TAX POLICY CENTER
URBAN INSTITUTE & BROOKINGS INSTITUTION

THE TAX REFORM TRADEOFF: ELIMINATING TAX EXPENDITURES, REDUCING RATES

FINAL REPORT

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ABSTRACT

This exercise is a structured analysis to understand the implications that repealing tax expenditures would have for the overall federal tax system. The baseline tax law for the calculations in this exercise is the law in effect before enactment of the Tax Cuts and Jobs Act (essentially the Tax Code in effect for much of 2017).

In part 1 of this exercise, TPC estimates the revenue and distributional effects of proposals that would eliminate almost all income tax expenditures to lower individual and corporate tax rates and maintain long-run revenue neutrality for the federal tax system. The results of Part 1 show that individual and corporate income tax rates could be substantially reduced while meeting the dual constraints of long-run revenue neutrality and maintaining the distributional consequences of the current tax system.

Part 2 of this exercise restores five groups of tax expenditures and calculates the income tax rates necessary to maintain long-run revenue neutrality. This portion of the exercise also illustrates a drawback of considering tax expenditures in isolation: that approach ignores interaction effects between tax expenditures.

Part 3 of this exercise restores seven groups of the remaining tax expenditures and calculates the income tax rates necessary to maintain long-run revenue neutrality. The rationale for adding tax expenditures (or tax expenditure groups) back one by one is to illustrate the "tax rate price" associated with the tax expenditures.

ABOUT THE TAX POLICY CENTER

The Urban-Brookings Tax Policy Center aims to provide independent analyses of current and longer-term tax issues and to communicate its analyses to the public and to policymakers in a timely and accessible manner. The Center combines top national experts in tax, expenditure, budget policy, and microsimulation modeling to concentrate on overarching areas of tax policy that are critical to future debate.

CONTENTS

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OVERVIEW

The Urban-Brookings Tax Policy Center (TPC) analyzed a series of proposals to illustrate whether eliminating income tax expenditures could finance lower tax rates and potentially reduce the federal budget deficit. The proposals are broadly based on those presented in the December 2010 report by the National Commission on Fiscal Responsibility and Reform (often called the Bowles-Simpson report). That report showed the potential for substantial deficit reduction through a combination of spending restraints and tax reform. The tax reform component calculated income tax rates consistent with eliminating most tax expenditures and raising a given amount of additional revenue. The TPC analysis in this paper updates this work using the federal tax system of 2017 as the starting point and incorporating the most recent projections of growth in population and income.

In part 1 of this exercise, TPC analyzed a series of proposals to help illustrate how eliminating income tax expenditures in effect before enactment of the Tax Cuts and Jobs Act (TCJA) could finance lower tax rates. After eliminating virtually all tax expenditures, a three-bracket structure for individual income tax rates could be as low as 6.1 percent, 11 percent, and 28 percent, and the corporate income tax rate could be as low as 26 percent while raising about the same revenue in the long run as under pre-TCJA law. Modifying this basic proposal by adding back individual income tax expenditures that primarily benefit low-income households would require individual income tax rates to increase slightly to 6.4 percent, 11.5 percent, and 29.3 percent to maintain revenue neutrality (the corporate income tax rate would remain at 26 percent). When the proposal is further altered to achieve distributional neutrality, the individual income tax schedule would include a zero bracket and positive rates of 5 percent, 16 percent, and 29.9 percent (while the corporate income tax remains at 26 percent).

If specific tax expenditures were restored, income tax rates would have to be higher than with all the tax expenditures removed to maintain long-run revenue neutrality. To illustrate these effects, in part 2 of this exercise TPC made such calculations separately for the following five groups of pre-TCJA tax expenditures, with all income tax rates increased by the same proportion to maintain revenue neutrality:

- individual tax expenditures for retirement (individual income tax rates increased to 1.3 percent, 5.5 percent, 17.6 percent, and 32.9 percent)
- individual tax expenditures for health (individual income tax rates increased to 1.4 percent, 5.5 percent, 17.7 percent, and 33.1 percent)
- the itemized deduction for state and local taxes (individual income tax rates increased to 0.8 percent, 5.3 percent, 17 percent, and 31.7 percent)
- the itemized deduction for mortgage interest (individual income tax rates increased to 0.3 percent, 5.1 percent, 16.4 percent, and 30.7 percent)

- corporate tax expenditures for research and experimentation (corporate rate income tax increased to 27.1 percent)

Because TPC simply raised rates proportionately and did not attempt to achieve distributional neutrality, the overall distribution of tax burdens was also shifted somewhat (relative to the pre-TCJA distribution) when selected tax expenditures were restored and income tax rates increased to pay for them. The distributional shift reflected the distribution of households that benefit from the restored tax expenditures compared to the distribution of overall income tax burdens.

To illustrate the effects of restoring the remaining pre-TCJA tax expenditures, in part 3 of the exercise TPC calculated the income tax rates necessary to achieve long-run revenue neutrality for the following seven groups of tax expenditures, each taken by itself:

- the itemized deduction for charitable contributions (individual income tax rates increased to 0.3 percent, 5.1 percent, 16.3 percent, and 30.7 percent)
- individual income tax expenditures for education (individual income tax rates increased to 0.1 percent, 5.0 percent, 16.1 percent, and 30.2 percent)
- individual income tax expenditures for capital income (individual income tax rates increased to 1.1 percent, 5.4 percent, 17.3 percent, and 32.3 percent)
- miscellaneous nonbusiness individual income tax expenditures (individual income tax rates increased to 0.4 percent, 5.1 percent, 16.4 percent, and 30.7 percent)
- individual income tax expenditures for pass-through businesses (individual income tax rates increased to 0.1 percent, 5.1 percent, 16.2 percent, and 30.2 percent)
- corporate income tax expenditures for accelerated cost recovery for equipment and structures (corporate income tax rate increased to 28.7 percent)
- miscellaneous corporate income tax expenditures (corporate income tax rate increased to 30.7 percent)

We also calculated the effect of restoring each group on the distribution of tax burdens. Similar to the previous work where individual tax expenditures were added back separately, the distributional consequences reflected the distribution of benefits from the tax expenditure compared to the distribution of income tax burdens. The largest distributional shifts were observed for the tax expenditures related to capital income (e.g., preferential tax rates on long-term capital gains and dividends).

ELIMINATE TAX EXPENDITURES WITH A REVENUE TARGET

The analysis starts with the elimination of virtually all individual and corporate income tax expenditures in effect before the TCJA. Specifically, the exercise

a) repealed the individual alternative minimum tax (AMT), the net investment income tax, the personal exemption phaseout, and the limitation on itemized deductions;

b) collapsed the number of individual income tax brackets from seven to three;[1]

c) lowered individual income tax rates;

d) eliminated all individual income tax expenditures;

e) repealed the corporate AMT;

f) lowered the corporate income tax rate;

g) eliminated virtually all corporate and business tax expenditures; and

h) adopted a territorial system (with provisions to prevent income shifting) for the corporate income tax.

TPC started by calculating a set of individual income tax rates (item b above) that made the individual income tax provisions (items a through d) revenue neutral over the FY 2018–27 budget period. TPC also calculated the (single) corporate income tax rate that made the corporate provisions (items e though h above) revenue neutral over the FY 2018–27 budget period.

To determine individual income tax rates, TPC collapsed the seven current-law brackets into three brackets—while maintaining the taxable income thresholds—in the same manner as the December 2010 report by the National Commission on Fiscal Responsibility and Reform: the 10 and 15 percent brackets were combined, the 25 percent and 28 percent brackets were combined, and the remaining three brackets were combined. The initial rates in the two lowest of the new income tax brackets were taken from the December 2010 Fiscal Commission report for the revenue-neutral proposal (these rates are 8 percent and 14 percent), but the top rate from the report (23 percent) was adjusted upward (to 26 percent) because the top individual income rate under 2017 tax law was 39.6 percent rather than 35 percent (as it was in 2010).

The corporate tax rate was determined by adjusting the rate until the corporate income tax provisions were as close as possible to revenue neutral over the FY 2018–27 budget period. The territorial system component (item h) in this task retained provisions for the taxation of passive foreign-source income and included provisions to prevent an increase in income shifting. To implement this requirement, TPC estimated the revenue effect of territoriality and then proportionately adjusted the estimated revenue from the FY 2017 Budget proposal for a flat-rate minimum tax on foreign-source income[2] so it raised about the same amount of revenue that territoriality would have lost over the budget period.

TPC used its microsimulation tax model to produce revenue and distributional estimates for nearly all the individual income tax provisions.[3] TPC also used several supplemental models to produce revenue estimates for the corporate income tax provisions and certain individual income tax provisions that are not part of the individual model.[4]

TPC's revenue estimates are based on conventional procedures, which take into account behavioral adjustments by individual and corporate taxpayers but not "dynamic" (macroeconomic feedback) effects. The baseline for all estimates was 2017 tax law. All estimates included outlay effects due to changes in refundable credits. The repeal of tax expenditures is assumed to apply only prospectively (effective January 1, 2018), with pre-TCJA law applying to pre-2018 activities, such as depreciation rules for investments made before 2018. TPC followed the Joint Committee on Taxation's list and definition of tax expenditures.[5]

The initial tax rates were revenue neutral over the traditional budget window, 2018–27, but lost significant revenue relative to 2017 tax law in the subsequent years. To meet the long-run revenue-neutral goal of the exercise, TPC then calculated individual and corporate income tax rates so that the overall proposal would raise about the same amount of revenue in the long run (defined as FY 2037) as pre-TCJA tax law.

REVENUE EFFECTS

TPC produced a set of estimates with individual and corporate rates designed to achieve long-run revenue neutrality compared to pre-TCJA law (as closely as possible) in FY 2037. These new individual income tax rates were 6.1 percent, 11 percent, and 28 percent, and the new revenue-neutral (single) corporate income tax rate was 26 percent. These rates left individual and corporate income tax revenues virtually unchanged in FY 2037, while producing a revenue gain of $439 billion over FY 2018–27 and $457 billion over FY 2028–37 (table 1). The revenue gain would be approximately 1 percent of revenues over each decade.

TABLE 1

Estimated Effect on Revenues of Revenue Neutral Proposal

$ billions, FY2018-2027 and FY2028-2037

Provision	Fiscal Years 2018–2027										
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2018–27
Individual income tax											
Repeal the individual AMT, NIIT, PEP, and "Pease"	-49.7	-69.3	-82.1	-89.7	-95.0	-100.3	-106.4	-113.2	-120.1	-127.0	-952.9
Reduce individual rates to 6.1, 11, and 28 percent	-494.1	-679.1	-706.8	-737.7	-770.1	-804.6	-840.8	-877.6	-914.9	-953.3	-7,779.1
Repeal individual tax expenditures	521.0	758.0	808.3	852.2	890.7	932.5	975.6	1,019.1	1,065.1	1,111.1	8,933.6
Total for individual income tax revenues	**-22.9**	**9.6**	**19.4**	**24.7**	**25.6**	**27.6**	**28.4**	**28.3**	**30.1**	**30.8**	**201.7**
Corporate income tax											
Repeal the corporate AMT	-6.4	-10.6	-9.9	-8.3	-7.8	-8.0	-8.1	-8.3	-8.7	-9.0	-85.2
Reduce corporate rate to flat 26.0 percent	-48.7	-97.4	-116.6	-116.7	-118.6	-120.7	-124.3	-128.3	-132.9	-138.3	-1,142.5
Territorial system plus minimum tax on foreign-source income earned after 12-31-17	2.1	4.0	4.3	4.1	3.9	3.7	3.4	3.1	2.8	2.5	34.0
Repeal corporate tax expenditures	52.7	108.7	126.5	136.2	139.9	143.8	157.5	173.3	188.6	203.6	1,430.8
Total for corporate income tax revenues	**-0.4**	**4.7**	**4.3**	**15.3**	**17.5**	**18.8**	**28.6**	**39.8**	**49.8**	**58.8**	**237.1**
Total revenue effect of all provisions											
Total revenue change	**-23.3**	**14.3**	**23.7**	**40.0**	**43.1**	**46.4**	**57.0**	**68.1**	**79.9**	**89.6**	**438.8**

Provision	Fiscal Years 2028–2037										
	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2028–37
Individual income tax											
Repeal the individual AMT, NIIT, PEP, and "Pease"	-134.2	-142.9	-152.5	-160.6	-168.4	-176.5	-185.1	-194.0	-203.4	-213.2	-1,730.8
Reduce individual rates to 6.1, 11, and 28 percent	-992.8	-1,034.2	-1,077.4	-1,124.0	-1,173.0	-1,224.1	-1,277.5	-1,333.2	-1,391.4	-1,452.1	-12,079.7
Repeal individual tax expenditures	1,158.1	1,206.7	1,257.2	1,309.0	1,361.9	1,416.7	1,473.5	1,532.6	1,594.3	1,658.4	13,968.4
Total for individual income tax revenues	**31.1**	**29.7**	**27.2**	**24.4**	**20.6**	**16.0**	**10.9**	**5.3**	**-0.5**	**-6.9**	**157.9**
Corporate income tax											
Repeal the corporate AMT	-9.4	-9.7	-10.1	-10.5	-11.0	-11.4	-11.9	-12.3	-12.8	-13.3	-112.5
Reduce corporate rate to flat 26.0 percent	-143.8	-149.6	-155.6	-161.8	-168.3	-175.0	-182.0	-189.3	-196.8	-204.7	-1,726.9
Territorial system plus minimum tax on foreign-source income earned after 12-31-17	2.1	1.7	1.3	0.9	0.4	-0.1	-0.7	-1.2	-1.9	-2.5	0.0
Repeal corporate tax expenditures	213.5	216.9	216.4	214.5	212.2	210.1	209.3	210.7	214.5	219.8	2,138.1
Total for corporate income tax revenues	**62.4**	**59.3**	**52.0**	**43.0**	**33.4**	**23.6**	**14.8**	**7.9**	**3.0**	**-0.8**	**298.7**
Total revenue effect of all provisions											
Total revenue change	**93.6**	**89.0**	**79.2**	**67.4**	**54.0**	**39.7**	**25.7**	**13.2**	**2.5**	**-7.6**	**456.7**

Sources: Urban-Brookings Tax Policy Center (TPC) Microsimulation Model (version 0217-1) and TPC off-model estimates.
Notes: AMT = alternative minimum tax; NIIT = net investment income tax; PEP = personal exemption phaseout; "Pease" = limitation on itemized deductions.

TABLE 2

Effect of Revenue Neutral Proposal on Federal Revenues, Deficits, and the Debt

$ billions, FY 2018–37

	Fiscal Years 2018-2027										
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2018–27
Revenue loss (gain)[a]	23.3	-14.3	-23.7	-40.0	-43.1	-46.4	-57.0	-68.1	-79.9	-89.6	-438.8
Change in interest	0.2	0.3	-0.1	-1.0	-2.3	-3.8	-5.6	-7.8	-10.4	-13.5	-44.0
Change in deficit	23.5	-14.1	-23.8	-41.0	-45.4	-50.2	-62.6	-75.8	-90.3	-103.1	-482.8
Change in debt (surplus)[b]	23.5	9.4	-14.4	-55.4	-100.8	-150.9	-213.5	-289.4	-379.7	-482.8	-482.8
Change in debt (surplus) relative to GDP (%)	**0.1**	**0.0**	**-0.1**	**-0.2**	**-0.4**	**-0.6**	**-0.9**	**-1.1**	**-1.4**	**-1.7**	**-1.7**
Addendum: GDP (end of period)	19,925.8	20,661.1	21,378.2	22,168.4	23,037.4	23,947.8	24,899.3	25,889.1	26,917.0	27,985.2	27,985.2
	Fiscal Years 2028-2037										
	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2028–37
Revenue loss (gain)[a]	-93.6	-89.0	-79.2	-67.4	-54.0	-39.7	-25.7	-13.2	-2.5	7.6	-456.7
Change in interest	-16.9	-20.4	-23.8	-26.9	-29.8	-32.3	-34.4	-36.1	-37.5	-38.7	-296.8
Change in deficit	-110.5	-109.4	-103.0	-94.4	-83.8	-72.0	-60.1	-49.3	-40.0	-31.0	-753.5
Change in debt (surplus)[b]	-593.2	-702.6	-805.6	-900.0	-983.8	-1,055.7	-1,115.8	-1,165.2	-1,205.2	-1,236.2	-1,236.2
Change in debt (surplus) relative to GDP (%)	**-2.0**	**-2.3**	**-2.6**	**-2.7**	**-2.9**	**-3.0**	**-3.0**	**-3.0**	**-3.0**	**-3.0**	**-3.0**
Addendum: GDP (end of period)	29,104.2	30,267.9	31,478.1	32,736.7	34,045.6	35,406.9	36,822.6	38,294.9	39,826.1	41,418.5	41,418.5

Sources: Urban-Brookings Tax Policy Center (TPC) Microsimulation Model (version 0217-1) and TPC off-model estimates.

[a] Revenue loss or gain is expressed as the effect on the deficit.

[b] Change in debt equals the cumulative change in the deficit including interest costs (savings) starting in FY2018.

DEBT EFFECTS

TPC estimated the effect of the revenue changes under this long-run revenue-neutral proposal on the federal debt (table 2). This proposal would reduce the federal debt by over $1.2 trillion by FY 2037, of which a little less than $0.9 trillion comes from revenue gains over the entire FY 2018-37 period, and over $0.3 trillion from interest savings ($44 billion in FY 2018–27 and another $297 billion in FY 2018-37). Although revenues under the proposal are declining slowly relative to current law and turn slightly negative in FY 2037, continuing interest savings would be larger. So, the proposal would continue to reduce the federal debt relative to current law for several additional years and result in a cumulative reduction in the debt for decades.

DISTRIBUTIONAL EFFECTS

TPC produced distributional analysis for the proposal that achieved long-run revenue neutrality (defined as revenues being roughly the same as under 2017 tax law for FY 2037). This distributional analysis is for calendar year 2027 (table 3). The distributional analysis shows a small reduction in tax burden even though the overall proposal is roughly revenue neutral because of timing components in some of the provisions (such as retirement saving).

This exercise to eliminate all tax expenditures and proportionately reduce income tax rates in a long-run revenue neutral manner would be quite regressive, increasing average tax burdens for households in the bottom 60 percent of the income distribution. The effects would be especially large for those in the bottom 20 percent of the income distribution whose after-tax income would decline on average by 6.8 percent. Households in the top quintile (top 20 percent) would receive average tax cuts of 2.2 percent of after-tax income, with the largest increase in after-tax income (3.3 percent) going to households in the top 1 percent of the income distribution.

IMPLICATIONS

The results from the first step of the exercise showed that it was possible to eliminate tax expenditures and reduce individual and corporate income tax rates substantially while maintaining long-run revenue neutrality. In particular, if all corporate income tax expenditures were repealed, the corporate income tax rate could be reduced from 35 percent to 26 percent and the overall revenue level maintained. Achieving a lower corporate income tax rate means that either the proposal loses revenue overall, or that taxes are being used to pay for the larger reduction in corporate income tax rates. For the combined exercise, the resulting long-run revenue-neutral income tax rates, however, would have shifted overall tax burdens more toward lower-income households.

TABLE 3

Distribution of Federal Tax Change, Revenue Neutral Proposal

By expanded cash income percentile, 2027[a]

Expanded cash income percentile[b,c]	Percent change in after-tax income (%)[d]	Share of total federal tax change (%)	Average federal tax change ($)	Average Federal Tax Rate[e]	
				Change (% points)	Under the proposal (%)
Lowest quintile	-6.8	-186.0	1,330	6.5	10.8
Second quintile	-3.9	-214.1	1,810	3.6	12.4
Middle quintile	-1.1	-88.9	860	1.0	14.8
Fourth quintile	0.4	44.6	-530	-0.4	16.6
Top quintile	2.2	546.6	-7,590	-1.6	24.7
All	0.2	100.0	-190	-0.2	20.0
Addendum					
80–90	1.7	118.3	-3,170	-1.4	18.4
90–95	2.3	103.5	-5,900	-1.8	20.1
95–99	1.0	56.2	-4,080	-0.7	24.8
Top 1 percent	3.3	268.6	-79,170	-2.2	31.2
Top 0.1 percent	2.8	99.8	-291,990	-1.8	32.0

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0217-1).

Note: Number of AMT taxpayers (millions): Baseline: 5.6; Proposal: 0.

[a] Calendar year. Baseline is current law. Proposal would: repeal the Net Investment Income Tax (NIIT), individual and corporate alternative minimum tax (AMT), phase-out of personal exemptions, and Pease limitation on itemized deductions; set individual tax rates of 6.1 percent, 11 percent, and 28 percent; repeal individual income tax expenditures; set corporate tax rate of 26 percent; implement territorial system plus minimum tax on foreign-source income; and repeal corporate tax expenditures (with transition rule for depreciation). http://www.taxpolicycenter.org/taxtopics/Baseline-Definitions.cfm

[b] Includes both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. For a description of expanded cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm

[c] The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2017 dollars): 20% $28,100; 40% $54,700; 60% $93,200; 80% $154,900; 90% $225,400; 95% $304,600; 99% $912,100; 99.9% $5,088,900.

[d] After-tax income is expanded cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate tax; and excise taxes.

[e] Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

RESTORE TAX EXPENDITURES THAT BENEFIT LOW-INCOME HOUSEHOLDS

TPC next modified the basic proposal to eliminate all tax expenditures by restoring certain tax expenditures that primarily benefit low-income households. TPC identified three tax expenditures that met this test: the child tax credit (CTC), the earned income tax credit (EITC), and the partial exclusion of Social Security benefits from income taxation.[6] This modified proposal was used as the basis for an exercise to calculate income tax rates so the overall proposal would raise about the same amount of revenue as under current law in the long run (defined again as FY 2037).

REVENUE EFFECTS

The individual income tax rates for this step increased to 6.4 percent, 11.5 percent, and 29.3 percent, and the corporate income tax rate remained unchanged at 26 percent. Although the individual rates are higher than for the basic proposal that eliminated all tax expenditures, the amount of revenue raised over the first decade (2018–27) is considerably less than the amount raised over the same period by the basic proposal that also targeted revenue neutrality in FY 2037 (table 4). Restoring the low-income tax expenditures reduced the revenue pickup over the first decade from elimination of individual tax expenditures, and the slightly higher individual income tax rates did not completely offset this effect.

DEBT EFFECTS

Under this modified proposal, by FY 2037 the debt would be reduced by about $0.4 trillion, including less than $0.1 trillion in interest savings (table 5). Revenue losses at the end of the second decade would be more than offset by continuing interest savings from lower accumulated debt levels, so the proposal would continue to reduce the federal budget deficit after FY 2037, but probably only for a year or two.

DISTRIBUTIONAL EFFECTS

The restoration of low-income tax expenditures significantly reduces the regressivity of the proposal, but the modified proposal still remains regressive overall (table 6). Average tax burdens would increase for households in the bottom 60 percent of the income distribution, but those increases generally would be smaller than 2 percent of after-tax income. Households in the top quintile would receive average tax cuts of 1.2 percent of after-tax income (compared to 2.2 percent under the basic proposal), with households in the 95th to 99th percentile receiving no tax cut, on average, and households in the top 1 percent receiving a smaller cut than under the basic proposal.

IMPLICATIONS

This exercise restored several tax expenditures that primarily benefit lower-income households. The long-run revenue-neutral income tax rates associated with this exercise were somewhat higher than in the basic proposal. The distributional consequences of this exercise were, on net, regressive, though less regressive than for the basic proposal.

TABLE 4

Estimated Effect on Revenues of Revenue Neutral Proposal with Low-Income Expenditures

$ billions, FY2018-2027 and FY2028-2037

Provision	Fiscal Years 2018-2027										
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2018–27
Individual income tax											
Repeal the individual AMT, NIIT, PEP, and "Pease"	-49.7	-69.3	-82.1	-89.7	-95.0	-100.3	-106.4	-113.2	-120.1	-127.0	-952.9
Reduce individual rates to 6.4, 11.5, and 29.3 percent	-465.2	-639.0	-664.9	-693.7	-723.7	-755.8	-789.3	-823.2	-857.5	-892.7	-7,305.0
Repeal individual tax expenditures (except the CTC, EITC, and partial exclusion of SSB)	450.8	666.2	716.8	760.5	798.8	840.4	883.7	927.4	973.7	1,019.9	8,038.0
Total for individual income tax revenues	**-64.2**	**-42.1**	**-30.2**	**-22.9**	**-20.0**	**-15.7**	**-12.0**	**-9.1**	**-3.9**	**0.2**	**-219.9**
Corporate income tax											
Repeal the corporate AMT	-6.4	-10.6	-9.9	-8.3	-7.8	-8.0	-8.1	-8.3	-8.7	-9.0	-85.2
Reduce corporate rate to flat 26.0 percent	-48.7	-97.4	-116.6	-116.7	-118.6	-120.7	-124.3	-128.3	-132.9	-138.3	-1,142.5
Territorial system plus minimum tax on foreign-source income earned after 12-31-17	2.1	4.0	4.3	4.1	3.9	3.7	3.4	3.1	2.8	2.5	34.0
Repeal corporate tax expenditures	52.7	108.7	126.5	136.2	139.9	143.8	157.5	173.3	188.6	203.6	1,430.8
Total for corporate income tax revenues	**-0.4**	**4.7**	**4.3**	**15.3**	**17.5**	**18.8**	**28.6**	**39.8**	**49.8**	**58.8**	**237.1**
Total revenue effect of all provisions											
Total revenue change	**-64.6**	**-37.4**	**-25.9**	**-7.6**	**-2.5**	**3.1**	**16.6**	**30.7**	**45.9**	**59.0**	**17.2**

Provision	Fiscal Years 2028-2037										
	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2028–37
Individual income tax											
Repeal the individual AMT, NIIT, PEP, and "Pease"	-134.2	-142.9	-152.5	-160.6	-168.4	-176.5	-185.1	-194.0	-203.4	-213.2	-1,730.8
Reduce individual rates to 6.4, 11.5, and 29.3 percent	-928.9	-967.1	-1,006.9	-1,050.3	-1,096.2	-1,144.0	-1,193.9	-1,246.1	-1,300.5	-1,357.2	-11,291.1
Repeal individual tax expenditures (except the CTC, EITC, and partial exclusion of SSB)	1,067.6	1,115.8	1,165.5	1,216.6	1,269.0	1,323.3	1,379.9	1,438.8	1,500.6	1,565.0	13,042.1
Total for individual income tax revenues	**4.5**	**5.9**	**6.0**	**5.7**	**4.5**	**2.8**	**0.9**	**-1.3**	**-3.2**	**-5.4**	**20.3**
Corporate income tax											
Repeal the corporate AMT	-9.4	-9.7	-10.1	-10.5	-11.0	-11.4	-11.9	-12.3	-12.8	-13.3	-112.5
Reduce corporate rate to flat 26.0 percent	-143.8	-149.6	-155.6	-161.8	-168.3	-175.0	-182.0	-189.3	-196.8	-204.7	-1,726.9
Territorial system plus minimum tax on foreign-source income earned after 12-31-17	2.1	1.7	1.3	0.9	0.4	-0.1	-0.7	-1.2	-1.9	-2.5	0.0
Repeal corporate tax expenditures	213.5	216.9	216.4	214.5	212.2	210.1	209.3	210.7	214.5	219.8	2,138.1
Total for corporate income tax revenues	**62.4**	**59.3**	**52.0**	**43.0**	**33.4**	**23.6**	**14.8**	**7.9**	**3.0**	**-0.8**	**298.7**
Total revenue effect of all provisions											
Total revenue change	**66.9**	**65.2**	**58.0**	**48.7**	**37.9**	**26.4**	**15.7**	**6.6**	**-0.2**	**-6.2**	**319.0**

Sources: Urban-Brookings Tax Policy Center (TPC) Microsimulation Model (version 0217-1) and TPC off-model estimates.

Notes: AMT = alternative minimum tax; CTC = child tax credit; EITC = earned income tax credit; NIIT = net investment income tax; PEP = personal exemption phaseout; "Pease" = limitation on itemized deductions; SSB = Social Security benefits.

TABLE 5

Effect of Revenue Neutral Proposal with Low-Income Expenditures on Federal Revenues, Deficits, and the Debt

$ billions, FY 2018–37

	Fiscal Years 2018-2027										
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2018–27
Revenue loss (gain)[a]	64.6	37.4	25.9	7.6	2.5	-3.1	-16.6	-30.7	-45.9	-59.0	-17.2
Change in interest	0.5	1.6	2.5	3.4	3.9	4.2	4.1	3.6	2.6	1.1	27.5
Change in deficit	65.1	39.0	28.4	11.1	6.4	1.1	-12.5	-27.1	-43.2	-57.9	10.3
Change in debt (surplus)[b]	65.1	104.1	132.5	143.5	149.9	151.0	138.5	111.4	68.2	10.3	10.3
Change in debt (surplus) relative to GDP (%)	**0.3**	**0.5**	**0.6**	**0.6**	**0.7**	**0.6**	**0.6**	**0.4**	**0.3**	**0.0**	**0.0**
Addendum: GDP (end of period)	19,925.8	20,661.1	21,378.2	22,168.4	23,037.4	23,947.8	24,899.3	25,889.1	26,917.0	27,985.2	27,985.2
	Fiscal Years 2028-2037										
	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2028–37
Revenue loss (gain)[a]	-66.9	-65.2	-58.0	-48.7	-37.9	-26.4	-15.7	-6.6	0.2	6.2	-319.0
Change in interest	-0.7	-2.7	-4.7	-6.7	-8.4	-9.7	-10.7	-11.4	-11.9	-12.2	-79.2
Change in deficit	-67.6	-67.9	-62.7	-55.4	-46.3	-36.2	-26.4	-18.1	-11.7	-6.0	-398.2
Change in debt (surplus)[b]	-57.3	-125.2	-187.9	-243.3	-289.6	-325.8	-352.2	-370.2	-381.9	-387.9	-387.9
Change in debt (surplus) relative to GDP (%)	**-0.2**	**-0.4**	**-0.6**	**-0.7**	**-0.9**	**-0.9**	**-1.0**	**-1.0**	**-1.0**	**-0.9**	**-0.9**
Addendum: GDP (end of period)	29,104.2	30,267.9	31,478.1	32,736.7	34,045.6	35,406.9	36,822.6	38,294.9	39,826.1	41,418.5	41,418.5

Sources: Urban-Brookings Tax Policy Center (TPC) Microsimulation Model (version 0217-1) and TPC off-model estimates.

[a] Revenue loss or gain is expressed as the effect on the deficit.

[b] Change in debt equals the cumulative change in the deficit including interest costs (savings) starting in FY2018.

TABLE 6

Distribution of Federal Tax Change, Revenue Neutral Proposal with Low-Income Expenditures

By expanded cash income percentile, 2027[a]

Expanded cash income percentile[b,c]	Percent change in after-tax income (%)[d]	Share of total federal tax change (%)	Average federal tax change ($)	Average Federal Tax Rate[e]	
				Change (% points)	Under the proposal (%)
Lowest quintile	-1.1	-19.2	220	1.1	5.4
Second quintile	-1.3	-44.5	610	1.2	10.1
Middle quintile	-0.6	-31.1	490	0.5	14.4
Fourth quintile	0.2	11.5	-220	-0.2	16.8
Top quintile	1.2	183.9	-4,150	-0.9	25.4
All	0.3	100.0	-310	-0.3	19.9
Addendum					
80–90	1.3	54.3	-2,370	-1.0	18.8
90–95	1.8	49.4	-4,580	-1.4	20.5
95–99	0.0	1.5	-180	0.0	25.5
Top 1 percent	1.6	78.6	-37,700	-1.1	32.4
Top 0.1 percent	0.9	20.2	-96,110	-0.6	33.2

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0217-1).

Note: Number of AMT taxpayers (millions): Baseline: 5.6; Proposal: 0.

[a] Calendar year. Baseline is current law. Proposal would: repeal the Net Investment Income Tax (NIIT), individual and corporate alternative minimum tax (AMT), phase-out of personal exemptions, and Pease limitation on itemized deductions; set individual tax rates of 6.4 percent, 11.5 percent, and 29.3 percent; repeal individual income tax expenditures except the CTC, EITC, and partial exclusion of Social Security benefits; set corporate tax rate of 26 percent; implement territorial system plus minimum tax on foreign-source income; and repeal corporate tax expenditures. http://www.taxpolicycenter.org/taxtopics/Baseline-

[b] Includes both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. For a description of expanded cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm

[c] The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2017 dollars): 20% $28,100; 40% $54,700; 60% $93,200; 80% $154,900; 90% $225,400; 95% $304,600; 99% $912,100; 99.9% $5,088,900.

[d] After-tax income is expanded cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate tax; and excise taxes.

[e] Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

ADJUST TAX RATES TO ACHIEVE DISTRIBUTIONAL NEUTRALITY

TPC further modified the proposal by adjusting individual income tax rates and brackets to maintain, as closely as possible, the distribution of federal tax burdens under pre-TCJA law while achieving long-run revenue neutrality. Distributional neutrality was measured by the percentage changes in after-tax income across expanded cash income percentiles. The goal was to minimize those percentage changes while achieving rough revenue neutrality in FY 2037 (representing long-run revenue neutrality). In this analysis, all tax expenditures were repealed except the CTC, the EITC, and the partial exclusion of Social Security benefits from income taxation; and the corporate income tax rate remained at 26 percent.

Initially, TPC tried to model tax rate structures with only three individual income tax rates but could not achieve distributional neutrality with all positive income tax rates (because many individual taxpayers paid zero or negative income tax under 2017 law). TPC then adopted a four-rate structure (explicitly incorporating a zero–tax rate bracket) and was able to find a set of income tax rates that achieved distributional neutrality fairly well while achieving revenue neutrality in FY 2037.

REVENUE EFFECTS

Revenue estimates are shown in table 7 for this distributionally neutral proposal using individual income tax rates of 0 percent, 5 percent, 16 percent, and 29.9 percent. This rate structure resulted in a very small revenue gain from individual income taxes in FY 2037. Under this rate structure, however, the proposal would reduce individual income tax revenues by $434 billion over FY 2018–27 and by a much smaller $20 billion over FY 2028–37. Revenue gains from the corporate income tax provisions would result in a small overall revenue gain for this distributionally neutral proposal over the entire FY 2018–37 period. The change in individual income tax revenues is positive and slowly trending upward by FY 2037, while the change in corporate income tax revenues is negative and slowly trending downward, compared with projected revenues under 2017 tax law.

DISTRIBUTIONAL EFFECTS

The percentage change in after-tax income was 1 percent or less in all income percentiles (table 8) under the proposal to maintain distributional neutrality, roughly maintaining the distribution of tax burdens experienced under 2017 tax law. The largest change was for households in the top 1 percent of the income distribution, whose after-tax income would increase on average by 1 percent (for the top 0.1 percent of the income distribution, the increase would be only 0.1 percent). The lowest quintile of the income distribution would have the largest projected reduction in after-tax income, but that would be only -0.2 percent.

IMPLICATIONS

This portion of the exercise showed that it was possible to eliminate almost all tax expenditures, except for three that primarily benefit lower-income households, and adjust income tax rates to achieve long-run revenue neutrality compared to 2017 tax law. This portion of the exercise necessitated the introduction of a fourth individual income tax rate bracket at 0 percent to achieve rough distributional neutrality. This revenue- and distributionally neutral tax system would serve as a benchmark for subsequent work where individual tax expenditures (or groups of expenditures) could be added back to the tax system and the implications observed.

TABLE 7

Estimated Effect on Revenue of Distribution and Revenue Neutral Proposal

$ billions, FY2018-2027 and FY2028-2037

Provision	Fiscal Years 2018-2027										
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2018–27
Individual income tax											
Repeal the individual AMT, NIIT, PEP, and "Pease"	-49.7	-69.3	-82.1	-89.7	-95.0	-100.3	-106.4	-113.2	-120.1	-127.0	-952.9
Reduce individual rates to 0, 5, 16, and 29.9 percent	-508.6	-698.1	-725.4	-756.0	-788.3	-822.4	-858.0	-894.8	-932.8	-971.3	-7,955.7
Repeal individual tax expenditures (except the CTC, EITC, and partial exclusion of SSB)	473.5	699.2	751.5	797.7	839.6	884.7	931.9	980.8	1,032.1	1,083.5	8,474.4
Total for individual income tax revenues	**-84.9**	**-68.2**	**-56.1**	**-48.1**	**-43.7**	**-38.0**	**-32.4**	**-27.3**	**-20.8**	**-14.8**	**-434.2**
Corporate income tax											
Repeal the corporate AMT	-6.4	-10.6	-9.9	-8.3	-7.8	-8.0	-8.1	-8.3	-8.7	-9.0	-85.2
Reduce corporate rate to flat 26.0 percent	-48.7	-97.4	-116.6	-116.7	-118.6	-120.7	-124.3	-128.3	-132.9	-138.3	-1,142.5
Territorial system plus minimum tax on foreign-source income earned after 12-31-17	2.1	4.0	4.3	4.1	3.9	3.7	3.4	3.1	2.8	2.5	34.0
Repeal corporate tax expenditures	52.7	108.7	126.5	136.2	139.9	143.8	157.5	173.3	188.6	203.6	1,430.8
Total for corporate income tax revenues	**-0.4**	**4.7**	**4.3**	**15.3**	**17.5**	**18.8**	**28.6**	**39.8**	**49.8**	**58.8**	**237.1**
Total revenue effect of all provisions											
Total revenue change	**-85.3**	**-63.5**	**-51.8**	**-32.8**	**-26.3**	**-19.2**	**-3.8**	**12.5**	**29.0**	**44.0**	**-197.1**

Provision	Fiscal Years 2028-2037										
	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2028–37
Individual income tax											
Repeal the individual AMT, NIIT, PEP, and "Pease"	-134.2	-142.9	-152.5	-160.6	-168.4	-176.5	-185.1	-194.0	-203.4	-213.2	-1,730.8
Reduce individual rates to 0, 5, 16, and 29.9 percent	-1,011.9	-1,055.3	-1,100.8	-1,146.7	-1,194.0	-1,243.2	-1,294.5	-1,347.8	-1,403.4	-1,461.3	-12,259.0
Repeal individual tax expenditures (except the CTC, EITC, and partial exclusion of SSB)	1,136.8	1,192.0	1,249.7	1,305.5	1,361.4	1,419.2	1,479.3	1,542.0	1,607.6	1,675.9	13,969.5
Total for individual income tax revenues	**-9.3**	**-6.1**	**-3.7**	**-1.8**	**-1.0**	**-0.5**	**-0.2**	**0.1**	**0.8**	**1.5**	**-20.3**
Corporate income tax											
Repeal the corporate AMT	-9.4	-9.7	-10.1	-10.5	-11.0	-11.4	-11.9	-12.3	-12.8	-13.3	-112.5
Reduce corporate rate to flat 26.0 percent	-143.8	-149.6	-155.6	-161.8	-168.3	-175.0	-182.0	-189.3	-196.8	-204.7	-1,726.9
Territorial system plus minimum tax on foreign-source income earned after 12-31-17	2.1	1.7	1.3	0.9	0.4	-0.1	-0.7	-1.2	-1.9	-2.5	0.0
Repeal corporate tax expenditures	213.5	216.9	216.4	214.5	212.2	210.1	209.3	210.7	214.5	219.8	2,138.1
Total for corporate income tax revenues	**62.4**	**59.3**	**52.0**	**43.0**	**33.4**	**23.6**	**14.8**	**7.9**	**3.0**	**-0.8**	**298.7**
Total revenue effect of all provisions											
Total revenue change	**53.2**	**53.2**	**48.3**	**41.2**	**32.4**	**23.1**	**14.6**	**8.0**	**3.8**	**0.7**	**278.4**

Sources: Urban-Brookings Tax Policy Center (TPC) Microsimulation Model (version 0217-1) and TPC off-model estimates.

Notes: AMT = alternative minimum tax; CTC = child tax credit; EITC = earned income tax credit; NIIT = net investment income tax; PEP = personal exemption phaseout; "Pease" = limitation on itemized deductions; SSB = Social Security benefits.

TABLE 8

Distribution of Federal Tax Change, Distribution and Revenue Neutral Proposal

By expanded cash income percentile, 2027[a]

Expanded cash income percentile[b,c]	Percent change in after-tax income (%)[d]	Share of total federal tax change (%)	Average federal tax change ($)	Average Federal Tax Rate[e]	
				Change (% points)	Under the proposal (%)
Lowest quintile	-0.2	-2.7	40	0.2	4.5
Second quintile	0.4	10.5	-180	-0.4	8.5
Middle quintile	0.6	23.5	-470	-0.5	13.3
Fourth quintile	0.4	19.0	-460	-0.3	16.6
Top quintile	0.4	50.1	-1,420	-0.3	26.0
All	0.4	100.0	-390	-0.3	19.9
Addendum					
80–90	-0.1	-3.4	190	0.1	19.9
90–95	0.2	4.7	-550	-0.2	21.7
95–99	0.4	10.7	-1,590	-0.3	25.3
Top 1 percent	1.0	38.1	-22,940	-0.6	32.8
Top 0.1 percent	0.1	1.9	-11,350	-0.1	33.8

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0217-1).

Note: Number of AMT taxpayers (millions): Baseline: 5.6; Proposal: 0.

[a] Calendar year. Baseline is current law. Proposal would: repeal the Net Investment Income Tax (NIIT), individual and corporate alternative minimum tax (AMT), phase-out of personal exemptions, and Pease limitation on itemized deductions; set individual tax rates of 0 percent, 5 percent, 16 percent, and 29.9 percent; repeal individual income tax expenditures except the CTC, EITC, and partial exclusion of Social Security benefits; set corporate tax rate of 26 percent; implement territorial system plus minimum tax on foreign-source income; and repeal corporate tax expenditures.

[b] Includes both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. For a description of expanded cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm

[c] The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2017 dollars): 20% $28,100; 40% $54,700; 60% $93,200; 80% $154,900; 90% $225,400; 95% $304,600; 99% $912,100; 99.9% $5,088,900.

[d] After-tax income is expanded cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate tax; and excise taxes.

[e] Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

RESTORE SELECTED GROUPS OF TAX EXPENDITURES

After creating a nearly tax expenditure–free pre-TCJA baseline, TPC restored groups of (pre-TCJA) tax expenditures to the revenue- and distributional-neutral baseline. The first five groups restored were the

- individual income tax expenditures for retirement,
- individual income tax expenditures for health,
- itemized deduction for state and local taxes,
- itemized deduction for mortgage interest, and
- corporate income tax expenditures for research and experimentation.[7]

To achieve revenue neutrality in FY 2037 when restoring each of the four groups of individual income tax expenditures, the three nonzero individual income tax rates were adjusted upward proportionately. The lowest of the four rates is 0, so a different approach was required to adjust that rate upward. Our approach was to multiply the proportional change in the top three rates by 15 percent (the second-lowest rate under pre-TCJA law) to determine the lowest rate.[8] This permitted the lowest income tax rate to move up roughly in line with the other tax rates. In this exercise, the corporate tax rate was simply adjusted upward to achieve revenue neutrality in FY 2037, when the corporate income tax expenditures for research and experimentation are added back to the starting baseline.

REVENUE EFFECTS

Revenue estimates for the restoration of all five groups of tax expenditures combined with the proportionately higher rates over the FY 2018–27 period are shown in table 9A and for the FY 2028–37 period in table 9B. Compared with current law, all five scenarios lose revenue over FY 2018–27, raise revenue over FY 2028–37, and have (modest) overall revenue gains over FY 2018–37. Note that all scenarios are almost exactly revenue neutral for FY 2037, the long-run revenue target.

Table 9A also shows the individual income tax rates required for each hypothetical tax system to achieve long-run (FY 2037) revenue neutrality when compared with current law. For individual income tax expenditures, the largest rate adjustments were needed when tax expenditures for retirement and health were added back.

TABLE 9A

Estimated Effect on Revenues of Restoring Selected Groups of Tax Expenditures

$ billions, FY2018-2027

Provision	Fiscal Years 2018-2027										
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2018–27
Group 1: Tax Expenditures for Retirement											
Reduce individual rates to 1.3, 5.5, 17.6, and 32.9 percent	-439.6	-602.7	-625.7	-651.3	-678.2	-706.5	-735.9	-766.2	-797.4	-829.0	-6,832.4
Repeal individual tax expenditures (except retirement-related and the CTC, EITC, and partial exclusion of SSB)	408.9	611.5	656.6	694.5	728.5	765.0	804.4	845.9	889.3	933.9	7,338.5
Provisions unchanged from previous proposal[1]	-50.2	-64.6	-77.8	-74.5	-77.5	-81.5	-77.8	-73.5	-70.3	-68.2	-715.8
Total revenue change	**-80.9**	**-55.8**	**-46.9**	**-31.2**	**-27.1**	**-23.0**	**-9.2**	**6.3**	**21.6**	**36.6**	**-209.7**
Group 2: Tax Expenditures for Health											
Reduce individual rates to 1.4, 5.5, 17.7, and 33.1 percent	-435.3	-596.7	-619.4	-644.7	-671.2	-699.2	-728.1	-758.0	-788.8	-819.9	-6,761.4
Repeal individual tax expenditures (except health-related and the CTC, EITC, and partial exclusion of SSB)	392.7	591.4	639.6	680.6	716.4	755.4	796.6	839.4	884.1	929.2	7,225.4
Provisions unchanged from previous proposal[1]	-50.2	-64.6	-77.8	-74.5	-77.5	-81.5	-77.8	-73.5	-70.3	-68.2	-715.8
Total revenue change	**-92.7**	**-69.8**	**-57.6**	**-38.6**	**-32.3**	**-25.4**	**-9.3**	**7.9**	**25.1**	**41.0**	**-251.8**
Group 3: Itemized Deduction for State and Local Taxes											
Reduce individual rates to 0.8, 5.3, 17, and 31.7 percent	-466.5	-639.8	-664.5	-692.1	-721.1	-751.7	-783.5	-816.5	-850.4	-884.7	-7,270.9
Repeal individual tax expenditures (except SALT and the CTC, EITC, and partial exclusion of SSB)	441.4	656.1	704.8	747.5	784.8	825.9	870.0	913.9	960.0	1,006.6	7,911.0
Provisions unchanged from previous proposal[1]	-50.2	-64.6	-77.8	-74.5	-77.5	-81.5	-77.8	-73.5	-70.3	-68.2	-715.8
Total revenue change	**-75.2**	**-48.3**	**-37.6**	**-19.0**	**-13.8**	**-7.3**	**8.7**	**23.9**	**39.3**	**53.6**	**-75.7**
Group 4: Itemized Deduction for Mortgage Interest											
Reduce individual rates to 0.3, 5.1, 16.4, and 30.7 percent	-491.6	-674.6	-700.9	-730.2	-761.1	-793.8	-827.8	-863.1	-899.3	-936.1	-7,678.7
Repeal individual tax expenditures (except MID and the CTC, EITC, and partial exclusion of SSB)	465.9	687.1	735.6	779.5	819.4	862.6	908.3	955.2	1,004.3	1,053.8	8,271.7
Provisions unchanged from previous proposal[1]	-50.2	-64.6	-77.8	-74.5	-77.5	-81.5	-77.8	-73.5	-70.3	-68.2	-715.8
Total revenue change	**-75.9**	**-52.1**	**-43.1**	**-25.2**	**-19.3**	**-12.7**	**2.7**	**18.7**	**34.7**	**49.5**	**-122.8**
Corporate Tax Expenditures for R&E[2]											
Reduce corporate rate to flat 27.1 percent	-42.8	-85.5	-102.4	-102.5	-104.1	-105.9	-109.1	-112.6	-116.7	-121.4	-1,002.9
Territorial system plus minimum tax on foreign-source income earned after 12-31-17	2.3	4.6	4.9	4.7	4.4	4.2	3.9	3.5	3.2	2.8	38.4
Repeal corporate tax expenditures (except R&E-related)	34.5	75.5	95.1	111.1	121.2	129.9	145.3	160.6	175.2	189.7	1,238.0
Provisions unchanged from previous proposal[3]	-91.3	-78.8	-66.0	-56.4	-51.5	-46.0	-40.5	-35.6	-29.4	-23.8	-519.3
Total revenue change	**-97.2**	**-84.3**	**-68.3**	**-43.1**	**-30.0**	**-17.9**	**-0.5**	**16.0**	**32.2**	**47.3**	**-245.8**

Sources: Urban-Brookings Tax Policy Center (TPC) Microsimulation Model (version 0217-1) and TPC off-model estimates.

Notes: AMT = alternative minimum tax; CTC = child tax credit; EITC = earned income tax credit; MID = itemized deduction for mortgage interest; NIIT = net investment income tax; PEP = personal exemption phaseout; "Pease" = limitation on itemized deductions; R&E = research and experimentation; SALT = itemized deduction for state and local taxes; SSB = Social Security benefits.

[1] Includes the revenue effect of the repeal of the individual AMT, NIIT, PEP, and "Pease" and all corporate income tax provisions shown in Table 7.

[2] Includes the research and experimentation credit and expensing of research and development costs.

[3] Includes the revenue effect of the repeal of the corporate AMT and all individual income tax provisions shown in Table 7.

TABLE 9B

Estimated Effect on Revenues of Restoring Selected Groups of Tax Expenditures

$ billions, FY2028-2037

Provision	Fiscal Years 2018-2027										
	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2028–37
Group 1: Tax Expenditures for Retirement											
Reduce individual rates to 1.3, 5.5, 17.6, and 32.9 percent	-862.3	-897.8	-935.0	-973.4	-1,013.2	-1,054.7	-1,097.8	-1,142.8	-1,189.5	-1,238.2	-10,404.5
Repeal individual tax expenditures (except retirement-related and the CTC, EITC, and partial exclusion of SSB)	979.3	1,027.1	1,078.3	1,126.2	1,173.4	1,223.0	1,275.2	1,330.3	1,388.4	1,449.5	12,050.6
Provisions unchanged from previous proposal[1]	-71.7	-83.5	-100.5	-117.6	-135.0	-152.9	-170.2	-186.1	-200.4	-214.0	-1,432.1
Total revenue change	**45.3**	**45.8**	**42.8**	**35.2**	**25.2**	**15.4**	**7.1**	**1.4**	**-1.5**	**-2.7**	**214.0**
Group 2: Tax Expenditures for Health											
Reduce individual rates to 1.4, 5.5, 17.7, and 33.1 percent	-852.7	-887.6	-924.3	-962.2	-1,001.5	-1,042.5	-1,085.1	-1,129.5	-1,175.7	-1,223.8	-10,284.9
Repeal individual tax expenditures (except health-related and the CTC, EITC, and partial exclusion of SSB)	975.6	1,023.6	1,074.3	1,122.2	1,169.2	1,217.8	1,268.2	1,320.6	1,375.6	1,432.8	11,979.9
Provisions unchanged from previous proposal[1]	-71.7	-83.5	-100.5	-117.6	-135.0	-152.9	-170.2	-186.1	-200.4	-214.0	-1,432.1
Total revenue change	**51.2**	**52.4**	**49.5**	**42.5**	**32.7**	**22.4**	**12.8**	**4.9**	**-0.5**	**-5.0**	**262.9**
Group 3: Itemized Deduction for State and Local Taxes											
Reduce individual rates to 0.8, 5.3, 17, and 31.7 percent	-920.9	-959.6	-1,000.1	-1,041.4	-1,084.2	-1,128.7	-1,175.0	-1,223.2	-1,273.4	-1,325.7	-11,132.1
Repeal individual tax expenditures (except SALT and the CTC, EITC, and partial exclusion of SSB)	1,054.3	1,103.2	1,154.2	1,204.9	1,255.7	1,308.3	1,362.9	1,419.7	1,479.2	1,541.1	12,883.6
Provisions unchanged from previous proposal[1]	-71.7	-83.5	-100.5	-117.6	-135.0	-152.9	-170.2	-186.1	-200.4	-214.0	-1,432.1
Total revenue change	**61.7**	**60.2**	**53.6**	**45.9**	**36.6**	**26.8**	**17.6**	**10.3**	**5.4**	**1.5**	**319.5**
Group 4: Itemized Deduction for Mortgage Interest											
Reduce individual rates to 0.3, 5.1, 16.4, and 30.7 percent	-974.9	-1,016.3	-1,059.7	-1,103.7	-1,149.1	-1,196.4	-1,245.7	-1,296.9	-1,350.3	-1,405.9	-11,798.8
Repeal individual tax expenditures (except MID and the CTC, EITC, and partial exclusion of SSB)	1,104.6	1,158.7	1,215.6	1,269.3	1,322.4	1,377.4	1,434.5	1,493.9	1,556.1	1,620.8	13,553.3
Provisions unchanged from previous proposal[1]	-71.7	-83.5	-100.5	-117.6	-135.0	-152.9	-170.2	-186.1	-200.4	-214.0	-1,432.1
Total revenue change	**58.0**	**58.9**	**55.4**	**48.0**	**38.3**	**28.1**	**18.6**	**10.8**	**5.4**	**0.9**	**322.5**
Corporate Tax Expenditures for R&E[2]											
Reduce corporate rate to flat 27.1 percent	-126.2	-131.3	-136.6	-142.0	-147.7	-153.6	-159.8	-166.1	-172.8	-179.7	-1,515.8
Territorial system plus minimum tax on foreign-source income earned after 12-31-17	2.4	1.9	1.5	1.0	0.4	-0.1	-0.8	-1.4	-2.1	-2.8	0.0
Repeal corporate tax expenditures (except R&E-related)	199.1	201.6	200.1	197.0	193.6	190.3	188.2	188.5	191.1	195.3	1,944.7
Provisions unchanged from previous proposal[3]	-18.7	-15.9	-13.8	-12.4	-12.0	-11.9	-12.0	-12.2	-12.0	-11.9	-132.8
Total revenue change	**56.5**	**56.4**	**51.1**	**43.6**	**34.3**	**24.6**	**15.7**	**8.7**	**4.2**	**0.9**	**296.1**

Sources: Urban-Brookings Tax Policy Center (TPC) Microsimulation Model (version 0217-1) and TPC off-model estimates.

Notes: AMT = alternative minimum tax; CTC = child tax credit; EITC = earned income tax credit; MID = itemized deduction for mortgage interest; NIIT = net investment income tax; PEP = personal exemption phaseout; "Pease" = limitation on itemized deductions; R&E = research and experimentation; SALT = itemized deduction for state and local taxes; SSB = Social Security benefits.

[1] Includes the revenue effect of the repeal of the individual AMT, NIIT, PEP, and "Pease" and all corporate income tax provisions shown in Table 7.

[2] Includes the research and experimentation credit and expensing of research and development costs.

[3] Includes the revenue effect of the repeal of the corporate AMT and all individual income tax provisions shown in Table 7.

INTERACTION EFFECTS

In the previous step, each of the four groups of individual income tax expenditures was restored separately and revenue-neutral individual income tax rates computed. But the combined effect of these steps on individual income tax rates would be expected to be different if two or more groups were simultaneously restored.[9] These differences could occur because of "interaction effects," the way that some provisions of the tax code affect the way other provisions operate. The restoration of itemized deductions provides a good example of such interaction effects. Because most itemized deductions had been repealed under the original exercise, nearly all taxpayers would use the standard deduction.[10] The amount of state and local taxes paid by most taxpayers is less than their standard deduction, so restoring just the deduction for state and local taxes would cause relatively few taxpayers to switch from claiming the standard deduction to itemizing. Likewise, mortgage interest payments for most taxpayers are less than their standard deduction, so restoring just that deduction would not result in many itemizers. But the sum of state and local taxes and mortgage interest paid is larger than the standard deduction for many taxpayers for whom neither deduction alone exceeds the standard deduction amount, so restoring both deductions would result in substantially more itemizers.

TPC produced an additional set of estimates to help quantify the importance of interaction effects.[11] These estimates restored the itemized deductions for state and local taxes and mortgage interest simultaneously. We first calculated the change in individual income tax rates from these estimates, compared with the revenue- and distributionally neutral rates. Then we calculated the change in rates from the estimates for each of the two separate restorations of these groups from the revenue- and distributionally neutral rates. And then we added up those changes. The interaction effect is the difference between the changes from the simultaneous repeal estimates and the combined changes from the separate repeal estimates. The results of these calculations (table 10) show fairly significant interaction effects between these two deductions. The interactions indicate that we must consider the potential relationship between tax expenditures in a tax reform effort and not consider them in isolation. Ignoring interaction effects means the revenue consequences of the reform effort would be misestimated.

TABLE 10

Interaction Effects on Individual Income Tax Rates of Restoring Itemized Deductions for State and Local Taxes and Mortgage Interest

Task and Groupings of Tax Expenditures	Individual Income Tax Rate Bracket			
	First	Second	Third	Fourth
Rates from previous proposal (Table 1)	0.0	5.0	16.0	29.9
Rates with Groups of Tax Expenditures Restored				
Both itemized deductions simultaneously restored	1.5	5.5	17.7	33.2
Each itemized deduction restored:				
Group 3 (state and local tax deduction)	0.8	5.3	17.0	31.7
Group 4 (mortgage interest deduction)	0.3	5.1	16.4	30.7
Change in Rates from Restoring Groups of Tax Expenditures				
Both itemized deductions simultaneously restored	1.5	0.5	1.7	3.3
Each itemized deduction restored:				
Group 3 (state and local tax deduction)	0.8	0.3	1.0	1.8
Group 4 (mortgage interest deduction)	0.3	0.1	0.4	0.8
Total	1.1	0.4	1.4	2.6
Interaction Effect				
Interaction effect on rates[1]	**0.4**	**0.1**	**0.3**	**0.7**

[1] The interaction effect is the difference between the effect of simultaneously restoring both itemized deductions and the combined effect of separately restoring each of the two itemized deductions.

DISTRIBUTIONAL EFFECTS

Distributional effects by expanded cash income percentile are shown for the restoration of

- retirement-related individual income tax expenditures in table 11,
- health-related individual income tax expenditures in table 12,
- itemized deduction for state and local taxes in table 13,
- itemized deduction for mortgage interest in table 14, and
- corporate income tax expenditures for research and experimentation in table 15.

For the four groups of individual income tax expenditures, the tax rates for the distributionally neutral scenario were proportionately adjusted when the tax expenditures were restored. However, the tax expenditures being analyzed are not uniformly distributed across income groups, so the changes shown in tables 11 through 14 are no longer distributionally neutral. Similarly, the (single) corporate tax rate was adjusted when the research and experimentation tax expenditures were restored, but these changes in the corporate tax base are not distributed in the same manner as the increase in the corporate tax rate used to finance them, so the tax changes in table 15 are also no longer distributionally neutral.[12]

These differential distributional results are summarized by cash income percentile in table 16, which shows the difference between the effects of restoration of each group on after-tax income (relative to current law) and the effects of the distributionally neutral exercise on after-tax income (relative to current law). Restoration of retirement-related expenditures, health-related expenditures, itemized deduction for mortgage interest, and corporate research and experimentation expenditures—with income tax rates proportionately adjusted to maintain revenue neutrality—would all shift tax burdens toward high-income tax units (i.e., the after-tax incomes of higher-income households would decline).[13] This effect is most pronounced for the tax expenditures for retirement and health, with people in the top 1 percent of the income distribution seeing relatively large increases in tax burden. This is because of the substantial upward shift in the top individual income tax rate necessary to offset the revenue loss (3 percentage points or more). This increased tax rate, though, applies to nearly all income for the household, while the restored tax expenditure is small relative to the size of total household income. Conversely, restoration of the deduction for state and local taxes would shift tax burdens from high-income tax units to low- and middle-income units.

IMPLICATIONS

The largest takeaway for this set of exercises is that interaction effects can matter a great deal. Consideration of repeal or modification of tax expenditures in isolation risks missing out on this important effect. Similar to the previous set of exercises, the distributional consequences of adding back a tax expenditure and adjusting the income tax rates to achieve long-run revenue neutrality tend to reflect the pattern of beneficiaries from the specific tax expenditure under consideration compared to the overall distribution of income tax liabilities.

TABLE 11

Distribution of Federal Tax Change, Restoration of Tax Expenditures for Retirement

By expanded cash income percentile, 2027[a]

Expanded cash income percentile[b,c]	Percent change in after-tax income (%)[d]	Share of total federal tax change (%)	Average federal tax change ($)	Average Federal Tax Rate[e]	
				Change (% points)	Under the proposal (%)
Lowest quintile	-0.2	-4.0	50	0.2	4.5
Second quintile	0.5	15.6	-210	-0.4	8.4
Middle quintile	1.0	47.6	-740	-0.8	13.0
Fourth quintile	1.0	66.1	-1,260	-0.8	16.1
Top quintile	-0.2	-24.7	550	0.1	26.4
All	0.3	100.0	-310	-0.3	19.9
Addendum					
80–90	0.7	29.7	-1,280	-0.6	19.2
90–95	1.4	38.5	-3,530	-1.1	20.8
95–99	0.8	30.2	-3,530	-0.6	24.9
Top 1 percent	-2.5	-123.2	58,430	1.6	35.1
Top 0.1 percent	-4.0	-89.0	419,450	2.6	36.5

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0217-1).

Note: Number of AMT taxpayers (millions): Baseline: 5.6; Proposal: 0.

[a] Calendar year. Baseline is current law. Proposal would: repeal the Net Investment Income Tax (NIIT), individual and corporate alternative minimum tax (AMT), phase-out of personal exemptions, and Pease limitation on itemized deductions; set individual tax rates of 1.3 percent, 5.5 percent, 17.6 percent, and 32.9 percent; repeal individual income tax expenditures except those that are retirement-related and the CTC, EITC, and partial exclusion of Social Security benefits; set corporate tax rate of 26 percent; implement territorial system plus minimum tax on foreign-source income; and repeal corporate tax expenditures. http://www.taxpolicycenter.org/taxtopics/Baseline-Definitions.cfm

[b] Includes both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. For a description of expanded cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm

[c] The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2017 dollars): 20% $28,100; 40% $54,700; 60% $93,200; 80% $154,900; 90% $225,400; 95% $304,600; 99% $912,100; 99.9% $5,088,900.

[d] After-tax income is expanded cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate tax; and excise taxes.

[e] Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

TABLE 12

Distribution of Federal Tax Change, Restoration of Tax Expenditures for Health

By expanded cash income percentile, 2027[a]

Expanded cash income percentile[b,c]	Percent change in after-tax income (%)[d]	Share of total federal tax change (%)	Average federal tax change ($)	Average Federal Tax Rate[e]	
				Change (% points)	Under the proposal (%)
Lowest quintile	-0.3	-5.5	60	0.3	4.6
Second quintile	0.8	30.6	-390	-0.8	8.1
Middle quintile	1.4	75.6	-1,100	-1.2	12.6
Fourth quintile	1.5	104.1	-1,850	-1.2	15.7
Top quintile	-0.6	-104.1	2,170	0.5	26.7
All	0.3	100.0	-290	-0.2	19.9
Addendum					
80–90	0.6	29.7	-1,190	-0.5	19.3
90–95	0.4	12.4	-1,060	-0.3	21.6
95–99	-0.1	-4.8	520	0.1	25.7
Top 1 percent	-2.6	-141.4	62,470	1.8	35.2
Top 0.1 percent	-4.0	-96.8	424,820	2.7	36.5

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0217-1).

Note: Number of AMT taxpayers (millions): Baseline: 5.6; Proposal: 0.

[a] Calendar year. Baseline is current law. Proposal would: repeal the Net Investment Income Tax (NIIT), individual and corporate alternative minimum tax (AMT), phase-out of personal exemptions, and Pease limitation on itemized deductions; set individual tax rates of 1.4 percent, 5.5 percent, 17.7 percent, and 33.1 percent; repeal individual income tax expenditures except those that are health-related and the CTC, EITC, and partial exclusion of Social Security benefits; set corporate tax rate of 26 percent; implement territorial system plus minimum tax on foreign-source income; and repeal corporate tax expenditures. http://www.taxpolicycenter.org/taxtopics/Baseline-Definitions.cfm

[b] Includes both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. For a description of expanded cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm

[c] The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2017 dollars): 20% $28,100; 40% $54,700; 60% $93,200; 80% $154,900; 90% $225,400; 95% $304,600; 99% $912,100; 99.9% $5,088,900.

[d] After-tax income is expanded cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate tax; and excise taxes.

[e] Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

TABLE 13

Distribution of Federal Tax Change, Restoration of Itemized Deduction for State and Local Taxes

By expanded cash income percentile, 2027[a]

Expanded cash income percentile[b,c]	Percent change in after-tax income (%)[d]	Share of total federal tax change (%)	Average federal tax change ($)	Average Federal Tax Rate[e]	
				Change (% points)	Under the proposal (%)
Lowest quintile	-0.3	-7.1	60	0.3	4.6
Second quintile	0.2	7.7	-80	-0.2	8.7
Middle quintile	0.3	17.1	-200	-0.2	13.6
Fourth quintile	0.0	0.6	-10	0.0	17.0
Top quintile	0.4	82.4	-1,390	-0.3	26.0
All	0.2	100.0	-230	-0.2	20.0
Addendum					
80–90	-0.5	-28.0	910	0.4	20.2
90–95	-0.1	-5.0	340	0.1	22.0
95–99	0.7	32.4	-2,850	-0.5	25.1
Top 1 percent	1.3	83.0	-29,650	-0.8	32.6
Top 0.1 percent	0.4	12.5	-44,360	-0.3	33.6

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0217-1).

Note: Number of AMT taxpayers (millions): Baseline: 5.6; Proposal: 0.

[a] Calendar year. Baseline is current law. Proposal would: repeal the Net Investment Income Tax (NIIT), individual and corporate alternative minimum tax (AMT), phase-out of personal exemptions, and Pease limitation on itemized deductions; set individual tax rates of 0.8 percent, 5.3 percent, 17.0 percent, and 31.7 percent; repeal individual income tax expenditures except the itemized deduction for state and local taxes and the CTC, EITC, and partial exclusion of Social Security benefits; set corporate tax rate of 26 percent; implement territorial system plus minimum tax on foreign-source income; and repeal corporate tax expenditures. http://www.taxpolicycenter.org/taxtopics/Baseline-Definitions.cfm

[b] Includes both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. For a description of expanded cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm

[c] The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2017 dollars): 20% $28,100; 40% $54,700; 60% $93,200; 80% $154,900; 90% $225,400; 95% $304,600; 99% $912,100; 99.9% $5,088,900.

[d] After-tax income is expanded cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate tax; and excise taxes.

[e] Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

TABLE 14

Distribution of Federal Tax Change, Restoration of Itemized Deduction for Mortgage Interest

By expanded cash income percentile, 2027[a]

Expanded cash income percentile[b,c]	Percent change in after-tax income (%)[d]	Share of total federal tax change (%)	Average federal tax change ($)	Average Federal Tax Rate[e]	
				Change (% points)	Under the proposal (%)
Lowest quintile	-0.2	-3.7	50	0.2	4.5
Second quintile	0.4	10.8	-160	-0.3	8.5
Middle quintile	0.6	27.3	-460	-0.5	13.3
Fourth quintile	0.4	26.0	-540	-0.4	16.6
Top quintile	0.3	40.0	-970	-0.2	26.1
All	0.3	100.0	-340	-0.3	19.9
Addendum					
80–90	0.0	1.6	-80	0.0	19.8
90–95	0.3	8.8	-880	-0.3	21.6
95–99	0.7	24.0	-3,040	-0.5	25.0
Top 1 percent	0.1	5.6	-2,890	-0.1	33.4
Top 0.1 percent	-1.0	-20.3	103,540	0.7	34.5

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0217-1).

Note: Number of AMT taxpayers (millions): Baseline: 5.6; Proposal: 0.

[a] Calendar year. Baseline is current law. Proposal would: repeal the Net Investment Income Tax (NIIT), individual and corporate alternative minimum tax (AMT), phase-out of personal exemptions, and Pease limitation on itemized deductions; set individual tax rates of 0.3 percent, 5.1 percent, 16.4 percent, and 30.7 percent; repeal individual income tax expenditures except the itemized deduction for mortgage interest and the CTC, EITC, and partial exclusion of Social Security benefits; set corporate tax rate of 26 percent; implement territorial system plus minimum tax on foreign-source income; and repeal corporate tax expenditures. http://www.taxpolicycenter.org/taxtopics/Baseline-Definitions.cfm

[b] Includes both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. For a description of expanded cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm

[c] The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2017 dollars): 20% $28,100; 40% $54,700; 60% $93,200; 80% $154,900; 90% $225,400; 95% $304,600; 99% $912,100; 99.9% $5,088,900.

[d] After-tax income is expanded cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate tax; and excise taxes.

[e] Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

TABLE 15

Distribution of Federal Tax Change, Restoration of Corporate Tax Expenditures for R&E

By expanded cash income percentile, 2027[a]

Expanded cash income percentile[b,c]	Percent change in after-tax income (%)[d]	Share of total federal tax change (%)	Average federal tax change ($)	Average Federal Tax Rate[e]	
				Change (% points)	Under the proposal (%)
Lowest quintile	-0.2	-2.2	30	0.1	4.5
Second quintile	0.4	12.4	-200	-0.4	8.5
Middle quintile	0.6	27.1	-490	-0.5	13.3
Fourth quintile	0.4	22.4	-490	-0.3	16.6
Top quintile	0.3	40.8	-1,050	-0.2	26.0
All	0.4	100.0	-360	-0.3	19.9
Addendum					
80–90	-0.1	-3.4	170	0.1	19.9
90–95	0.2	5.1	-540	-0.2	21.7
95–99	0.3	9.5	-1,280	-0.2	25.3
Top 1 percent	0.7	29.7	-16,250	-0.5	33.0
Top 0.1 percent	-0.4	-6.9	37,700	0.2	34.1

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0217-1).

Note: Number of AMT taxpayers (millions): Baseline: 5.6; Proposal: 0.

[a] Calendar year. Baseline is current law. Proposal would: repeal the Net Investment Income Tax (NIIT), individual and corporate alternative minimum tax (AMT), phase-out of personal exemptions, and Pease limitation on itemized deductions; set individual tax rates of 0 percent, 5 percent, 16 percent, and 29.9 percent; repeal individual income tax expenditures except the CTC, EITC, and partial exclusion of Social Security benefits; set corporate tax rate of 27.1 percent; implement territorial system plus minimum tax on foreign-source income; and repeal corporate tax expenditures except those related to research and experimentation. http://www.taxpolicycenter.org/taxtopics/Baseline-Definitions.cfm

[b] Includes both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. For a description of expanded cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm

[c] The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2017 dollars): 20% $28,100; 40% $54,700; 60% $93,200; 80% $154,900; 90% $225,400; 95% $304,600; 99% $912,100; 99.9% $5,088,900.

[d] After-tax income is expanded cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate tax; and excise taxes.

[e] Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

TABLE 16

Difference in the Percentage Change in After-Tax Income from Restoring Each Group of Tax Expenditures

By expanded cash income percentile, 2027[a]

Expanded cash income percentile[b,c]	Difference in percent change in after-tax income (% points)[d]				
	Group 1 (Retirement-related)	Group 2 (Health-related)	Group 3 (Deduction for state and local taxes)	Group 4 (Deduction for mortgage interest)	Group 5 (Corporate R&E-related)
Lowest quintile	0.0	-0.1	-0.1	0.0	0.0
Second quintile	0.1	0.4	-0.2	0.0	0.0
Middle quintile	0.4	0.8	-0.3	0.0	0.0
Fourth quintile	0.6	1.1	-0.4	0.0	0.0
Top quintile	-0.6	-1.0	0.0	-0.1	-0.1
All	-0.1	-0.1	-0.2	-0.1	0.0
Addendum					
80–90	0.8	0.7	-0.4	0.1	0.0
90–95	1.2	0.2	-0.3	0.1	0.0
95–99	0.4	-0.5	0.3	0.3	-0.1
Top 1 percent	-3.5	-3.6	0.3	-0.9	-0.3
Top 0.1 percent	-4.1	-4.1	0.3	-1.1	-0.5

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0217-1).

a Calendar year. Baseline is current law. http://www.taxpolicycenter.org/taxtopics/Baseline-Definitions.cfm

[b] Includes both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. For a description of expanded cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm

[c] The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2017 dollars): 20% $28,100; 40% $54,700; 60% $93,200; 80% $154,900; 90% $225,400; 95% $304,600; 99% $912,100; 99.9% $5,088,900.

[d] After-tax income is expanded cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate tax; and excise taxes.

RESTORE REMAINING GROUPS OF TAX EXPENDITURES

In the previous step, we restored five groups of tax expenditures. To complete the exercise, we restored an additional seven groups of expenditures to the revenue- and distributionally neutral baseline shown in table 7.

The remaining seven groups of pre-TCJA tax expenditures that we restore in this section are the

- itemized deduction for charitable contributions,
- individual income tax expenditures for education,
- individual income tax expenditures for capital income,
- miscellaneous nonbusiness individual income tax expenditures,
- individual income tax expenditures for pass-through businesses,
- corporate income tax expenditures for accelerated cost recovery for equipment and structures, and
- miscellaneous corporate income tax expenditures.

To achieve revenue neutrality in FY 2037 when restoring each group of individual income tax expenditures, the three nonzero individual income tax rates from part 1 of the exercise were adjusted upward proportionately, and the zero rate was adjusted upward by the proportional change in the top three rates multiplied by 15 percent (the second-lowest rate under pre-TCJA law).[14] This permitted the lowest income tax rate to move up roughly in line with the other tax rates. The corporate tax rate was simply adjusted upward to achieve revenue neutrality in FY 2037 when corporate income tax expenditures were restored.

TABLE 17A

Estimated Effect on Revenues of Restoring Selected Groups of Tax Expenditures

$ billions, FY2018-2027

Provision	Fiscal Years 2018-2027										
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2018–27
Group 6: Itemized Deduction for Charitable Contributions											
Reduce individual rates to 0.3, 5.1, 16.3, and 30.7 percent	-493.1	-676.7	-703.0	-732.4	-763.4	-796.1	-830.3	-865.6	-901.9	-938.7	-7,701.2
Repeal individual tax expenditures (except the itemized deduction for charitable contributions and the CTC, EITC, and partial exclusion of SSB)	458.7	678.9	730.2	775.2	815.6	859.2	905.1	952.4	1,001.5	1,051.0	8,227.8
Provisions unchanged from previous proposal[1]	-50.2	-64.6	-77.8	-74.5	-77.5	-81.5	-77.8	-73.5	-70.3	-68.2	-715.8
Total revenue change	**-84.6**	**-62.4**	**-50.6**	**-31.6**	**-25.3**	**-18.5**	**-2.9**	**13.4**	**29.3**	**44.0**	**-189.2**
Group 7: Tax Expenditures for Education											
Reduce individual rates to 0.1, 5.0, 16.1, and 30.2 percent	-503.4	-690.9	-717.8	-748.0	-779.8	-813.3	-848.4	-884.7	-922.0	-960.0	-7,868.3
Repeal individual tax expenditures (except education-related tax expenditures and the CTC, EITC, and partial exclusion of SSB)	459.3	680.4	732.5	778.7	820.3	865.2	912.4	961.4	1,012.8	1,064.4	8,287.5
Provisions unchanged from previous proposal[1]	-50.2	-64.6	-77.8	-74.5	-77.5	-81.5	-77.8	-73.5	-70.3	-68.2	-715.8
Total revenue change	**-94.2**	**-75.0**	**-63.1**	**-43.8**	**-37.0**	**-29.6**	**-13.8**	**3.2**	**20.5**	**36.2**	**-296.6**
Group 8: Tax Expenditures for Capital Income											
Reduce individual rates to 1.1, 5.4, 17.3, and 32.3 percent	-451.5	-619.2	-642.9	-669.4	-697.2	-726.6	-757.0	-788.5	-820.9	-853.8	-7,027.1
Repeal individual tax expenditures (except tax expenditures for capital income and the CTC, EITC, and partial exclusion of SSB)	428.7	605.7	654.7	697.5	735.8	777.5	821.4	867.0	914.8	962.8	7,465.9
Provisions unchanged from previous proposal[1]	-50.2	-64.6	-77.8	-74.5	-77.5	-81.5	-77.8	-73.5	-70.3	-68.2	-715.8
Total revenue change	**-73.0**	**-78.0**	**-66.1**	**-46.4**	**-38.9**	**-30.6**	**-13.4**	**5.0**	**23.6**	**40.8**	**-277.0**
Group 9: Miscellaneous Non-Business Individual Tax Expenditures											
Reduce individual rates to 0.4, 5.1, 16.4, and 30.7 percent	-490.6	-673.3	-699.5	-728.7	-759.6	-792.2	-826.2	-861.4	-897.6	-934.3	-7,663.3
Repeal individual tax expenditures (except miscellaneous non-business tax expenditures and the CTC, EITC, and partial exclusion of SSB)	440.7	654.5	704.8	750.2	791.2	835.2	881.8	929.7	979.8	1,030.5	7,998.5
Provisions unchanged from previous proposal[1]	-50.2	-64.6	-77.8	-74.5	-77.5	-81.5	-77.8	-73.5	-70.3	-68.2	-715.8
Total revenue change	**-100.1**	**-83.3**	**-72.5**	**-53.0**	**-45.9**	**-38.5**	**-22.2**	**-5.1**	**12.0**	**28.0**	**-380.6**
Group 10: Individual Tax Expenditures for Pass-Through Businesses											
Reduce individual rates to 0.1, 5.1, 16.2, and 30.2 percent	-499.9	-686.1	-712.9	-742.8	-774.4	-807.8	-842.7	-878.8	-915.9	-953.6	-7,815.0
Repeal individual tax expenditures (except tax expenditures for pass-through businesses and the CTC, EITC, and partial exclusion of SSB)	472.0	693.8	743.3	787.5	827.2	870.1	914.9	961.1	1,009.5	1,057.8	8,337.1
Provisions unchanged from previous proposal[1]	-50.2	-64.6	-77.8	-74.5	-77.5	-81.5	-77.8	-73.5	-70.3	-68.2	-715.8
Total revenue change	**-78.0**	**-56.8**	**-47.4**	**-29.8**	**-24.7**	**-19.3**	**-5.6**	**8.8**	**23.3**	**35.9**	**-193.6**
Group 11: Corporate Tax Expenditures for Accelerated Cost Recovery for Equipment and Structures											
Reduce corporate rate to flat 28.7 percent	-34.1	-68.2	-81.7	-81.7	-83.0	-84.5	-87.0	-89.8	-93.1	-96.8	-799.8
Territorial system plus minimum tax on foreign-source income earned after 12-31-17	2.7	5.3	5.7	5.5	5.2	4.9	4.5	4.1	3.7	3.3	44.9
Repeal corporate tax expenditures (except accelerated cost recovery for equipment and structures)	55.1	110.4	120.6	119.1	109.5	99.9	101.2	105.2	109.7	114.4	1,045.1
Provisions unchanged from previous proposal[2]	-91.3	-78.8	-66.0	-56.4	-51.5	-46.0	-40.5	-35.6	-29.4	-23.8	-519.3
Total revenue change	**-67.6**	**-31.3**	**-21.3**	**-13.6**	**-19.8**	**-25.7**	**-21.8**	**-16.1**	**-9.1**	**-2.9**	**-229.1**
Group 12: Miscellaneous Corporate Tax Expenditures											
Reduce corporate rate to flat 30.7 percent	-23.3	-46.5	-55.7	-55.8	-56.6	-57.7	-59.4	-61.3	-63.5	-66.1	-545.9
Territorial system plus minimum tax on foreign-source income earned after 12-31-17	3.2	6.3	6.8	6.5	6.1	5.8	5.3	4.9	4.4	3.9	53.1
Repeal corporate tax expenditures that are related to R&E and accelerated cost recovery for equipment and structures; restore all other corporate tax expenditures	25.1	50.4	58.4	64.1	71.0	80.1	93.1	108.0	122.4	135.8	808.3
Provisions unchanged from previous proposal[2]	-91.3	-78.8	-66.0	-56.4	-51.5	-46.0	-40.5	-35.6	-29.4	-23.8	-519.3
Total revenue change	**-86.3**	**-68.7**	**-56.5**	**-41.6**	**-31.0**	**-17.9**	**-1.5**	**16.0**	**33.8**	**49.7**	**-203.8**

Sources: Urban-Brookings Tax Policy Center (TPC) Microsimulation Model (version 0217-1) and TPC off-model estimates.

Notes: AMT = alternative minimum tax; CTC = child tax credit; EITC = earned income tax credit; NIIT = net investment income tax; PEP = personal exemption phaseout; "Pease" = limitation on itemized deductions; R&E = research and experimentation; SSB = Social Security benefits.

[1] Includes the revenue effect of the repeal of the individual AMT, NIIT, PEP, and "Pease" and all corporate income tax provisions shown in Table 7.

[2] Includes the revenue effect of the repeal of the corporate AMT and all individual income tax provisions shown in Table 7.

TABLE 17B

Estimated Effect on Revenues of Restoring Selected Groups of Tax Expenditures

$ billions, FY2028-2037

Provision	Fiscal Years 2018-2027										
	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2028–37
Group 6: Itemized Deduction for Charitable Contributions											
Reduce individual rates to 0.3, 5.1, 16.3, and 30.7 percent	-977.6	-1,019.0	-1,062.5	-1,106.6	-1,152.2	-1,199.7	-1,249.1	-1,300.5	-1,354.1	-1,409.8	-11,831.1
Repeal individual tax expenditures (except the itemized deduction for charitable contributions and the CTC, EITC, and partial exclusion of SSB)	1,102.4	1,154.9	1,209.5	1,263.4	1,317.6	1,373.8	1,432.1	1,492.9	1,556.7	1,623.0	13,526.2
Provisions unchanged from previous proposal[1]	-71.7	-83.5	-100.5	-117.6	-135.0	-152.9	-170.2	-186.1	-200.4	-214.0	-1,432.1
Total revenue change	**53.1**	**52.3**	**46.5**	**39.2**	**30.4**	**21.2**	**12.8**	**6.3**	**2.2**	**-0.8**	**263.1**
Group 7: Tax Expenditures for Education											
Reduce individual rates to 0.1, 5.0, 16.1, and 30.2 percent	-999.9	-1,042.6	-1,087.3	-1,132.5	-1,179.2	-1,227.8	-1,278.4	-1,331.1	-1,385.9	-1,443.0	-12,107.8
Repeal individual tax expenditures (except education-related tax expenditures and the CTC, EITC, and partial exclusion of SSB)	1,117.9	1,173.2	1,231.1	1,286.9	1,342.8	1,400.6	1,460.8	1,523.5	1,589.3	1,657.8	13,783.9
Provisions unchanged from previous proposal[1]	-71.7	-83.5	-100.5	-117.6	-135.0	-152.9	-170.2	-186.1	-200.4	-214.0	-1,432.1
Total revenue change	**46.2**	**47.2**	**43.2**	**36.8**	**28.6**	**19.9**	**12.2**	**6.3**	**2.9**	**0.7**	**244.0**
Group 8: Tax Expenditures for Capital Income											
Reduce individual rates to 1.1, 5.4, 17.3, and 32.3 percent	-888.3	-925.2	-963.9	-1,003.6	-1,044.7	-1,087.6	-1,132.1	-1,178.6	-1,226.9	-1,277.2	-10,728.0
Repeal individual tax expenditures (except tax expenditures for capital income and the CTC, EITC, and partial exclusion of SSB)	1,012.0	1,060.3	1,109.2	1,158.0	1,207.9	1,259.5	1,313.1	1,369.0	1,427.7	1,488.7	12,405.4
Provisions unchanged from previous proposal[1]	-71.7	-83.5	-100.5	-117.6	-135.0	-152.9	-170.2	-186.1	-200.4	-214.0	-1,432.1
Total revenue change	**52.0**	**51.6**	**44.8**	**36.9**	**28.2**	**19.0**	**10.7**	**4.3**	**0.4**	**-2.4**	**245.4**
Group 9: Miscellaneous Non-Business Individual Tax Expenditures											
Reduce individual rates to 0.4, 5.1, 16.4, and 30.7 percent	-973.0	-1,014.3	-1,057.6	-1,101.6	-1,146.9	-1,194.1	-1,243.3	-1,294.5	-1,347.8	-1,403.2	-11,776.2
Repeal individual tax expenditures (except miscellaneous non-business tax expenditures and the CTC, EITC, and partial exclusion of SSB)	1,083.0	1,137.5	1,193.8	1,248.6	1,303.8	1,360.9	1,420.4	1,482.3	1,547.3	1,615.0	13,392.6
Provisions unchanged from previous proposal[1]	-71.7	-83.5	-100.5	-117.6	-135.0	-152.9	-170.2	-186.1	-200.4	-214.0	-1,432.1
Total revenue change	**38.3**	**39.7**	**35.6**	**29.5**	**21.9**	**13.9**	**6.8**	**1.7**	**-0.8**	**-2.2**	**184.3**
Group 10: Individual Tax Expenditures for Pass-Through Businesses											
Reduce individual rates to 0.1, 5.1, 16.2, and 30.2 percent	-993.4	-1,035.8	-1,080.3	-1,125.3	-1,171.7	-1,219.9	-1,270.2	-1,322.5	-1,377.0	-1,433.7	-12,029.9
Repeal individual tax expenditures (except tax expenditures for pass-through businesses and the CTC, EITC, and partial exclusion of SSB)	1,110.0	1,165.4	1,223.7	1,280.4	1,337.0	1,395.6	1,456.1	1,518.6	1,583.6	1,651.1	13,721.5
Provisions unchanged from previous proposal[1]	-71.7	-83.5	-100.5	-117.6	-135.0	-152.9	-170.2	-186.1	-200.4	-214.0	-1,432.1
Total revenue change	**44.9**	**46.1**	**42.8**	**37.5**	**30.4**	**22.7**	**15.6**	**9.9**	**6.2**	**3.4**	**259.5**
Group 11: Corporate Tax Expenditures for Accelerated Cost Recovery for Equipment and Structures											
Reduce corporate rate to flat 28.7 percent	-100.7	-104.7	-108.9	-113.3	-117.8	-122.5	-127.4	-132.5	-137.8	-143.3	-1,208.8
Territorial system plus minimum tax on foreign-source income earned after 12-31-17	2.8	2.3	1.7	1.1	0.5	-0.2	-0.9	-1.6	-2.4	-3.3	0.0
Repeal corporate tax expenditures (except accelerated cost recovery for equipment and structures)	118.4	122.4	126.5	130.8	135.2	139.7	144.4	149.2	154.2	159.4	1,380.2
Provisions unchanged from previous proposal[2]	-18.7	-15.9	-13.8	-12.4	-12.0	-11.9	-12.0	-12.2	-12.0	-11.9	-132.8
Total revenue change	**1.8**	**4.1**	**5.5**	**6.3**	**5.9**	**5.1**	**4.1**	**2.9**	**2.0**	**0.9**	**38.6**
Group 12: Miscellaneous Corporate Tax Expenditures											
Reduce corporate rate to flat 30.7 percent	-68.7	-71.5	-74.3	-77.3	-80.4	-83.6	-87.0	-90.4	-94.0	-97.8	-825.1
Territorial system plus minimum tax on foreign-source income earned after 12-31-17	3.3	2.7	2.0	1.3	0.6	-0.2	-1.0	-1.9	-2.9	-3.9	0.0
Repeal corporate tax expenditures that are related to R&E and accelerated cost recovery for equipment and structures; restore all other corporate tax expenditures	143.9	144.4	140.2	134.2	127.7	121.3	116.2	113.7	113.8	115.6	1,271.0
Provisions unchanged from previous proposal[2]	-18.7	-15.9	-13.8	-12.4	-12.0	-11.9	-12.0	-12.2	-12.0	-11.9	-132.8
Total revenue change	**59.8**	**59.7**	**54.0**	**45.9**	**35.9**	**25.6**	**16.2**	**9.1**	**4.9**	**2.0**	**313.2**

Sources: Urban-Brookings Tax Policy Center (TPC) Microsimulation Model (version 0217-1) and TPC off-model estimates.

Notes: AMT = alternative minimum tax; CTC = child tax credit; EITC = earned income tax credit; NIIT = net investment income tax; PEP = personal exemption phaseout; "Pease" = limitation on itemized deductions; R&E = research and experimentation; SSB = Social Security benefits.

[1] Includes the revenue effect of the repeal of the individual AMT, NIIT, PEP, and "Pease" and all corporate income tax provisions shown in Table 7.

[2] Includes the revenue effect of the repeal of the corporate AMT and all individual income tax provisions shown in Table 7.

REVENUE EFFECTS

Revenue estimates for the restoration of all seven groups of tax expenditures combined with the proportionately higher rates over the FY 2018–27 period are shown in table 17A and for the FY 2028–37 period in table 17B. Compared with pre-TCJA law, all seven scenarios lose revenue over FY 2018–27 and raise revenue over FY 2028–37, with mixed (but modest) effects on revenues over the FY 2018–37. Note, however, that all are very close to revenue neutral for FY 2037, the target for long-run revenue neutrality.

DISTRIBUTIONAL EFFECTS

Distributional effects by expanded cash income percentile are shown for the restoration of

- itemized deduction for charitable contributions in table 18,
- individual income tax expenditures for education in table 19,
- individual income tax expenditures for capital income in table 20,
- miscellaneous non-business individual income tax expenditures in table 21,
- individual income tax expenditures for pass-through businesses in table 22,
- corporate income tax expenditures for accelerated cost recovery for equipment and structures in table 23, and
- miscellaneous corporate income tax expenditures in table 24.

For the five groups of individual income tax expenditures, the tax rates for the distributionally neutral scenario were proportionately adjusted when the tax expenditures were restored. However, the tax expenditures being analyzed are not uniformly distributed across income groups, so the changes shown in tables 18 through 22 are no longer distributionally neutral. Similarly, the (single) corporate tax rate was adjusted when the corporate tax expenditures were restored, but these changes in the corporate tax base are not distributed in the same manner as the increase in the corporate tax rate used to finance them, so the tax changes in tables 23 and 24 are also no longer distributionally neutral.[15]

These differential distributional results are summarized by cash income percentile in table 25, which shows the difference between the effects of restoration of each group on after-tax income (relative to pre-TCJA law) and the effects of the distributionally neutral exercise on after-tax income (relative to pre-TCJA law). Restoration of education-related tax expenditures, miscellaneous nonbusiness individual income tax expenditures, individual income tax expenditures for pass-through businesses, and the two groups of corporate income tax expenditures—with income tax rates proportionately adjusted to maintain revenue neutrality—would all shift tax burdens to high-income tax units (i.e., the after-tax incomes of higher-income households would decline).[16] Conversely, restoration of the itemized deduction for charitable contributions would shift tax burdens from high-income tax units to low- and middle-income units. Restoration of the individual income tax expenditures related to capital income would have small effects on most tax units, but provide a sizable benefit to high-income units.

IMPLICATIONS

The distributional consequences from this portion of the exercise are similar to earlier results in that they reflect the pattern of beneficiaries of specific tax expenditures compared to the distribution of overall burdens of the income tax. For the particular tax expenditures examined in this section, the distributional effects are particularly large for those involving capital income (e.g., preferential tax rates for long-term capital gains and dividends) and for restoring the itemized deduction for charitable contributions.

TABLE 18

Distribution of Federal Tax Change, Restoration of Itemized Deduction for Charitable Contributions

By expanded cash income percentile, 2027[a]

Expanded cash income percentile[b,c]	Percent change in after-tax income (%)[d]	Share of total federal tax change (%)	Average federal tax change ($)	Average Federal Tax Rate[e]	
				Change (% points)	Under the proposal (%)
Lowest quintile	-0.2	-3.5	47	0.2	4.5
Second quintile	0.3	9.2	-149	-0.3	8.6
Middle quintile	0.5	21.2	-392	-0.4	13.4
Fourth quintile	0.3	15.3	-344	-0.2	16.7
Top quintile	0.4	58.3	-1,543	-0.3	25.9
All	0.4	100.0	-366	-0.3	19.9
Addendum					
80–90	-0.2	-6.6	337	0.1	19.9
90–95	0.1	2.3	-251	-0.1	21.8
95–99	0.3	8.1	-1,118	-0.2	25.4
Top 1 percent	1.3	54.5	-30,639	-0.9	32.6
Top 0.1 percent	0.9	17.5	-97,522	-0.6	33.2

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0217-1).

Note: Number of AMT taxpayers (millions): Baseline: 5.6; Proposal: 0.

[a] Calendar year. Baseline is law in effect prior to enactment of the Tax Cuts and Jobs Act. Proposal would: repeal the Net Investment Income Tax (NIIT), individual and corporate alternative minimum tax (AMT), phase-out of personal exemptions, and Pease limitation on itemized deductions; set individual tax rates of 0.3 percent, 5.1 percent, 16.3 percent, and 30.7 percent; repeal individual income tax expenditures except the itemized deduction for charitable contributions and the CTC, EITC, and partial exclusion of Social Security benefits; set corporate tax rate of 26 percent; implement territorial system plus minimum tax on foreign-source income; and repeal corporate tax expenditures. http://www.taxpolicycenter.org/taxtopics/Baseline-Definitions.cfm

[b] Includes both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. For a description of expanded cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm

[c] The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2017 dollars): 20% $28,100; 40% $54,700; 60% $93,200; 80% $154,900; 90% $225,400; 95% $304,600; 99% $912,100; 99.9% $5,088,900.

[d] After-tax income is expanded cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate tax; and excise taxes.

[e] Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

TABLE 19

Distribution of Federal Tax Change, Restoration of Tax Expenditures for Education

By expanded cash income percentile, 2027[a]

Expanded cash income percentile[b,c]	Percent change in after-tax income (%)[d]	Share of total federal tax change (%)	Average federal tax change ($)	Average Federal Tax Rate[e]	
				Change (% points)	Under the proposal (%)
Lowest quintile	0.2	2.0	-31	-0.2	4.2
Second quintile	0.6	15.1	-285	-0.6	8.3
Middle quintile	0.8	27.4	-594	-0.7	13.2
Fourth quintile	0.5	23.6	-623	-0.4	16.5
Top quintile	0.3	32.2	-998	-0.2	26.1
All	0.4	100.0	-428	-0.3	19.8
Addendum					
80–90	-0.1	-2.4	145	0.1	19.9
90–95	0.2	4.2	-530	-0.2	21.7
95–99	0.3	7.1	-1,156	-0.2	25.4
Top 1 percent	0.7	23.4	-15,352	-0.4	33.0
Top 0.1 percent	-0.2	-3.8	24,617	0.2	34.0

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0217-1).

Note: Number of AMT taxpayers (millions): Baseline: 5.6; Proposal: 0.

[a] Calendar year. Baseline is law in effect prior to enactment of the Tax Cuts and Jobs Act. Proposal would: repeal the Net Investment Income Tax (NIIT), individual and corporate alternative minimum tax (AMT), phase-out of personal exemptions, and Pease limitation on itemized deductions; set individual tax rates of 0.1 percent, 5.0 percent, 16.1 percent, and 30.2 percent; repeal individual income tax expenditures except those that are education-related and the CTC, EITC, and partial exclusion of Social Security benefits; set corporate tax rate of 26 percent; implement territorial system plus minimum tax on foreign-source income; and repeal corporate tax expenditures. http://www.taxpolicycenter.org/taxtopics/Baseline-Definitions.cfm

[b] Includes both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. For a description of expanded cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm

[c] The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2017 dollars): 20% $28,100; 40% $54,700; 60% $93,200; 80% $154,900; 90% $225,400; 95% $304,600; 99% $912,100; 99.9% $5,088,900.

[d] After-tax income is expanded cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate tax; and excise taxes.

[e] Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

TABLE 20

Distribution of Federal Tax Change, Restoration of Individual Tax Expenditures for Capital Income

By expanded cash income percentile, 2027[a]

Expanded cash income percentile[b,c]	Percent change in after-tax income (%)[d]	Share of total federal tax change (%)	Average federal tax change ($)	Average Federal Tax Rate[e]	
				Change (% points)	Under the proposal (%)
Lowest quintile	-0.3	-2.7	51	0.3	4.6
Second quintile	0.4	8.2	-181	-0.4	8.5
Middle quintile	0.8	23.4	-588	-0.7	13.2
Fourth quintile	0.5	19.3	-591	-0.4	16.6
Top quintile	0.5	52.2	-1,878	-0.4	25.9
All	0.5	100.0	-498	-0.4	19.8
Addendum					
80–90	-0.2	-4.0	275	0.1	19.9
90–95	0.0	-0.1	8	0.0	21.9
95–99	0.5	10.6	-1,990	-0.4	25.2
Top 1 percent	1.5	45.6	-34,864	-1.0	32.5
Top 0.1 percent	1.6	21.7	-164,435	-1.0	32.8

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0217-1).

Note: Number of AMT taxpayers (millions): Baseline: 5.6; Proposal: 0.

[a] Calendar year. Baseline is law in effect prior to enactment of the Tax Cuts and Jobs Act. Proposal would: repeal the Net Investment Income Tax (NIIT), individual and corporate alternative minimum tax (AMT), phase-out of personal exemptions, and Pease limitation on itemized deductions; set individual tax rates of 1.1 percent, 5.4 percent, 17.3 percent, and 32.3 percent; repeal individual income tax expenditures except those for capital income and the CTC, EITC, and partial exclusion of Social Security benefits; set corporate tax rate of 26 percent; implement territorial system plus minimum tax on foreign-source income; and repeal corporate tax expenditures. http://www.taxpolicycenter.org/taxtopics/Baseline-Definitions.cfm

[b] Includes both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. For a description of expanded cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm

[c] The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2017 dollars): 20% $28,100; 40% $54,700; 60% $93,200; 80% $154,900; 90% $225,400; 95% $304,600; 99% $912,100; 99.9% $5,088,900.

[d] After-tax income is expanded cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate tax; and excise taxes.

[e] Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

TABLE 21

Distribution of Federal Tax Change, Restoration of Miscellaneous Individual Non-Business Tax Expenditures

By expanded cash income percentile, 2027[a]

Expanded cash income percentile[b,c]	Percent change in after-tax income (%)[d]	Share of total federal tax change (%)	Average federal tax change ($)	Average Federal Tax Rate[e]	
				Change (% points)	Under the proposal (%)
Lowest quintile	-0.2	-2.1	35	0.2	4.5
Second quintile	0.5	12.4	-250	-0.5	8.4
Middle quintile	0.9	29.3	-678	-0.8	13.1
Fourth quintile	0.7	32.4	-914	-0.6	16.3
Top quintile	0.3	28.3	-938	-0.2	26.1
All	0.5	100.0	-457	-0.4	19.8
Addendum					
80–90	0.2	6.6	-424	-0.2	19.6
90–95	0.5	9.0	-1,216	-0.4	21.5
95–99	0.0	0.9	-152	0.0	25.5
Top 1 percent	0.4	11.9	-8,334	-0.2	33.2
Top 0.1 percent	-0.6	-8.4	58,260	0.4	34.2

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0217-1).

Note: Number of AMT taxpayers (millions): Baseline: 5.6; Proposal: 0.

[a] Calendar year. Baseline is law in effect prior to enactment of the Tax Cuts and Jobs Act. Proposal would: repeal the Net Investment Income Tax (NIIT), individual and corporate alternative minimum tax (AMT), phase-out of personal exemptions, and Pease limitation on itemized deductions; set individual tax rates of 0.4 percent, 5.1 percent, 16.4 percent, and 30.7 percent; repeal individual income tax expenditures except miscellaneous non-business items and the CTC, EITC, and partial exclusion of Social Security benefits; set corporate tax rate of 26 percent; implement territorial system plus minimum tax on foreign-source income; and repeal corporate tax expenditures. http://www.taxpolicycenter.org/taxtopics/Baseline-Definitions.cfm

[b] Includes both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. For a description of expanded cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm

[c] The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2017 dollars): 20% $28,100; 40% $54,700; 60% $93,200; 80% $154,900; 90% $225,400; 95% $304,600; 99% $912,100; 99.9% $5,088,900.

[d] After-tax income is expanded cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate tax; and excise taxes.

[e] Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

TABLE 22

Distribution of Federal Tax Change, Restoration of Tax Expenditures for Pass-Through Businesses

By expanded cash income percentile, 2027[a]

Expanded cash income percentile[b,c]	Percent change in after-tax income (%)[d]	Share of total federal tax change (%)	Average federal tax change ($)	Average Federal Tax Rate[e]	
				Change (% points)	Under the proposal (%)
Lowest quintile	-0.2	-3.0	37	0.2	4.5
Second quintile	0.4	12.3	-177	-0.4	8.5
Middle quintile	0.6	25.9	-426	-0.5	13.4
Fourth quintile	0.3	18.7	-374	-0.3	16.7
Top quintile	0.3	46.5	-1,093	-0.2	26.0
All	0.3	100.0	-325	-0.3	19.9
Addendum					
80–90	-0.2	-7.6	343	0.2	19.9
90–95	0.1	2.5	-240	-0.1	21.8
95–99	0.3	8.8	-1,087	-0.2	25.4
Top 1 percent	0.9	42.8	-21,336	-0.6	32.9
Top 0.1 percent	0.0	0.6	-2,876	0.0	33.8

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0217-1).

Note: Number of AMT taxpayers (millions): Baseline: 5.6; Proposal: 0.

[a] Calendar year. Baseline is law in effect prior to enactment of the Tax Cuts and Jobs Act. Proposal would: repeal the Net Investment Income Tax (NIIT), individual and corporate alternative minimum tax (AMT), phase-out of personal exemptions, and Pease limitation on itemized deductions; set individual tax rates of 0.1 percent, 5.1 percent, 16.2 percent, and 30.2 percent; repeal individual income tax expenditures except those related to pass-through businesses and the CTC, EITC, and partial exclusion of Social Security benefits; set corporate tax rate of 26 percent; implement territorial system plus minimum tax on foreign-source income; and repeal corporate tax expenditures. http://www.taxpolicycenter.org/taxtopics/Baseline-Definitions.cfm

[b] Includes both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. For a description of expanded cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm

[c] The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2017 dollars): 20% $28,100; 40% $54,700; 60% $93,200; 80% $154,900; 90% $225,400; 95% $304,600; 99% $912,100; 99.9% $5,088,900.

[d] After-tax income is expanded cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate tax; and excise taxes.

[e] Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

TABLE 23

Distribution of Federal Tax Change, Restoration of Corporate Tax Expenditures for Accelerated Cost Recovery

By expanded cash income percentile, 2027[a]

Expanded cash income percentile[b,c]	Percent change in after-tax income (%)[d]	Share of total federal tax change (%)	Average federal tax change ($)	Average Federal Tax Rate[e]	
				Change (% points)	Under the proposal (%)
Lowest quintile	-0.3	-17.7	58	0.3	4.6
Second quintile	0.3	32.3	-125	-0.3	8.6
Middle quintile	0.4	72.1	-321	-0.4	13.5
Fourth quintile	0.2	34.2	-185	-0.1	16.8
Top quintile	0.0	-16.4	104	0.0	26.3
All	0.1	100.0	-88	-0.1	20.1
Addendum					
80–90	-0.4	-53.6	657	0.3	20.1
90–95	-0.1	-6.2	161	0.1	21.9
95–99	0.0	-3.2	108	0.0	25.6
Top 1 percent	0.3	46.6	-6,288	-0.2	33.3
Top 0.1 percent	-0.8	-61.0	81,711	0.5	34.3

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0217-1).

Note: Number of AMT taxpayers (millions): Baseline: 5.6; Proposal: 0.

[a] Calendar year. Baseline is law in effect prior to enactment of the Tax Cuts and Jobs Act. Proposal would: repeal the Net Investment Income Tax (NIIT), individual and corporate alternative minimum tax (AMT), phase-out of personal exemptions, and Pease limitation on itemized deductions; set individual tax rates of 0 percent, 5 percent, 16 percent, and 29.9 percent; repeal individual income tax expenditures except the CTC, EITC, and partial exclusion of Social Security benefits; set corporate tax rate of 28.7 percent; implement territorial system plus minimum tax on foreign-source income; and repeal corporate tax expenditures except those related to accelerated cost recovery for equipment and structures. http://www.taxpolicycenter.org/taxtopics/Baseline-Definitions.cfm

[b] Includes both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. For a description of expanded cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm

[c] The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2017 dollars): 20% $28,100; 40% $54,700; 60% $93,200; 80% $154,900; 90% $225,400; 95% $304,600; 99% $912,100; 99.9% $5,088,900.

[d] After-tax income is expanded cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate tax; and excise taxes.

[e] Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

TABLE 24

Distribution of Federal Tax Change, Restoration of Miscellaneous Corporate Tax Expenditures

By expanded cash income percentile, 2027[a]

Expanded cash income percentile[b,c]	Percent change in after-tax income (%)[d]	Share of total federal tax change (%)	Average federal tax change ($)	Average Federal Tax Rate[e]	
				Change (% points)	Under the proposal (%)
Lowest quintile	-0.1	-1.4	23	0.1	4.4
Second quintile	0.5	11.2	-222	-0.4	8.4
Middle quintile	0.7	23.1	-526	-0.6	13.2
Fourth quintile	0.5	20.2	-559	-0.4	16.6
Top quintile	0.4	47.1	-1,533	-0.3	25.9
All	0.5	100.0	-450	-0.4	19.8
Addendum					
80–90	0.0	-0.4	26	0.0	19.8
90–95	0.3	5.9	-782	-0.2	21.7
95–99	0.4	10.6	-1,795	-0.3	25.3
Top 1 percent	0.9	31.1	-21,504	-0.6	32.9
Top 0.1 percent	-0.1	-1.1	7,354	0.1	33.9

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0217-1).

Note: Number of AMT taxpayers (millions): Baseline: 5.6; Proposal: 0.

[a] Calendar year. Baseline is law in effect prior to enactment of the Tax Cuts and Jobs Act. Proposal would: repeal the Net Investment Income Tax (NIIT), individual and corporate alternative minimum tax (AMT), phase-out of personal exemptions, and Pease limitation on itemized deductions; set individual tax rates of 0 percent, 5 percent, 16 percent, and 29.9 percent; repeal individual income tax expenditures except the CTC, EITC, and partial exclusion of Social Security benefits; set corporate tax rate of 30.7 percent; implement territorial system plus minimum tax on foreign-source income; and repeal only the corporate tax expenditures related to research and development and accelerated cost recovery for equipment and structures. http://www.taxpolicycenter.org/taxtopics/Baseline-Definitions.cfm

[b] Includes both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. For a description of expanded cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm

[c] The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2017 dollars): 20% $28,100; 40% $54,700; 60% $93,200; 80% $154,900; 90% $225,400; 95% $304,600; 99% $912,100; 99.9% $5,088,900.

[d] After-tax income is expanded cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate tax; and excise taxes.

[e] Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

TABLE 25

Difference in the Percentage Change in After-Tax Income from Restoring Each Group of Tax Expenditures

By expanded cash income percentile, 2027[a]

Expanded cash income percentile[b,c]	Difference in percent change in after-tax income (% points)[d]						
	Group 6 (Deduction for charitable contributions)	Group 7 (Education-related)	Group 8 (Individual capital income-related)	Group 9 (Individual miscellaneous non-business)	Group 10 (Pass-through businesses)	Group 11 (Corporate accelerated cost recovery)	Group 12 (Corporate miscellaneous)
Lowest quintile	0.0	0.4	-0.1	0.0	0.0	-0.1	0.1
Second quintile	-0.1	0.2	0.0	0.1	0.0	-0.1	0.1
Middle quintile	-0.1	0.2	0.2	0.3	0.0	-0.2	0.1
Fourth quintile	-0.1	0.1	0.1	0.3	-0.1	-0.3	0.1
Top quintile	0.0	-0.1	0.1	-0.1	-0.1	-0.4	0.0
All	0.0	0.0	0.1	0.1	-0.1	-0.3	0.1
Addendum							
80–90	-0.1	0.0	-0.1	0.3	-0.1	-0.3	0.1
90–95	-0.1	0.0	-0.2	0.3	-0.1	-0.3	0.1
95–99	-0.1	-0.1	0.1	-0.4	-0.1	-0.4	0.0
Top 1 percent	0.3	-0.4	0.5	-0.7	-0.1	-0.7	-0.1
Top 0.1 percent	0.8	-0.3	1.5	-0.7	-0.1	-0.9	-0.2

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0217-1).

[a] Calendar year. Baseline is law in effect prior to enactment of the Tax Cuts and Jobs Act. http://www.taxpolicycenter.org/taxtopics/Baseline-Definitions.cfm

[b] Includes both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. For a description of expanded cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm

[c] The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2017 dollars): 20% $28,100; 40% $54,700; 60% $93,200; 80% $154,900; 90% $225,400; 95% $304,600; 99% $912,100; 99.9% $5,088,900.

[d] After-tax income is expanded cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate tax; and excise taxes.

CONCLUSION

This series of exercises shows that a reform of the US income tax system that repeals virtually all tax expenditures is technically achievable in a way that maintains both the revenue levels and the distributional consequences associated with the tax system in effect prior to enactment of the Tax Cuts and Jobs Act. Maintaining approximate long-run pre-TCJA revenue neutrality for the corporate income tax with all pre-TCJA tax expenditures repealed would require a statutory income tax rate of around 26 percent. Maintaining approximate pre-TCJA distributional neutrality as well as overall long-run revenue neutrality for the individual income tax with nearly all pre-TCJA tax expenditures repealed would require a 0 percent income tax bracket for many low-income households and a top rate of almost 30 percent for high-income households.

When adding various tax expenditures back individually, the general result is that an increase in individual income tax rates is needed to maintain long-run revenue neutrality. However, because these rate increases are done (more or less) proportionately, the distributional consequences shift some of the burden among income categories. The shift is most pronounced for the tax expenditures for charitable contributions and capital income, which would lower tax burdens for households in the top 1 percent of the income distribution compared with the base scenario of eliminating all tax expenditures and reducing income tax rates.

Adding back the corporate tax expenditures for accelerated cost recovery for equipment and structures would mean that the revenue-neutral corporate income tax rate is increased 2.7 percentage points, from 26 percent to 28.7 percent, while restoring the remaining miscellaneous corporate tax expenditures would require an increase in the corporate income tax rate by 4.7 percentage points to maintain long-run revenue neutrality.

APPENDIX. LIST OF TAX EXPENDITURES

JCT TAX EXPENDITURES

1. Retirement-Related

Net exclusion of pension contributions and earnings: Plans covering partners and sole proprietors (sometimes referred to as "Keogh" plans)

Net exclusion of pension contributions and earnings: Defined benefit plans

Net exclusion of pension contributions and earnings: Defined contribution plans

Individual retirement arrangements: Traditional IRAs

Individual retirement arrangements: Roth IRAs

Credit for certain individuals for elective deferrals and IRA contributions

Exclusion of veterans pensions

2. Health-Related

Exclusion of employer contributions for health care, health insurance premiums, and long-term care insurance premiums

Exclusion of medical care and TRICARE medical insurance for military dependents, retirees, and retiree dependents not enrolled in Medicare

Exclusion of health insurance benefits for military retirees and retiree dependents enrolled in Medicare

Deduction for health insurance premiums and long-term care insurance premiums by the self-employed

Deduction for medical expenses and long-term care expenses

Exclusion of workers' compensation benefits (medical benefits)

Health savings accounts

Credit for purchase of health insurance by certain displaced persons

3. Itemized Deduction for State and Local Taxes

Deduction for property taxes on real property

Deduction of nonbusiness state and local government income taxes, sales taxes, and personal property taxes

4. Itemized Deduction for Mortgage Interest

Deduction for mortgage interest on owner-occupied residences

Deduction for premiums for qualified mortgage insurance

5. Corporate Research and Experimentation-Related

Credit for increasing research activities (Code section 41)

Expensing of research and experimental expenditures

6. Itemized Deduction for Charitable Contributions

Deduction for charitable contributions, other than for education and health

Deduction for charitable contributions to health organizations

Deduction for charitable contributions to educational institutions

7. Education-Related

Deduction for interest on student loans
Exclusion of earnings of Coverdell education savings accounts
Exclusion of scholarship and fellowship income
Exclusion of income attributable to the discharge of certain student loan debt and NHSC and certain state educational loan repayments
Exclusion of employer-provided education assistance benefits
Exclusion of employer-provided tuition reduction benefits
Deduction for higher education expenses
Credits for tuition for postsecondary education
Exclusion of tax on earnings of qualified tuition programs: Prepaid tuition programs
Exclusion of tax on earnings of qualified tuition programs: Savings account programs

8. Capital Income–Related

Exclusion of interest on state and local government qualified private activity bonds for energy production facilities
Capital gains treatment for qualified timber income (including coal and iron ore)
Exclusion of income attributable to the discharge of principal residence acquisition indebtedness
Exclusion of capital gains on sales of principal residences
Exclusion of interest on state and local government qualified private activity bonds for owner-occupied housing
Exclusion of interest on state and local government qualified private activity bonds for rental housing
Exclusion of interest on state and local government small-issue qualified private activity bonds
Carryover basis of capital gains on gifts
Deferral of gain on non-dealer installment sales
Deferral of gain on like-kind exchanges
Exemptions from imputed interest rules
Reduced rates of tax on dividends and long-term capital gains
Surtax on net investment income
Exclusion of capital gains at death
Exclusion for gain from certain small business stock
Distributions in redemption of stock to pay various taxes imposed at death
Exclusion of interest on state and local qualified private activity bonds for green buildings and sustainable design projects
Exclusion of interest on state and local government qualified private activity bonds for highway projects and rail-truck transfer facilities
Exclusion of interest on state and local government qualified private activity bonds for high-speed intercity rail facilities
Exclusion of interest on state and local government qualified private activity bonds for private airports, docks, and mass-commuting facilities
Exclusion of interest on state and local government qualified private activity bonds for sewage, water, and hazardous waste facilities
Exclusion of interest on state and local government qualified private activity bonds for student loans
Exclusion of interest on state and local government qualified private activity bonds for private nonprofit and qualified public educational facilities
Credit for holders of qualified zone academy bonds

Qualified school construction bonds
Exclusion of income earned by voluntary employees' beneficiary associations
Special tax provisions for employee stock ownership plans (ESOPs)
Deferral of taxation on spread on acquisition of stock under incentive stock option plans
Deferral of taxation on spread on employee stock purchase plans
Exclusion of interest on state and local government qualified private activity bonds for private nonprofit hospital facilities
Exclusion of interest on state and local government qualified private activity bonds for veterans housing
Exclusion of interest on public purpose state and local government bonds
Build America bonds
Deferral of interest on savings bonds

9. Miscellaneous Individual Nonbusiness

Exclusion of benefits and allowances to armed forces personnel
Exclusion of military disability benefits
Deduction for overnight-travel expenses of National Guard and Reserve members
Exclusion of combat pay
Exclusion of certain allowances for federal employees abroad
Exclusion of foreign earned income: Housing
Exclusion of foreign earned income: Salary
Credit for holders of qualified energy conservation bonds
Exclusion of employer-paid transportation benefits (parking, van pools, and transit passes)
Parental personal exemption for students aged 19 to 23
Deduction for teacher classroom expenses
Exclusion of employee meals and lodging (other than military)
Exclusion of housing allowances for ministers
Exclusion of miscellaneous fringe benefits
Exclusion of employee awards
Credit for child and dependent care and exclusion of employer-provided child care
Exclusion of certain foster care payments
Adoption credit and employee adoption benefits exclusion
Exclusion of amounts received under life insurance contracts
Exclusion of workers' compensation benefits (disability and survivor's payments)
Exclusion of damages on account of personal physical injuries or physical sickness
Exclusion of special benefits for disabled coal miners
Exclusion of other employee benefits: Premiums on group term life insurance
Exclusion of other employee benefits: Premiums on accident and disability insurance
Additional standard deduction for the blind and the elderly
Deduction for casualty and theft losses
Phase out of the personal exemption for the regular income tax, and disallowance of the personal exemption and the standard deduction against the alternative minimum tax
Exclusion of survivor annuities paid to families of public safety officers killed in the line of duty
Exclusion of disaster mitigation payments
ABLE accounts
Exclusion of veterans disability compensation

Exclusion of veterans readjustment benefits

10. Pass-Through Business

Credit for increasing research activities (Code section 41)
Expensing of research and experimental expenditures
Therapeutic research credit
Credit for energy-efficient improvements to existing homes
Credit for holders of clean renewable energy bonds (Code sections 54 and 54C)
Exclusion of energy conservation subsidies provided by public utilities
Energy credit (section 48): Solar
Energy credit (section 48): Geothermal
Energy credit (section 48): Fuel cells
Energy credit (section 48): Microturbines
Energy credit (section 48): Combined heat and power
Energy credit (section 48): Small wind
Energy credit (section 48): Geothermal heat pump systems
Credits for electricity production from renewable resources (section 45): Wind
Credits for electricity production from renewable resources (section 45): Closed-loop biomass
Credits for electricity production from renewable resources (section 45): Geothermal
Credits for electricity production from renewable resources (section 45): Qualified hydropower
Credits for electricity production from renewable resources (section 45): Small irrigation power
Credits for electricity production from renewable resources (section 45): Municipal solid waste
Credits for electricity production from renewable resources (section 45): Open-loop biomass
Residential energy-efficient property credit
Credit for plug-in electric vehicles
Credit for investment in advanced energy property
Expensing of exploration and development costs, fuels: Oil and gas
Expensing of exploration and development costs, fuels: Other fuels
Excess of percentage over cost depletion, fuels: Oil and gas
Excess of percentage over cost depletion, fuels: Other fuels
Amortization of geological and geophysical expenditures associated with oil and gas exploration
Depreciation recovery periods for energy-specific items
Exceptions for publicly traded partnership with qualified income derived from certain energy-related activities
Special depreciation allowance for certain reuse and recycling property
Expensing of exploration and development costs, nonfuel minerals
Excess of percentage over cost depletion, nonfuel minerals
Expensing of timber-growing costs
Special rules for mining reclamation reserves
Amortization and expensing of reforestation expenditures
Treatment of income from exploration and mining of natural resources as qualifying income under the publicly traded partnership rules
Expensing of soil and water conservation expenditures
Expensing of the costs of raising dairy and breeding cattle
Exclusion of cost-sharing payments
Exclusion of cancellation of indebtedness income of farmers

Income averaging for farmers and fishermen
Five-year carryback period for net operating losses attributable to farming
Expensing by farmers for fertilizer and soil conditioner costs
Cash accounting for agriculture
Credit for low-income housing
Credit for rehabilitation of historic structures
Credit for rehabilitation of structures, other than historic structures
Depreciation of rental housing in excess of alternative depreciation system
Expensing under section 179 of depreciable business property
Bonus depreciation
Amortization of business startup costs
Expensing of magazine circulation expenditures
Special rules for magazine, paperback book, and record returns
Completed contract rules
Cash accounting, other than agriculture
Credit for employer-paid FICA taxes on tips
Deduction for income attributable to domestic production activities
Credit for the cost of carrying tax-paid distilled spirits in wholesale inventories
Inventory methods and valuation: Last in first out
Inventory methods and valuation: Lower of cost or market
Inventory methods and valuation: Specific identification for homogeneous products
Income recognition rule for gain or loss from section 1256 contracts
Net alternative minimum tax attributable to net operating loss limitation
Depreciation of buildings other than rental housing in excess of alternative depreciation system
Depreciation of equipment in excess of the alternative depreciation system
Empowerment zone tax incentives
New markets tax credit
District of Columbia tax incentives
Credit for Indian reservation employment
Recovery zone economic development bonds
Work opportunity tax credit
Credit for employer-provided dependent care
Credit for disabled access expenditures
Credit for orphan drug research
Tax credit for small businesses purchasing employer insurance

11. Corporate Accelerated Cost Recovery for Equipment and Structures

Expensing under section 179 of depreciable business property
Bonus depreciation
Depreciation recovery periods for energy-specific items

12. Miscellaneous Corporate

Inventory property sales source rule exception
Deduction for foreign taxes instead of a credit
Interest expense allocation: Unavailability of symmetric worldwide method

Interest expense allocation: Separate grouping of affiliated financial companies
Apportionment of research and development expenses for determination of foreign tax credits
Special rules for interest-charge domestic international sales corporations
Tonnage tax
Deferral of active income of controlled foreign corporations
Deferral of active financing income
Energy credit (section 48): Solar
Energy credit (section 48): Geothermal
Coal production credits: Refined coal
Coal production credits: Indian coal
Exclusion of interest on state and local government qualified private activity bonds for energy production facilities
Excess of percentage over cost depletion, fuels: Oil and gas
Excess of percentage over cost depletion, fuels: Other fuels
Amortization of geological and geophysical expenditures associated with oil and gas exploration
Special depreciation allowance for certain reuse and recycling property
Expensing of exploration and development costs, nonfuel minerals
Excess of percentage over cost depletion, nonfuel minerals
Expensing of timber-growing costs
Special rules for mining reclamation reserves
Special tax rate for nuclear decommissioning reserve funds
Exclusion of contributions in aid of construction for water and sewer utilities
Exclusion of earnings of certain environmental settlement funds
Amortization and expensing of reforestation expenditures
Expensing of soil and water conservation expenditures
Expensing of the costs of raising dairy and breeding cattle
Exclusion of cost-sharing payments
Five-year carryback period for net operating losses attributable to farming
Expensing by farmers for fertilizer and soil conditioner costs
Cash accounting for agriculture
Exclusion of interest on state and local government qualified private activity bonds for owner-occupied housing
Credit for low-income housing
Credit for rehabilitation of historic structures
Credit for rehabilitation of structures, other than historic structures
Exclusion of interest on state and local government qualified private activity bonds for rental housing
Exclusion of interest on state and local government small-issue qualified private activity bonds
Deferral of gain on non-dealer installment sales
Deferral of gain on like-kind exchanges
Reduced rates on first $10,000,000 of corporate taxable income
Exemptions from imputed interest rules
Completed contract rules
Cash accounting, other than agriculture
Credit for employer-paid FICA taxes on tips
Deduction for income attributable to domestic production activities

Credit for the cost of carrying tax-paid distilled spirits in wholesale inventories
Expensing of costs to remove architectural and transportation barriers to the handicapped and elderly
Exclusion from UBTI of certain payments to controlling exempt organizations
Exclusion of gain or loss on sale or exchange of brownfield property
Income recognition rule for gain or loss from section 1256 contracts
Net alternative minimum tax attributable to net operating loss limitation
Exclusion of interest on state and local qualified private activity bonds for green buildings and sustainable design projects
Exemption of credit union income
Special treatment of life insurance company reserves
Special deduction for Blue Cross and Blue Shield companies
Tax-exempt status and election to be taxed only on investment income for certain small property and casualty insurance companies
Interest rate and discounting period assumptions for reserves of property and casualty insurance companies
Proration for property and casualty insurance companies
Deferral of tax on capital construction funds of shipping companies
Exclusion of interest on state and local government qualified private activity bonds for highway projects and rail-truck transfer facilities
Exclusion of interest on state and local government qualified private activity bonds for high-speed intercity rail facilities
Exclusion of interest on state and local government qualified private activity bonds for private airports, docks, and mass-commuting facilities
Exclusion of interest on state and local government qualified private activity bonds for sewage, water, and hazardous waste facilities
Eliminate requirement that financial institutions allocate interest expense attributable to tax-exempt interest
Exclusion of interest on state and local government qualified private activity bonds for student loans
Exclusion of interest on state and local government qualified private activity bonds for private nonprofit and qualified public educational facilities
Special tax provisions for employee stock ownership plans (ESOPs)
Deferral of taxation on spread on acquisition of stock under incentive stock option plans
Deferral of taxation on spread on employee stock purchase plans
Disallowance of deduction for excess parachute payments (applicable if payments to a disqualified individual are contingent on a change of control of a corporation and are equal to or greater than three times the individual's annualized includible compensation)
Limits on deductible compensation
Credit for employer-provided dependent care
Deduction for charitable contributions, other than for education and health
Credit for disabled access expenditures
Exclusion of interest on state and local government qualified private activity bonds for private nonprofit hospital facilities
Deduction for charitable contributions to health organizations
Credit for orphan drug research
Exclusion of amounts received under life insurance contracts
Exclusion of disaster mitigation payments

Exclusion of interest on state and local government qualified private activity bonds for veterans housing
Exclusion of interest on public purpose state and local government bonds

Other Corporate Provisions (from FY 2017 Budget)

Impose a 19 percent minimum tax on foreign income

NOTES

1 For the three-rate system, the current 10 and 15 percent brackets of pre-TCJA law were combined, the 25 and 28 percent brackets combined, and the 33 percent and higher brackets combined.

2 See US Department of the Treasury (2016), pp. 9–12. The budget proposal was for a 19 percent minimum tax, so implicitly the rate in TPC's adjusted proposal is lower (but not specified because the implied rate is very difficult to estimate).

3 A brief description of TPC's microsimulation model is available at http://www.taxpolicycenter.org/resources/brief-description-tax-model.

4 A brief description of TPC's methodology for making "off-model" revenue estimates is available at http://www.taxpolicycenter.org/resources/tpcs-methodology-model-revenue-estimates.

5 See JCT (2017). TPC did not include the JCT tax expenditure for "deferral of active income of controlled foreign corporations" because of the provision for territoriality plus a minimum tax on foreign-source income. TPC did not include the JCT tax expenditure for "subsidies for insurance purchased through health benefit exchanges" because TPC's baseline does not include these credits in income tax revenues or refundable credits.

6 The exclusion of Social Security benefits ranges from 100 percent for taxpayers below a threshold (that varies with filing status) of modified adjusted gross income to 15 percent for taxpayers with income sufficiently above a second threshold. Annuities from private pensions are taxable to the extent they exceed the amount attributable to taxable pension contributions made by the recipient while working. Correspondingly, the tax expenditure for the exclusion of Social Security benefits is the excess of the exclusion allowed under current law over the amount of benefits attributable to the Social Security payroll tax payments made by the recipient (which are subject to income tax when made). These contributions are assumed to fund 15 percent of benefits for this calculation, so including 85 percent of benefits in income for all taxpayers eliminates the tax expenditure.

7 The appendix lists the tax expenditures included in each group.

8 We chose 15 percent (rather than the 10 percentage-point differential between the lowest rates under current law and the first proposal) to roughly reflect the average proportion of the gap between the rates computed to be distributionally neutral and the rates under current law.

9 Because rates are adjusted to achieve revenue neutrality (as closely as possible) in FY 2037 when each group of tax expenditures is restored, revenue patterns over time do not isolate interaction effects.

10 Itemized deductions claimed for costs of earning income, such as the deduction for investment interest, are not tax expenditures and so remained available to taxpayers in the original exercise.

11 As another part of the exercise, TPC restored all four groups of individual tax expenditures simultaneously and adjusted individual income tax rates to achieve revenue neutrality in FY 2037. These calculations show fairly significant interaction effects that would require higher tax rates than if the groups were restored one at a time.

12 In general, changes in the corporate tax base are believed to have a larger effect on the location of investment than changes in the corporate tax rate do, so more of the change in burden from a change in the base is borne by labor. See Nunns (2012).

13 The lowest-income tax units would have a small decline in after-tax income from restoration of the health-related tax expenditures.

14 We chose 15 percent (rather than the 10 percentage-point differential between the lowest rates under pre-TCJA law and the first proposal) to roughly reflect the average proportion of the gap between the rates computed to be distributionally neutral and the rates under current law.

15 In general, changes in the corporate tax base are believed to have a larger effect on the location of investment than changes in the corporate tax rate do, so more of the change in burden from a change in the base is borne by labor. See Nunns (2012).

[16] The restoration of corporate tax expenditures would increase tax burdens for all tax units, but the increase would be smaller for low- and middle-income units than for high-income units.

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