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.

The 2017 Tax Cuts and Jobs Act was decidedly not a base-broadening tax reform. Among other changes, it eliminated personal exemptions but replaced them with them much larger standard deductions and child tax credits. It also eliminated some smaller itemized deductions, including those for unreimbursed employee expenses tax preparation fees, and most casualty losses, but added a significant new deduction for pass-through business income.

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Works Cited and Further Reading

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