

## How Could We Improve the Federal Tax System?

What would and would not be taxed under a broad-based income tax?

BROAD-BASED INCOME TAX  
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### **Q. What would and would not be taxed under a broad-based income tax?**

### **A. Generally, all forms of income, but there are as many options as there are proposals.**

Base broadening could include all forms of income, such as wages and “anything that allows you to spend more, either now or in the future” (President’s Advisory Panel 2005, 20). These sources include retirement account income, capital gains, dividends, rental income, employer-provided health insurance, unrealized increases in the value of real estate, and securities.

The President’s Advisory Panel looked closely at a somewhat less comprehensive broad-based income tax that would eliminate credits, “above the line” deductions, and itemized deductions. The individual alternative minimum tax would go; tax filers would get to keep the standard deduction and personal exemptions.

The Bowles-Simpson Commission’s “zero-base budgeting” plan would modify the income tax to lower rates and deficits by cutting tax expenditures. This tax would eliminate all tax expenditures (an estimated \$1.1 trillion per year) but would not modify the payroll tax base.

The Domenici-Rivlin plan, for its part, eliminates the standard deduction and personal exemption, taxes capital gains and dividends as ordinary income, simplifies the earned income tax credit, shortens the list of itemized deductions, and caps deductions for medical expenses.

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### Further Reading

Domenici-Rivlin Debt Reduction Task Force. 2010. “[Domenici-Rivlin Debt Reduction Task Force Plan 2.0](#).” Washington, DC: Bipartisan Policy Center.

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

President’s Advisory Panel on Federal Tax Reform. 2005. [Simple, Fair, and Pro-Growth: Proposals to Fix America’s Tax System](#). Washington, DC: President’s Advisory Panel on Federal Tax Reform.