Modernize benefits package and copayment structure.
- Bundle payments for post-acute care.
- Transition to a premium-support option to limit growth per beneficiary and increase competition among private plans.
- Eliminate barriers to enroll dual-eligible patients (Medicare beneficiaries who are also eligible for Medicaid) in managed care.

Other Major Changes

- Reduce excess cost growth in Medicaid by 1 percentage point per year.
- Require states to cap awards for non-economic and punitive damages for medical malpractice and test other reforms to the malpractice system.
- Impose an excise tax on beverages sweetened with sugar and high-fructose corn syrup.
- Reform the sustainable growth rate mechanism for physician payments.
- Cap the exclusion for employer-provided benefits in 2018 and phase it out over 10 years. This would replace the "Cadillac tax" that is part of the Affordable Care Act.

SOCIAL SECURITY

The task force proposed several changes to Social Security to ensure its long-run sustainability. Major reforms include increasing the portion of wages subject to the payroll tax to 90 percent, changing the cost-of-living calculation, indexing the benefit formula for increases in life expectancy, reducing benefit growth for the top 25 percent of beneficiaries, and covering newly hired state and local government workers. To aid the most at-risk populations, the task force proposed increasing the minimum benefit for long-term low-wage earners and the most vulnerable elderly.

OTHER SAVINGS

Cuts and reforms to smaller federal programs were projected to save \$89 billion by 2020. The task force recommended reducing farm program spending by eliminating payments to producers with an adjusted

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gross income over \$250,000, consolidating and capping conservation programs, and reforming crop insurance. In addition, they proposed changing the benefit calculation for civilian government retirees and changing the age at which career military personnel can retire.

BUDGET PROCESS

To enforce the proposed reforms, the task force recommended that changes to the budget system be imposed to increase accountability. Examples of reforms included statutory spending caps, a pay-as-you-go requirement to prevent the fiscal situation from getting worse, and a fiscal accountability commission that would meet every five years to evaluate program growth and other budget issues.

Further Reading

Domenici, Pete, and Alice Rivlin. 2010. "[Restoring America's Future](#)." Washington, DC: Bipartisan Policy Center.

———. 2011. "[An Overview of the Domenici-Rivlin Budget Plan](#)." Testimony to the Joint Select Committee on Deficit Reduction, Washington, DC, November 1.