

## How Could We Improve the Federal Tax System?

The Moment of Truth: Report of the National Commission on Fiscal Responsibility and Reform, December 2010

RECENT COMPREHENSIVE  
TAX REFORM PROPOSALS

*Q. The Moment of Truth: Report of the National Commission on Fiscal Responsibility and Reform, December 2010*

**A. The 2010 report of the National Commission on Fiscal Responsibility and Reform recommends policy reforms, collectively known as the Bowles-Simpson plan, intended to stabilize America's fiscal path.**

President Obama tasked the National Commission on Fiscal Responsibility and Reform with recommending ways to bring the federal budget back into balance and to improve its long-run viability. The commission created a six-part plan outlining comprehensive tax reform, Social Security reform, cuts in discretionary spending, health care cost containment, mandatory personal savings, and changes to the budget process.

As a whole, the Bowles-Simpson plan would reduce the deficit to 2.3 percent of gross domestic product (GDP) by 2015, cap total tax revenue at 21 percent of GDP, and reduce spending to less than 22 percent of GDP. It would also stabilize the debt by 2014 and reduce the debt to 40 percent of GDP by 2035 (from about 60 percent when the report was written). The plan would cut the fiscal gap with an almost equal mix of revenue increases and spending cuts.

### COMPREHENSIVE TAX REFORM

The commission's plan for tax reform set multiple goals: lower tax rates, broaden the base, cut tax expenditures, reduce the deficit, and maintain or increase tax progressivity.

#### Key Provisions

- Create three individual income tax brackets of 12, 22, and 28 percent, as well as a single 28 percent corporate rate.
- Eliminate the alternative minimum tax.
- Tax capital gains as normal income.
- Eliminate all tax expenditures except as follows:
  - Keep the child tax credit and earned income tax credit.
  - Replace the mortgage interest deduction with a 12 percent nonrefundable credit for all taxpayers for mortgages on principal residences only. Cap mortgage eligibility at \$500,000.
  - Cap the exclusion for employer-sponsored health care at the 75th percentile of average premiums in 2014. Reduce the excise tax on high-cost health care plans (the Cadillac tax) to 12 percent.

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- Replace the charitable contribution deduction with a 12 percent nonrefundable credit for contributions over 2 percent of adjusted gross income.
- Tax interest on newly issued state and municipal bonds.
- Consolidate retirement accounts and cap tax-preferred contributions at the lower of \$20,000 or 20 percent of adjusted gross income, while expanding the saver's credit.
- Eliminate all tax expenditures benefiting corporations.
- Implement a territorial tax system for active foreign-source income.
- Increase the excise tax on gasoline by 15 cents between 2013 and 2022.

## SOCIAL SECURITY REFORM

To reduce Social Security's projected funding shortfall, the commission would increase the taxable wage base by 2050 to include 90 percent of earnings, increase the full- and early-retirement ages to 69 and 64, respectively, by 2075, cover newly hired state and local workers after 2020, and create a hardship exemption allowing those who cannot work past age 62 to receive benefits early. In addition, a chained consumer price index (which is generally lower than the unchained consumer price index) would be used to index benefits. To aid the lowest earners, the proposal included provisions to make the benefit formula more progressive and to create a minimum benefit for low-wage workers and the long-term disabled.

## CUTS IN DISCRETIONARY SPENDING

The commission recommended that discretionary spending be capped through 2020 to force a reckoning of priorities, and that security and non-security spending be reduced by equal percentages.

## HEALTH CARE COST CONTAINMENT

The commission recommended changes to the Medicare Sustainable Growth Rate, a system designed to control Medicare payments to physicians. Other savings would come from changes in cost sharing, malpractice law, and prescription drug costs. Overall, the commission recommended that health care spending growth be held to GDP plus 1 percent.

## MANDATORY PERSONAL SAVINGS

The commission recommended several reforms, including reforming civilian and military retirement programs, reducing agricultural program spending, eliminating in-school subsidies in federal student loan programs, and giving the Pension Benefit Guaranty Corporation the authority to increase premiums.

## CHANGES TO THE BUDGET PROCESS

Finally, the commission proposed changes to the budgeting process, including switching to a chained consumer price index where cost-of-living indexes are used to set spending, establishing a debt-stabilization process to enforce deficit reduction targets, allowing budgetary cap adjustments for program integrity efforts, and reviewing budget-scoring practices.

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## Further Reading

Kogan, Richard. 2012. ["What Was Actually in Bowles-Simpson—And How Can We Compare It with Other Plans?"](#) Washington, DC: Center on Budget and Policy Priorities.

National Commission on Fiscal Responsibility and Reform. 2010. ["The Moment of Truth."](#) Washington, DC: National Commission on Fiscal Responsibility and Reform.

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