

How Could We Improve the Federal Tax System?

BROAD-BASED INCOME TAX

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Q. What would the tax rate be under a broad-based income tax?

A. That depends on what exclusions, credits, and deductions are left in and whether revenue neutrality is a must.

The President's Advisory Panel on Federal Tax Reform estimated how much marginal tax rates could be reduced under a broad-based income tax that generated the same revenue as the current system. As table 1 shows, the switch would permit across-the-board cuts of about one-third. This sort of reform would not be an easy political pill to swallow, however. The panel's version, for example, would preserve only the standard deduction and personal exemptions, and would eliminate credits, "above-the-line" deductions, and itemized deductions. On the plus side, a broad-based tax would eliminate the much-despised individual alternative minimum tax.

TABLE 1

Marginal Tax Rates for Married, Filing Jointly Households Under current law and a broad-based system, 2006



Tax bracket	Current law system	Broad-based system
\$15,050 and under	10.0%	6.6%
\$15,051 – \$61,100	15.0%	9.9%
\$61,101 – \$123,250	25.0%	16.4%
\$123,251 – \$187,800	28.0%	18.4%
\$187,801 – \$335,400	33.0%	21.7%
\$335,401 and over	35.0%	23.0%

Source: President's Advisory Panel (2005).

The Bowles-Simpson alternative provides similar estimates but argues that its zero-base budgeting methodology would allow the system to reduce rates and the deficit simultaneously (table 2).

Note, however, that after the 2017 Tax Cuts and Jobs Act, these estimates are dated and both the projected revenues and tax base have changed.

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TABLE 2

Marginal Tax Rates in 2011 under Current Law and Broad-based Systems Bowles-Simpson plan



	Current law system	Broad-based system	Illustrative plan ^a
Bottom rate	15.0%	8.0%	12.0%
Middle rate	28.0 – 31.0%	14.0%	22.0%
Top rate	36.0 – 39.6%	23.0%	28.0%

Source: National Commission (2010).

(a) The illustrative plan eliminates all tax expenditures except for the Child Tax Credit and Earned Income Tax Credit. It also taxes capital gains and dividends as ordinary income.

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Works Cited and Further Reading

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

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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.