Q. The Tax Reform Act of 2014: Fixing Our Broken Tax Code So That It Works for American Families and Job Creators, House Ways and Means Committee

A. The Tax Reform Act of 2014, an ambitious plan for broadening the tax base and simplifying both the corporate and personal income taxes, was designed to be revenue neutral over the 10-year budget horizon.

The Tax Reform Act of 2014 was proposed by former chair of the House Ways and Means Committee Dave Camp as a point of reference for tax reform. The Camp plan would reduce tax rates and eliminate or limit most tax expenditures. It would be revenue neutral and income distribution neutral over the 10-year budget horizon but would lose revenue and become more regressive after then.

INDIVIDUAL INCOME TAX

- Consolidate individual tax rates into three brackets: 10, 25, and 35 percent. The 35 percent bracket would be composed of the 25 percent rate plus a 10 percent surtax that would only apply to modified adjusted gross incomes over $450,000 ($400,000 for single taxpayers).
- Increase the standard deduction for all taxpayers and add an additional deduction for single taxpayers with at least one dependent child.
- Eliminate the personal exemption, state and local tax deduction, deduction for medical expenses, and other smaller tax expenditures.
- Reduce the cap on the interest deduction over four years to mortgages of $500,000.
- Allow deductions for only those charitable contributions in excess of 2 percent of adjusted gross income.
- Increase and expand the child tax credit.
- Modify the earned income tax credit, index the parameters to the chained consumer price index, and reduce eligibility for children to those younger than 18. The earned income tax credit would thereby be reduced for almost all families.
- Consolidate higher education incentives into an American Opportunity Tax Credit.
- Modify the rules for individual retirement accounts (IRAs) and 401(k) plans by barring deductible contributions to traditional IRAs and removing income limits on contributions to Roth IRAs.
- Repeal the alternative minimum tax.
- Tax capital gains and dividends as ordinary income, with a 40 percent exclusion.
How Could We Improve the Federal Tax System?

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CORPORATE INCOME TAX

- Set the top corporate rate at 25 percent; phase in the reductions over five years.
- Shift to a territorial system (which would exempt the foreign income of US multinational firms from US taxation).
- Institute a retroactive tax on foreign-earned income of 8.75 percent on cash assets and 3.5 percent on noncash assets, with the option to spread payments over eight years. All revenue would be allocated to the Highway Trust Fund.
- Institute a 0.035 percent excise tax on big banks that is levied quarterly on consolidated assets in excess of $500 billion.
- Repeal the corporate alternative minimum tax, along with the deduction for domestic production activities and most other business tax preferences.

ANALYSIS

The Joint Committee on Taxation predicted the Camp plan would be revenue neutral in the initial 10 years. However, when considering the macroeconomic effects, the committee found that the plan could boost GDP by between 0.1 and 1.6 percent in that 10 years, increasing federal revenue by between $50 billion and $700 billion.

Beyond the first 10 years, though, the fiscal impact would be uncertain. Many provisions that initially increased revenue would expire. In addition, the official estimates may have misstated the cost of making certain tax extenders permanent, thereby increasing long-term costs. These additional costs could have been partially offset by adopting the chained consumer price index to index tax rates, credits, and so on.

Tax burdens for heads of households would significantly increase in all quintiles of the income distribution except the lowest. Further, households in high-tax states that itemize their deductions, families with older children, and households that previously benefited from tax preferences that would diminish or expire would probably bear a higher tax burden in the long run.

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Further Reading

