“In a tax debate in which bombast and sound bites often crowd out facts, figures, and reasoned analysis, the Tax Policy Center provides all three, in an easy-to-access, easy-to-understand fashion.”

David Wessel, Wall Street Journal

“In a highly polarized political environment, many people did not know whom to believe. The Tax Policy Center was there to help. The Center provides nonpartisan, expert but common language analysis of the likely implications of tax policies and proposals, making it a key resource for journalists, policymakers, and citizens.”

The John D. and Catherine T. MacArthur Foundation, in awarding TPC a 2011 MacArthur Award for Creative & Effective Institutions
**2011 List of Funders**

Contributions to TPC help keep our mission intact and ensure excellence and innovation in our work. We are funded largely through grants and contributions and could not exist without your help. TPC recognizes with immense gratitude all those who supported us.

The Urban Institute and the Brookings Institution are both 501(c)(3) nonprofit organizations, which means your gifts are tax deductible. By supporting the Center, you can help inform the debate about America’s fiscal future. And thanks to a recent award from the MacArthur Foundation, you can now double the impact of your donation. The Foundation will match every dollar given by new donors with an additional dollar to support the Center’s activities.

- AARP
- Alexander Cook
- Annie E. Casey Foundation
- Bill and Melinda Gates Foundation
- Bipartisan Policy Center
- Calvin Johnson
- Charles Stewart Mott Foundation
- College Board
- Ford Foundation
- Foundation for Child Development
- Fries Associates of Delaware, LLC
- John D. and Catherine T. MacArthur Foundation
- Leslie B. Samuels
- National Low Income Housing Coalition
- Peter G. Peterson Foundation
- Pew Charitable Trusts
- Philip R. West
- Popplestone Foundation
- Price Family Charitable Fund
- Richard Royce Family Foundation
- Rockefeller Foundation
- Stoneman Family Foundation
- Sue Jean Kim
- A number of individual donors, some of whom wish to remain anonymous

If you would like to support the Tax Policy Center, visit us at http://taxpolicycenter.org/aboutus/support.cfm

The Urban Institute, 2100 M Street, NW, Washington, DC 20037

The Brookings Institution, 1775 Massachusetts Ave., NW, Washington, DC 20036
Letter from the Directors

Tax policy figures prominently in our nation’s economic decisions. The tax system is essential for funding government programs and plays a crucial role in our nation’s social safety net. Unfortunately, it is needlessly complex, economically inefficient, and often unfair. We believe that policymakers can and should make the system fairer, simpler, and more conducive to economic growth; address long-term budget challenges; and provide a robust safety net for children and low-income families. Doing so, however, requires that citizens and policymakers have the information they need to make good decisions.

The Tax Policy Center provides that information. Our vision is simple: better information, careful analysis, fresh ideas, and clear communication can together lead to better policy decisions. With that in mind, TPC educates policymakers, the media, advocacy groups, and the public about how our tax system works and how changes would affect taxpayers and the federal budget.

Tax issues moved to the forefront of domestic policy debates in 2011, as the nation confronted anemic job growth, soaring national debt, and rising concern about income inequality. Political leaders offered various proposals to address these challenges, and TPC played a prominent role in examining the country’s fiscal challenges and analyzing ways to address them. Our researchers worked on a broad range of pressing issues, and testified frequently before Congress on such issues as the federal budget, tax policy and small businesses, and the tax treatment of charities. We also continued to focus on the fiscal challenges facing state and local governments. Our popular calculator upgrade. The calculator helps users understand how current tax policy affects real families and what would happen if we changed that policy. The current version lets users compare three alternative tax policies to see how different taxpayers would make out in either 2010 or 2011:

- 2010 law with all the 2001–03 tax cuts (often called the “Bush tax cuts”) and the 2009 stimulus tax provisions still in place;
- 2011 law if the 2001–03 tax cuts had expired as originally scheduled; and
- 2011 law as enacted in the 2010 compromise between President Obama and congressional Republicans that extended most 2001–09 tax cuts through 2012.

Users can also turn the alternative minimum tax (AMT) “patch” on or off to see how raising the exemption affects whether taxpayers must pay the AMT.

TaxVox. TPC’s blog communicates quickly and directly with the online community interested in tax and fiscal policy issues. During 2011, TaxVox continued to expand its reach by partnering with other high-profile web sites. The Christian Science Monitor (csmonitor.com) and Forbes.com regularly repost TaxVox articles, while other high-profile sites, including CNNMoney.com, republish occasional TaxVox posts. The Christian Science Monitor reports that TaxVox was their business page’s number 1 guest blog in 2010, generating more traffic than any other guest blog. Sites such as Real Clear Politics and economic blogs at The New York Times, The Washington Post, and The Wall Street Journal frequently linked to TaxVox articles; in 2009, The Wall Street Journal named TaxVox one of the nation’s best economics blogs. The number of subscribers to the TaxVox web feed increased nearly 50 percent during 2011, from 11,914 to 17,709. Additionally, the average time visitors spent on the site increased from 55 seconds to 1 minute and 12 seconds, a strong indication that people are reading more posts.

What would happen if Congress subsequently extended the tax cut for all of 2012. The calculator compares the amounts of payroll tax that employers would withhold from a worker’s paycheck in 2012 under each of three scenarios: Congress had not extended the payroll tax cut beyond December 31, 2011; Congress had allowed the two-month extension to expire as scheduled after February 28; and Congress further extended the tax cut for all of 2012 (as it subsequently did).

The calculator upgrade. The calculator helps users understand how current tax policy affects real families and what would happen if we changed that policy. The current version lets users compare three alternative tax policies to see how different taxpayers would make out in either 2010 or 2011:

- 2010 law with all the 2001–03 tax cuts (often called the “Bush tax cuts”) and the 2009 stimulus tax provisions still in place;
- 2011 law if the 2001–03 tax cuts had expired as originally scheduled; and
- 2011 law as enacted in the 2010 compromise between President Obama and congressional Republicans that extended most 2001–09 tax cuts through 2012.
TPC Products

TPC’s microsimulation tax model. In 2011, TPC analysts used the model to produce more than 400 revenue and distribution tables. Our estimates played a central role in policy discussions and were frequently cited by media, congressional staffers, and policy advocates across the political spectrum. Many of these analyses took advantage of the modeling advances implemented during the year.

Last year, we made a series of investments in the model, bringing it up to date, expanding its capabilities, and streamlining its operation. In early 2011, we updated the model to incorporate the latest economic, budget, and demographic projections from the IRS, the Congressional Budget Office, the Joint Committee on Taxation (JCT), and the Bureau of the Census. In addition, we calibrated the retirement saving module to match Treasury and JCT tax expenditure estimates. As part of the update, we also integrated our long-run model into our main tax model, allowing us to analyze the revenue and distributional implications of proposals out to the year 2080. We updated our statistical routines and internal documentation for the entire update process in order to automate and speed up future updates.

In late 2011, we developed and implemented a statistical “raking” technique to use data provided by the IRS to generate the ages in our model. Using this new technique will ensure that the ages in subsequent versions of our tax model will more accurately reflect the true age distribution of tax filers and their dependents.

TPC web site. Traffic to the TPC web site has risen steadily over the years, with occasional spikes when particular tax policy issues are in the news. TPC has become the media’s go-to source for objective nonpartisan analysis of tax and budget issues. Visits to our web site increased sharply near the end of 2011 as attention turned to TPC’s analysis of the GOP presidential candidates’ tax plans and other TPC work that helped voters understand the differences among the candidates’ stances on taxes and the economy.

In the past year, we continued to improve our web site and expand our web-based resources (www.taxpolicycenter.org). With the help of external web site consultants, TPC launched a major redesign to improve content layout, develop better site infrastructure, and reorganize content into a more intuitive structure that will help users find the materials they seek.

Payroll tax calculator. In December, TPC unveiled a payroll tax calculator (www.taxpolicycenter.org/taxfacts/payroll-tax-calculator) that let users see how the initial two-month extension of the payroll tax holiday would affect them and their dependents.

blog, TaxVox, again increased its readership for timely commentary on tax and fiscal issues. We improved TPC’s web site and made progress on a complete site redesign, due to launch in 2012. And, we made key improvements to our state-of-the-art model of the U.S. tax system.

In short, 2011 was busy and productive. A particular highlight came early in the year, when the MacArthur Foundation honored the Tax Policy Center with a MacArthur Award for Creative & Effective Institutions. Each year MacArthur awards grants to exceptional organizations that are key contributors to fields that are core to the foundation’s work. TPC was praised for “providing nonpartisan, expert, but common language analysis of the likely implications of tax policies and proposals, making it a key resource for journalists, policymakers, and citizens.”

Taxes will continue to be a vital issue in 2012 and beyond. Tax reform and deficit reduction will dominate budget discussions, and the weak economy will continue to inspire interest in fiscal policies that could spur job creation. Concerns about income disparities will focus attention on both the taxation of high-income taxpayers and the ways we use the tax system to provide benefits to low-income workers and children. Presidential candidates will continue to debate tax and fiscal policies. And, at the end of 2012, the country will once again face the question of what to do with expiring tax cuts.

How tax policy evolves over the next few years will be pivotal for America’s economy and fiscal future. And in today’s political climate, the sophisticated, nonpartisan analysis of tax issues that TPC delivers is urgently needed. With the support of our generous funders, we will continue to play a central role in these debates, and we look forward to continuing our good work.

We are extremely grateful for your interest and support.
Social policy in the tax code. Much of social policy has shifted from direct expenditures to tax subsidies. We are evaluating this continuing evolution in tax and social policy.

Long-term implications of tax and budget choices. The United States faces a dismal fiscal future in part because of unfunded public obligations related to rising health care costs and the retirement of the baby boomers. We examine the implications for future generations of current policies and proposed tax changes.

State tax issues. State and local taxes play important roles in assisting low- and moderate-income families, attracting business development, and affecting the cyclical properties of the economy. Our ongoing examination of state and local issues builds on long-standing traditions at the Urban Institute and the Brookings Institution.

The Tax Policy Center, a joint venture of the Urban Institute and the Brookings Institution, has filled a critical need for effective, nonpartisan analysis of tax policy since opening its doors in 2002. Our objective, timely, and accessible information helps policymakers, journalists, academics, and taxpayers identify and evaluate current and emerging tax policy options. We believe that better information, rigorous analysis, and fresh ideas injected at key points in the policy debate can forestall bad policies and reinforce good ones. Since TPC’s inception, we have focused our efforts on four overarching areas:

Fair, simple, and efficient taxation. Virtually everyone agrees that taxes should be fair, simple, and efficient. But policymakers disagree over how to define and achieve those objectives. We quantify trade-offs among these goals and identify reforms that increase simplicity, equity, and efficiency.

State and local tax policy issues. TPC continued to focus on the fiscal challenges facing state and local governments. We released three briefs on state and local budget issues including a report on possible education reform in California, a discussion of ways to streamline local revenue sources, and a primer on municipal bond markets. In addition, TPC cohosted conferences on the budget issues facing cities, ways to finance parks in urban and metropolitan regions, and housing issues and property taxes. Finally, TPC staff participated in workshops and annual conferences for specific cities and states and for state and local government organizations, including annual meetings of the National League of Cities, the Council of Chief State School Officers, the National Council of State Legislatures, and the National Governors Association, and forums on state and local fiscal reform in California, Michigan, and New Jersey.

The Urban Institute also increased its commitment to our work examining state and local finances and the interaction of federal and state tax systems. Kim Rueben will be spearheading the effort to provide more research and information on state tax policy and the effect of federal reform on state and local governments.

About the Tax Policy Center

State & Local Finance Data Query System. In 2011, TPC updated the State & Local Finance Data Query System (SLF-DQS). The system allows users to create their own tables based on data from the Census of Governments State and Local Finance series. Those data include detailed revenue, expenditure and debt variables for the United States, each of the 50 states, and the District of Columbia for 1977-2009. This tool is useful for comparative, single-state, or time-series analysis.

Wayne Hasenbalg, Deputy Chief of Staff for Policy and Planning for N.J. Governor Chris Christie, Kim Rueben, TPC senior fellow, and Loretta Mester, executive vice president and director of research with the Federal Reserve Bank of Philadelphia, in a panel at the first Garden State Economic Forum on November 14.

State Tax Issues

State and local tax policy issues. TPC continued to focus on the fiscal challenges facing state and local governments. We released three briefs on state and local budget issues including a report on possible education reform in California, a discussion of ways to streamline local revenue sources, and a primer on municipal bond markets. In addition, TPC cohosted conferences on the budget issues facing cities, ways to finance parks in urban and metropolitan regions, and housing issues and property taxes. Finally, TPC staff participated in workshops and annual conferences for specific cities and states and for state and local government organizations, including annual meetings of the National League of Cities, the Council of Chief State School Officers, the National Council of State Legislatures, and the National Governors Association, and forums on state and local fiscal reform in California, Michigan, and New Jersey.

The Urban Institute also increased its commitment to our work examining state and local finances and the interaction of federal and state tax systems. Kim Rueben will be spearheading the effort to provide more research and information on state tax policy and the effect of federal reform on state and local governments.

State & Local Finance Data Query System. In 2011, TPC updated the State & Local Finance Data Query System (SLF-DQS). The system allows users to create their own tables based on data from the Census of Governments State and Local Finance series. Those data include detailed revenue, expenditure and debt variables for the United States, each of the 50 states, and the District of Columbia for 1977-2009. This tool is useful for comparative, single-state, or time-series analysis.
SOCIAL SECURITY AND EXPECTED MEDICARE BENEFITS AND TAXES FOR AVERAGE-WAGE TWO-EARNER COUPLE ($43.5K)

SOCIAL SECURITY BENEFITS
MEDICARE BENEFITS
SOCIAL SECURITY TAXES
MEDICARE TAXES

Graph from Stephanie Rennane and C. Eugene Steuerle's "Social Security and Medicare Taxes and Benefits Over a Lifetime," June 28.

Productivity at a Glance, 2011

Research and Testimony
57 discussion papers, research reports, policy briefs, articles, and commentaries
11 testimonies before Congress
213 TaxVox blog entries

Public Outreach
14 public policy symposia
17,709 TaxVox RSS feeds
More than 4,300 subscribers to TPC's newsletter

Media
More than 4,500 citations in major media articles; more than 30 appearances by staff on network television and radio news programs

Web Site
1.02 million unique visitors
184,000 TaxVox page views
The five most popular publications on the TPC web site during 2011:

**Most Cited Publications of 2011**

The five most popular publications on the TPC web site during 2011:

- **Why Some Tax Units Pay No Income Tax**
  by Rachel M. Johnson, Jim Nunns, Jeff Rohaly, Eric Toder, and Roberton Williams

- **Using a VAT for Deficit Reduction**
  by Jim Nunns, Joseph Rosenberg, and Eric Toder

- **Tax Reform: Lessons from History**
  by Eugene Steuerle

- **Options to Limit the Benefit of Tax Expenditures for High-Income Households**
  by Daniel Baneman, Jim Nunns, Jeff Rohaly, Eric Toder, and Roberton Williams

- **Spending in Disguise**
  by Donald Marron

“Just how regressive is a VAT compared to our income tax structure? To payroll taxes?”

As it happens, Joseph Rosenberg and Eric Toder wrote a paper on exactly this comparison for the Tax Policy Center last year. They found that a broad-based value-added tax of 5 percent, with education, charitable services, state and local services, and government-financed health care exempt, would be mildly regressive.”

Washington Post, July 27

Trade-off between the immediate need to address a floundering economic recovery and the long-term need to achieve fiscal sustainability.

- TPC codirector William Gale and University of California, Berkeley, economics professor Alan Auerbach cowrote a series of papers and commentaries about the nation’s fiscal outlook. In their latest paper, “Tempting Fate: The Federal Budget Outlook,” they presented new estimates of the budget outlook, based on the latest projections from the Congressional Budget Office and the Medicare and Social Security Trustee reports.

- Social Security and Medicare taxes and benefits over a lifetime. Eugene Steuerle and Stephanie Rennane estimated the lifetime value of Social Security and Medicare benefits and taxes for typical workers in different generations at various earning levels; they found that most Americans receive more from these programs than they paid in earmarked taxes for them. This study was among the Urban Institute’s five most-cited research publications in 2011.

- TPC provided technical assistance for a project in which six think tanks developed comprehensive budget proposals designed to remedy our fiscal crisis. TPC used its microsimulation model and knowledge of tax reform options to estimate the revenue implications of the plans consistently.

- In September, TPC held “Avoiding Budget Catastrophe,” an event concluding a two-year initiative led by TPC co-founder and former director Leonard Burman to address the nation’s long-term budget challenges. Panelists discussed options for fiscal reform and the

William Gale discusses the state of the economy during an event held at the Brookings Institution on August 17.
explored two ways to reduce the deficit: imposing a broad-based VAT with a rebate to offset the burden on low-income households, and increasing marginal income tax rates. The authors concluded that their prototype VAT would impose a larger burden on low- and middle-income households than raising income tax rates and would increase compliance costs for taxpayers and administrative costs for the government. However, the VAT would increase effective marginal tax rates on earnings by less than an income tax and would not reduce incentives to save and invest.

Fiscal outlook. TPC continued to play an active role in documenting the fiscal challenges that face the United States and in analyzing ways to address them. TPC staff testified before Congress, published reports and commentaries, and organized forums to discuss alternatives to help reverse the worsening federal budget deficit.

- In "The Budget Process: A Maze Perverted by Trickery," former Congressional Budget Office director Rudolph Penner argued that the congressional budget process has been so perverted that it no longer imposes much discipline on fiscal decisionmaking. Penner explained how the situation arose and what to do about it in his article that appeared in The Fiscal Times in January 2011.

- Rudolph Penner also published "Will It Take a Crisis to Fix Fiscal Policy?" in the April 2011 issue of Business Economics. He showed that unless we reform current tax policy, our fiscal outlook is bleak.

---

### INCOME TAX RATES FOR JOINT FILERS IN 1958 AND IN 2009 (BRACKETS IN 2009$)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>500,000</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>1,000,000</td>
<td>20%</td>
<td>20%</td>
</tr>
<tr>
<td>1,500,000</td>
<td>30%</td>
<td>30%</td>
</tr>
<tr>
<td>2,000,000</td>
<td>40%</td>
<td>40%</td>
</tr>
<tr>
<td>2,500,000</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>3,000,000</td>
<td>60%</td>
<td>60%</td>
</tr>
<tr>
<td>3,500,000</td>
<td>70%</td>
<td>70%</td>
</tr>
<tr>
<td>4,000,000</td>
<td>80%</td>
<td>80%</td>
</tr>
<tr>
<td>4,500,000</td>
<td>90%</td>
<td>90%</td>
</tr>
<tr>
<td>5,000,000</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Graph from Dan Baneman and Jim Nunns’s paper, "Income Tax Paid at Each Rate, 1958–2009:"

---

### Pay What You Earn

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>500,000</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>1,000,000</td>
<td>20%</td>
<td>20%</td>
</tr>
<tr>
<td>1,500,000</td>
<td>30%</td>
<td>30%</td>
</tr>
<tr>
<td>2,000,000</td>
<td>40%</td>
<td>40%</td>
</tr>
<tr>
<td>2,500,000</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>3,000,000</td>
<td>60%</td>
<td>60%</td>
</tr>
<tr>
<td>3,500,000</td>
<td>70%</td>
<td>70%</td>
</tr>
<tr>
<td>4,000,000</td>
<td>80%</td>
<td>80%</td>
</tr>
<tr>
<td>4,500,000</td>
<td>90%</td>
<td>90%</td>
</tr>
<tr>
<td>5,000,000</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

---

### Fair, Simple, and Efficient Taxation

Who pays no federal income tax? Policymakers and commentators often cite TPC’s estimate that about half of tax units do not pay federal income tax. The statistic has set off a firestorm of media attention, often without essential context. In July, Rachel Johnson, Jim Nunns, Jeff Rohaly, Eric Toder, and Roberton Williams published a detailed analysis examining why so many units don’t pay federal income tax. They concluded that about half of those paying no income tax had income too low to owe tax, even if they claimed only the standard deduction and personal exemptions. Most of the rest were elderly or low-income working families whose income tax bills were zeroed out by specific tax preferences, such as the exclusion of most Social Security benefits and the child and earned income tax credits.

Analyzing tax proposals affecting everyday citizens. In the face of anemic job growth, burgeoning budget deficits, and a soaring national debt, political leaders and policymakers proposed various policies to deal with the nation’s problems. TPC took a leading role in examining the various proposals, showing how they would affect individual taxpayers and how much additional revenue they might raise.

- In September, President Obama unveiled the American Jobs Act, a proposal that combined tax cuts and spending increases to boost the economy in 2012. TPC published widely cited analyses of the distributional consequences of the tax cuts proposed to increase demand (principally temporary reductions in employee and employer payroll taxes) and the tax increases the president called for to pay for them (mostly cutting the value of tax breaks for high-income families).

- TPC also published detailed distributional analyses of the tax proposals put forward by GOP presidential candidates, including Speaker Gingrich, Governor Romney, Senator Santorum, Governor Perry, and Herman Cain.

Addressing the budget problem: tax expenditures. As more concern has focused on the long-term budget problem, many policymakers and analysts have questioned the more than $1 trillion in annual tax breaks embedded in the tax code. These “tax expenditures” include provisions that allow special interest groups to avoid paying income tax.

Who pays no federal income tax?

- According to TPC’s estimates, about 47% of tax units do not pay federal income tax.
- About half of those paying no income tax had income too low to owe tax, even if they claimed only the standard deduction and personal exemptions.
- About half of the rest were elderly or low-income working families whose income tax bills were zeroed out by specific tax preferences.

Analyzing tax proposals affecting everyday citizens.

- TPC published widely cited analyses of the distributional consequences of the tax cuts proposed to increase demand (principally temporary reductions in employee and employer payroll taxes) and the tax increases the president called for to pay for them (mostly cutting the value of tax breaks for high-income families).

- TPC also published detailed distributional analyses of the tax proposals put forward by GOP presidential candidates, including Speaker Gingrich, Governor Romney, Senator Santorum, Governor Perry, and Herman Cain.

Addressing the budget problem: tax expenditures. As more concern has focused on the long-term budget problem, many policymakers and analysts have questioned the more than $1 trillion in annual tax breaks embedded in the tax code. These “tax expenditures” include provisions that allow special interest groups to avoid paying income tax.
Marron and Eric Toder presented “Measuring Leviathan: How Big Is the Federal Government?”, a paper analyzing how tax expenditures may cause traditional budget measures to understate the size of government and open the possibility that some tax increases may make the government smaller.

Exclusions, exemptions, or deductions or that provide special tax credits, preferential tax rates, or deferral of tax liability. Many tax expenditures promote important social goals, but some may no longer serve a useful purpose or could be more effective if restructured. Moreover, reducing or eliminating inefficient, outdated, and ineffective tax expenditures would raise a substantial amount of revenue that could be used to reduce the federal budget deficit and lower tax rates.

In January, TPC brought together academic economists, lawyers, and practitioners for “Starving the Hidden Beast: New Approaches to Tax Expenditure Reform.” Held in Los Angeles and cosponsored with Loyola Law School Los Angeles, the forum highlighted new work that may contribute to reforming tax expenditures and, therefore, the federal budget as a whole. Donald Marron’s March 28 Tax Notes article “How Large Are Tax Expenditures?”

The paper also discussed the rationale for and effects of three tax changes: reform of income tax expenditures, implementation of a value-added tax, and the creation of new or increased taxes on nonrenewable energy use.

- Eugene Steuerle published “Tax Reform: Lessons from History” as part of the Tax Notes series “The Legacy of the TRA ’86.” As current budget pressure forces Americans to consider tax reform as a way to raise revenue, past reforms offer some valuable lessons. Reforms have typically begun with a consensus that something is broken and that, while we disagree on the perfect solution, no one favors the unequal justice, inefficiency, or complexity in our tax code. It was that type of bipartisan agreement that led to past successful tax reforms, such as in 1986, 1969, and 1954. Similar ideas are relevant today.

- In “Tax Reform in an Era of Deficits,” Eric Toder argued that tax reform should focus on three goals: reducing needless complexity, reducing backdoor spending through the tax code, and reforming rules for taxing saving and investment to make our tax law more suitable for a globalized economy. Toder’s note summarized steps that should be taken to reform the tax system and how recent recommendations by the President’s Economic Recovery Board, the National Taxpayer Advocate, the President’s Fiscal Commission, and the Bipartisan Policy Center provide a road map for future changes.

- The past year has seen increased discussion of using a value-added tax (VAT) to help close America’s long-term budget gap.

- In November, Jim Nunns, Eric Toder, and Joe Rosenberg published “Using a VAT for Deficit Reduction,” which

"People used to say there’s not a dime’s worth of difference between Democrats and Republicans when it came to government spending,” says Howard Gleckman of the Tax Policy Center. “Now you are seeing a fundamental difference in the view of government between the two parties—a contrast we haven’t had probably since the 1920s.”

USA Today, October 19, on TPC’s analysis of GOP candidate Rick Perry’s tax plan

NPR’s online edition, April 12

The Tax Policy Center analysis is the most extensive and sophisticated yet attempted by any independent group.”

Donald Marron speaks about fiscal policy in practice at a research conference at Emory University’s Goizueta Business School on November 3.
reform. Gale discussed tax reform options promoting retirement security, and Burman addressed tax reform options affecting high-income taxpayers.

Donald Marron discussed spending in the tax code and the often-misunderstood relationship between tax policy and spending policy in his paper "Spending in Disguise."

In June, William Gale and Benjamin Harris published "Reforming Taxes and Raising Revenue: Part of the Fiscal Solution," which examined the fiscal problems and tax structure of the United States and concluded that we need both tax reform and higher revenues.

In response to demands for policies to reduce our national debt, President Obama and Congressman Paul Ryan each offered budget plans to address fiscal imbalances over the coming decade. TPC rigorously analyzed both plans, showing how they would affect taxpayers and how much they would affect federal revenues.

TPC published detailed distributional analyses of President Obama’s fiscal year 2012 budget, the administration’s deficit reduction proposal for the Joint Select Committee, the American Jobs Act, and the House Republicans’ budget.

TPC published detailed distributional analyses of the tax proposals offered by the GOP presidential candidates, including Speaker Gingrich, Governor Romney, Senator Santorum, Governor Perry, and Herman Cain.

TPC has also played an active role in discussions about broad-based reform of the income tax system.

William Gale and Len Burman appeared before the Senate Committee on Finance to discuss tax reform. Gale discussed tax reform options promoting retirement security, and Burman addressed tax reform options affecting high-income taxpayers.

Donald Marron discussed spending in the tax code and the often-misunderstood relationship between tax policy and spending policy in his paper "Spending in Disguise."

In June, William Gale and Benjamin Harris published "Reforming Taxes and Raising Revenue: Part of the Fiscal Solution," which examined the fiscal problems and tax structure of the United States and concluded that we need both tax reform and higher revenues.

In "Options to Limit the Benefit of Tax Expenditures for High-Income Households," Eric Toder, Dan Baneman, Jim Nunis, Jeff Rohaly, and Robertson Williams measured the revenue and distributional impacts of three proposals to limit tax expenditures for higher-income households: the Obama administration’s plan to cap the value of itemized deductions at 28 percent, an effective minimum tax to ensure that tax liability is at least a specified percentage of a taxpayer’s income, and a modified version of a recent proposal to limit the value of specific tax expenditures to 2 percent of adjusted gross income.

TPC published a series of articles and estimates highlighting the importance of tax expenditures. Pieces include Donald Marron’s essay "Spending in Disguise" in National Affairs, Robertson Williams’s discussion in Tax Notes of the distributional effects of tax expenditures, and Allison Rogers and Eric Toder’s survey of trends in tax expenditures since the 1986 tax reform.

In "Options to Limit the Benefit of Tax Expenditures for High-Income Households," Eric Toder, Dan Baneman, Jim Nunis, Jeff Rohaly, and Robertson Williams measured the revenue and distributional impacts of three proposals to limit tax expenditures for higher-income households: the Obama administration’s plan to cap the value of itemized deductions at 28 percent, an effective minimum tax to ensure that tax liability is at least a specified percentage of a taxpayer’s income, and a modified version of a recent proposal to limit the value of specific tax expenditures to 2 percent of adjusted gross income.

In "Options to Limit the Benefit of Tax Expenditures for High-Income Households," Eric Toder, Dan Baneman, Jim Nunis, Jeff Rohaly, and Robertson Williams measured the revenue and distributional impacts of three proposals to limit tax expenditures for higher-income households: the Obama administration’s plan to cap the value of itemized deductions at 28 percent, an effective minimum tax to ensure that tax liability is at least a specified percentage of a taxpayer’s income, and a modified version of a recent proposal to limit the value of specific tax expenditures to 2 percent of adjusted gross income.

TPC held a full-day conference in 2011, cohosted with the IRS, on expanding taxpayer service to help improve the administration of the tax system. The conference featured presentations on augmenting taxpayer service to help promote compliance, the compliance behavior of individual taxpayers, new approaches to measuring the tax gap, and taxpayers’ use of refund anticipation loans. At the end of the year, the IRS revised and updated its tax gap measures using some of the new findings discussed at the conference, particularly a new methodology developed in one paper to estimate the revenue loss from taxpayers who are required to file tax returns but fail to do so.

Reducing the tax gap. The tax gap is the difference between taxes owed and taxes paid on time. The Internal Revenue Service (IRS) estimates that over the past 30 years, the tax gap has ranged from 16 to 20 percent of total tax liability and totaled $450 billion for tax year 2006 (the most recent year for which an estimate is available).

TPC held a full-day conference in 2011, cohosted with the IRS, on expanding taxpayer service to help improve the administration of the tax system. The conference featured presentations on augmenting taxpayer service to help promote compliance, the compliance behavior of individual taxpayers, new approaches to measuring the tax gap, and taxpayers’ use of refund anticipation loans. At the end of the year, the IRS revised and updated its tax gap measures using some of the new findings discussed at the conference, particularly a new methodology developed in one paper to estimate the revenue loss from taxpayers who are required to file tax returns but fail to do so.

TPC held a full-day conference in 2011, cohosted with the IRS, on expanding taxpayer service to help improve the administration of the tax system. The conference featured presentations on augmenting taxpayer service to help promote compliance, the compliance behavior of individual taxpayers, new approaches to measuring the tax gap, and taxpayers’ use of refund anticipation loans. At the end of the year, the IRS revised and updated its tax gap measures using some of the new findings discussed at the conference, particularly a new methodology developed in one paper to estimate the revenue loss from taxpayers who are required to file tax returns but fail to do so.

TPC held a full-day conference in 2011, cohosted with the IRS, on expanding taxpayer service to help improve the administration of the tax system. The conference featured presentations on augmenting taxpayer service to help promote compliance, the compliance behavior of individual taxpayers, new approaches to measuring the tax gap, and taxpayers’ use of refund anticipation loans. At the end of the year, the IRS revised and updated its tax gap measures using some of the new findings discussed at the conference, particularly a new methodology developed in one paper to estimate the revenue loss from taxpayers who are required to file tax returns but fail to do so.
Social Policy in the Tax Code

Taxes and the family. A cornerstone of TPC’s work is its analysis of how taxation affects children and families. TPC provided policymakers with estimates of the distributive impact of various options to reform the child tax credit and the earned income tax credit. Published several studies analyzing the distribution of child-related benefits, hosted events on issues affecting low-income families, and participated in working groups concerned with tax credits for low-income families as well as general tax policy for children and families.

In April 2011, Elaine Maag, Stephanie Rennane, and Eugene Steuerle published “A Reference Manual for Child Tax Benefits.” The discussion paper comprehensively reviewed how the tax system affects families and children, with a focus on low-income families. The authors explained who benefits—by cash income level—from a broad array of tax provisions targeted on children including the child tax benefit (CTC), the earned income tax credit (EITC), and the American Opportunity tax credit. The analysis cataloged the broad spectrum of tax benefits for families with children and noted how benefits phase in and out as income rises.

Elaine Maag also analyzed the impact of creating a single uniform definition of children based solely on age: those under 19, regardless of student status. Using that definition could simplify the tax system by creating a clear distinction between tax provisions that benefit families with children and tax provisions that help families save and pay for higher education. The analysis examined how using the simplified definition would reduce the cost of dependent exemptions and the EITC, raise the cost of the CTC, and change the distribution of child-related benefits.

Taxes and charity. In testimony before the Senate Finance Committee on “Tax Reform Options: Incentives for Charitable Giving,” Eugene Steuerle presented options to increase tax revenues with minimal impact on—and perhaps even an increase in—charitable giving. Among other recommendations, he suggested a floor under charitable giving, improved compliance measures, greater restrictions on noncash gifts, a better system of information reporting, allowing taxpayers to deduct their contributions immediately when they file their tax returns, extending the deduction to taxpayers who don’t itemize, raising the ceiling on the deductions allowed for some types of gifts, and reforming the excise tax on foundations.

Energy policy and tax reform. In September, Donald Marron testified before the House Subcommittee on Select Revenue Measures and the Subcommittee on Oversight of the Committee on Ways and Means on energy policy and tax reform. In his testimony, Marron offered an economic framework of the interactions between tax reform, fiscal concerns, and energy policy. Among other recommendations, he suggested that lawmakers should consider whether pollution or energy taxes, rather than tax subsidies, might be a more effective way to accomplish policy goals.

The mortgage interest deduction. In July, TPC cosponsored a conference with the Reason Foundation on “Rethinking the Mortgage Interest Deduction.” An expert group of panelists debated the future of the mortgage interest deduction and how different changes would affect the housing market.

“Clearly, not all tax breaks are created equal, as anyone who has bounced across tax brackets knows. Many tax benefits notoriously have greater benefits the higher your income. Consider the mortgage interest deduction. ‘If the government said, ‘The more money you make, the more we’ll give you to pay for your house,’ people would say, ‘No way.’ But that’s exactly what happens,’ said Roberton Williams, a senior fellow at the Urban Institute. ‘The value of a deduction is going to be worth a lot more to the rich guy in the 35 percent tax bracket than for someone in the 10 percent bracket.’”

Washington Post, May 13

Edward Andrews, Seth Hanlon, and Eric Twible at “Rethinking the Mortgage Interest Deduction” on July 28.
Taxes and the family. A cornerstone of TPC’s work is its analysis of how taxation affects children and families. TPC provided policymakers with estimates of the distributional impact of various options to reform the child tax credit and the earned income tax credit, published several studies analyzing the distribution of child-related benefits, hosted events on issues affecting low-income families, and participated in working groups concerned with tax credits for low-income families as well as general tax policy for children and families.

In April 2011, Elaine Maag, Stephanie Rennane, and Eugene Steuerle published “A Reference Manual for Child Tax Benefits.” The discussion paper comprehensively reviewed how the tax system affects families and children, with a focus on low-income families. The authors explained who benefits—by cash income level—from a broad array of tax provisions targeted on children including the child tax credit (CTC), the earned income tax credit (EITC), and the American Opportunity tax credit. The analysis cataloged the broad spectrum of tax benefits for families with children and noted how benefits phase in and out as income rises.

Elaine Maag also analyzed the impact of creating a single uniform definition of children based solely on age: those under 19, regardless of student status. Using that definition could simplify the tax system by creating a clear distinction between tax provisions that benefit families with children and tax provisions that help families save and pay for higher education. The analysis examined how using the simplified definition would reduce the cost of dependent exemptions and the EITC, raise the cost of the CTC, and change the distribution of child-related benefits.

Taxes and charity. In testimony before the Senate Finance Committee on “Tax Reform Options: Incentives for Charitable Giving,” Eugene Steuerle presented options to increase tax revenues with minimal impact on—and perhaps even an increase in—charitable giving. Among other recommendations, he suggested a floor under charitable giving, improved compliance measures, greater restrictions on noncash gifts, a better system of information reporting, allowing taxpayers to deduct their contributions immediately when they file their tax returns, extending the
deduction to taxpayers who don’t itemize, raising the ceiling on the deductions allowed for some types of gifts, and reforming the excise tax on foundations.

Energy policy and tax reform. In September, Donald Marron testified before the House Subcommittee on Select Revenue Measures and the Subcommittee on Oversight of the Committee on Ways and Means on energy policy and tax reform. In his testimony, Marron offered an economic framework of the interactions between tax reform, fiscal concerns, and energy policy. Among other recommendations, he suggested that lawmakers should consider whether pollution or energy taxes, rather than tax subsidies, might be a more effective way to accomplish policy goals.

The mortgage interest deduction. In July, TPC cosponsored a conference with the Reason Foundation on “Rethinking the Mortgage Interest Deduction.” An expert group of panelists debated the future of the mortgage interest deduction and how different changes would affect the housing market.

“Clearly, not all tax breaks are created equal, as anyone who has bounced across tax brackets knows. Many tax benefits notoriously have greater benefits the higher your income. Consider the mortgage interest deduction. ‘If the government said, ‘The more money you make, the more we’ll give you to pay for your house,’ people would say, ‘No way.’ But that’s exactly what happens,’ said Roberton Williams, a senior fellow at the Urban Institute. ‘The value of a deduction is going to be worth a lot more to the rich guy in the 35 percent tax bracket than for someone in the 10 percent bracket.’”

Washington Post, May 13
reform. Gale discussed tax reform options promoting retirement security, and Burman addressed tax reform options affecting high income taxpayers.

● Donald Marron discussed spending in the tax code and the often-misunderstood relationship between tax policy and spending policy in his paper “Spending in Disguise.”

● In June, William Gale and Benjamin Harris published “Reforming Taxes and Raising Revenue: Part of the Fiscal Solution,” which examined the fiscal problems and tax structure of the United States and concluded that we need both tax reform and higher revenues.

Deficit reduction and the federal budget. TPC took a leading role in examining various budget proposals, showing how they would affect individual taxpayers and how much additional revenue they might raise.

● In response to demands for policies to reduce our national debt, President Obama and Congressman Paul Ryan each offered budget plans to address fiscal imbalances over the coming decade. TPC rigorously analyzed both plans, showing how they would affect taxpayers and how much they would affect federal revenues.

● TPC published detailed distributional analyses of President Obama’s fiscal year 2012 budget, the administration’s deficit reduction proposal for the Joint Select Committee, the American Jobs Act, and the House Republican’s budget.

● TPC published a series of articles and estimates highlighting the importance of tax expenditures. Pieces include Donald Marron’s essay “Spending in Disguise” in National Affairs, Robertson Williams’s discussion in Tax Notes of the distributional effects of tax expenditures, and Allison Rogers and Eric Toder’s survey of trends in tax expenditures since the 1986 tax reform.

● In “Options to Limit the Benefit of Tax Expenditures for High-Income Households,” Eric Toder, Dan Baneman, Jim Nunne, Jeff Rohaly, and Robertson Williams measured the revenue and distributional impacts of three proposals to limit tax expenditures for higher-income households: the Obama administration’s plan to cap the value of itemized deductions at 28 percent, an effective minimum tax to ensure that tax liability is at least a specified percentage of a taxpayer’s income, and a modified version of a recent proposal to limit the value of specific tax expenditures to 2 percent of adjusted gross income.

Reducing the tax gap. The tax gap is the difference between taxes owed and taxes paid on time. The Internal Revenue Service (IRS) estimates that over the past 30 years, the tax gap has ranged from 16 to 20 percent of total tax liability and totaled $450 billion for tax year 2006 (the most recent year for which an estimate is available).

TPC held a full-day conference in 2011, cohosted with the IRS, on expanding taxpayer service to help improve the administration of the tax system. The conference featured presentations on augmenting taxpayer service to help promote compliance, the compliance behavior of individual taxpayers, new approaches to measuring the tax gap, and taxpayers’ use of refund anticipation loans. At the end of the year, the IRS revised and updated its tax gap measures using some of the new findings discussed at the conference, particularly a new methodology developed in one paper to estimate the revenue loss from taxpayers who are required to file tax returns but fail to do so.
Marron and Eric Toder presented “Measuring Leviathan: How Big Is the Federal Government?”, a paper analyzing how tax expenditures may cause traditional budget measures to understate the size of government and open the possibility that some tax increases may make the government smaller.

Exclusions, exemptions, or deductions or that provide special tax credits, preferential tax rates, or deferral of tax liability. Many tax expenditures promote important social goals, but some may no longer serve a useful purpose or could be more effective if restructured. Moreover, reducing or eliminating inefficient, outdated, and ineffective tax expenditures would raise a substantial amount of revenue that could be used to reduce the federal budget deficit and lower tax rates.

In January, TPC brought together academic economists, lawyers, and practitioners for “Starving the Hidden Beast: New Approaches to Tax Expenditure Reform.” Held in Los Angeles and cosponsored with Loyola Law School Los Angeles, the forum highlighted new work that may contribute to reforming tax expenditures and, therefore, the federal budget as a whole. Donald Marron’s March 28 Tax Notes article “How Large Are Tax Expenditures?”

The paper also discussed the rationale for and effects of three tax changes: reform of income tax expenditures, implementation of a value-added tax, and the creation of new or increased taxes on nonrenewable energy use.

- Eugene Steuerle published “Tax Reform: Lessons from History” as part of the Tax Notes series “The Legacy of the TCA ‘96.” As current budget pressure forces Americans to consider tax reform as a way to raise revenue, past reforms offer some valuable lessons. Reforms have typically begun with a consensus that something is broken and that, while we disagree on the perfect solution, no one favors the unequal justice, inefficiency, or complexity in our tax code. It was that type of bipartisan agreement that led to past successful tax reforms, such as in 1986, 1969, and 1954. Similar ideas are relevant today.

- In “Tax Reform in an Era of Deficits,” Eric Toder argued that tax reform should focus on three goals: reducing needless complexity, reducing backdoor spending through the tax code, and reforming rules for taxing saving and investment to make our tax law more suitable for a globalized economy. Toder’s note summarized steps that should be taken to reform the tax system and how recent recommendations by the President’s Economic Recovery Board, the National Taxpayer Advocate, the President’s Fiscal Commission, and the Bipartisan Policy Center provide a road map for future changes.

- Eugene Steuerle published “Tax Reform: Lessons from History” as part of the Tax Notes series “The Legacy of the TCA ‘96.” As current budget pressure forces Americans to consider tax reform as a way to raise revenue, past reforms offer some valuable lessons. Reforms have typically begun with a consensus that something is broken and that, while we disagree on the perfect solution, no one favors the unequal justice, inefficiency, or complexity in our tax code. It was that type of bipartisan agreement that led to past successful tax reforms, such as in 1986, 1969, and 1954. Similar ideas are relevant today.

- In “Tax Reform in an Era of Deficits,” Eric Toder argued that tax reform should focus on three goals: reducing needless complexity, reducing backdoor spending through the tax code, and reforming rules for taxing saving and investment to make our tax law more suitable for a globalized economy. Toder’s note summarized steps that should be taken to reform the tax system and how recent recommendations by the President’s Economic Recovery Board, the National Taxpayer Advocate, the President’s Fiscal Commission, and the Bipartisan Policy Center provide a road map for future changes.

- VAT. The past year has seen increased discussion of using a value-added tax (VAT) to help close America’s long-term budget gap.

“People used to say there’s not a dime’s worth of difference between Democrats and Republicans when it came to government spending,’ says Howard Gleckman of the Tax Policy Center. ‘Now you are seeing a fundamental difference in the view of government between the two parties—a contrast we haven’t had probably since the 1920s.’”

USA Today, October 19, on TPC’s analysis of GOP candidate Rick Perry’s tax plan

In November, Jim Nunns, Eric Toder, and Joe Rosenberg published “Using a VAT for Deficit Reduction,” which
explored two ways to reduce the deficit: imposing a broad-based VAT with a rebate to offset the burden on low-income households, and increasing marginal income tax rates. The authors concluded that their prototype VAT would impose a larger burden on low- and middle-income households than raising income tax rates and would increase compliance costs for taxpayers and administrative costs for the government. However, the VAT would increase effective marginal tax rates on earnings by less than an income tax and would not reduce incentives to save and invest.

Fiscal outlook. TPC continued to play an active role in documenting the fiscal challenges that face the United States and in analyzing ways to address them. TPC staff testified before Congress, published reports and commentaries, and organized forums to discuss alternatives to help reverse the worsening federal budget deficit.

In “The Budget Process: A Maze Perverted by Trickery,” former Congressional Budget Office director Rudolph Penner argued that the congressional budget process has been so perverted that it no longer imposes much discipline on fiscal decisionmaking. Penner explained how the situation arose and what to do about it in his article that appeared in The Fiscal Times in January 2011.

Rudolph Penner also published “Will It Take a Crisis to Fix Fiscal Policy?” in the April 2011 issue of Business Economics. He showed that unless we reform current

INCOME TAX RATES FOR JOINT FILERS IN 1958 AND IN 2009 (BRACKETS IN 2009$)

Who pays no federal income tax? Policymakers and commentators often cite TPC’s estimate that about half of tax units do not pay federal income tax. The statistic has set off a firestorm of media attention, often without essential context. In July, Rachel Johnson, Jim Nunns, Jeff Rohaly, Eric Toder, and Roberton Williams published a detailed analysis examining why so many units don’t pay federal income tax. They concluded that about half of those paying no income tax had income too low to owe tax, even if they claimed only the standard deduction and personal exemptions. Most of the rest were elderly or low-income working families whose income tax bills were zeroed out by specific tax preferences, such as the exclusion of most Social Security benefits and the child and earned income tax credits.

Analyzing tax proposals affecting everyday citizens.

In the face of anemic job growth, burgeoning budget deficits, and a soaring national debt, political leaders and policymakers proposed various policies to deal with the nation’s problems. TPC took a leading role in examining the various proposals, showing how they would affect individual taxpayers and how much additional revenue they might raise.

In September, President Obama unveiled the American Jobs Act, a proposal that combined tax cuts and spending increases to boost the economy in 2012. TPC published widely cited analyses of the distributional consequences of the tax cuts proposed to increase demand (principally temporary reductions in employee and employer payroll taxes) and the tax increases the president called for to pay for them (mostly cutting the value of tax breaks for high-income families).

TPC also published detailed distributional analyses of the tax proposals put forward by GOP presidential candidates, including Speaker Gingrich, Governor Romney, Senator Santorum, Governor Perry, and Herman Cain.

Fair, Simple, and Efficient Taxation

Addressing the budget problem: tax expenditures. As more concern has focused on the long-term budget problem, many policymakers and analysts have questioned the more than $1 trillion in annual tax breaks embedded in the tax code. These “tax expenditures” include provisions that allow special

#### Fair, Simple, and Efficient Taxation

Who pays no federal income tax? Policymakers and commentators often cite TPC’s estimate that about half of tax units do not pay federal income tax. The statistic has set off a firestorm of media attention, often without essential context. In July, Rachel Johnson, Jim Nunns, Jeff Rohaly, Eric Toder, and Roberton Williams published a detailed analysis examining why so many units don’t pay federal income tax. They concluded that about half of those paying no income tax had income too low to owe tax, even if they claimed only the standard deduction and personal exemptions. Most of the rest were elderly or low-income working families whose income tax bills were zeroed out by specific tax preferences, such as the exclusion of most Social Security benefits and the child and earned income tax credits.

Analyzing tax proposals affecting everyday citizens.

In the face of anemic job growth, burgeoning budget deficits, and a soaring national debt, political leaders and policymakers proposed various policies to deal with the nation’s problems. TPC took a leading role in examining the various proposals, showing how they would affect individual taxpayers and how much additional revenue they might raise.

In September, President Obama unveiled the American Jobs Act, a proposal that combined tax cuts and spending increases to boost the economy in 2012. TPC published widely cited analyses of the distributional consequences of the tax cuts proposed to increase demand (principally temporary reductions in employee and employer payroll taxes) and the tax increases the president called for to pay for them (mostly cutting the value of tax breaks for high-income families).

TPC also published detailed distributional analyses of the tax proposals put forward by GOP presidential candidates, including Speaker Gingrich, Governor Romney, Senator Santorum, Governor Perry, and Herman Cain.

Addressing the budget problem: tax expenditures. As more concern has focused on the long-term budget problem, many policymakers and analysts have questioned the more than $1 trillion in annual tax breaks embedded in the tax code. These “tax expenditures” include provisions that allow special

### Fair, Simple, and Efficient Taxation

Who pays no federal income tax? Policymakers and commentators often cite TPC’s estimate that about half of tax units do not pay federal income tax. The statistic has set off a firestorm of media attention, often without essential context. In July, Rachel Johnson, Jim Nunns, Jeff Rohaly, Eric Toder, and Roberton Williams published a detailed analysis examining why so many units don’t pay federal income tax. They concluded that about half of those paying no income tax had income too low to owe tax, even if they claimed only the standard deduction and personal exemptions. Most of the rest were elderly or low-income working families whose income tax bills were zeroed out by specific tax preferences, such as the exclusion of most Social Security benefits and the child and earned income tax credits.

Analyzing tax proposals affecting everyday citizens.

In the face of anemic job growth, burgeoning budget deficits, and a soaring national debt, political leaders and policymakers proposed various policies to deal with the nation’s problems. TPC took a leading role in examining the various proposals, showing how they would affect individual taxpayers and how much additional revenue they might raise.

In September, President Obama unveiled the American Jobs Act, a proposal that combined tax cuts and spending increases to boost the economy in 2012. TPC published widely cited analyses of the distributional consequences of the tax cuts proposed to increase demand (principally temporary reductions in employee and employer payroll taxes) and the tax increases the president called for to pay for them (mostly cutting the value of tax breaks for high-income families).

TPC also published detailed distributional analyses of the tax proposals put forward by GOP presidential candidates, including Speaker Gingrich, Governor Romney, Senator Santorum, Governor Perry, and Herman Cain.

Addressing the budget problem: tax expenditures. As more concern has focused on the long-term budget problem, many policymakers and analysts have questioned the more than $1 trillion in annual tax breaks embedded in the tax code. These “tax expenditures” include provisions that allow special

#### Fair, Simple, and Efficient Taxation

Who pays no federal income tax? Policymakers and commentators often cite TPC’s estimate that about half of tax units do not pay federal income tax. The statistic has set off a firestorm of media attention, often without essential context. In July, Rachel Johnson, Jim Nunns, Jeff Rohaly, Eric Toder, and Roberton Williams published a detailed analysis examining why so many units don’t pay federal income tax. They concluded that about half of those paying no income tax had income too low to owe tax, even if they claimed only the standard deduction and personal exemptions. Most of the rest were elderly or low-income working families whose income tax bills were zeroed out by specific tax preferences, such as the exclusion of most Social Security benefits and the child and earned income tax credits.

Analyzing tax proposals affecting everyday citizens.

In the face of anemic job growth, burgeoning budget deficits, and a soaring national debt, political leaders and policymakers proposed various policies to deal with the nation’s problems. TPC took a leading role in examining the various proposals, showing how they would affect individual taxpayers and how much additional revenue they might raise.

In September, President Obama unveiled the American Jobs Act, a proposal that combined tax cuts and spending increases to boost the economy in 2012. TPC published widely cited analyses of the distributional consequences of the tax cuts proposed to increase demand (principally temporary reductions in employee and employer payroll taxes) and the tax increases the president called for to pay for them (mostly cutting the value of tax breaks for high-income families).

TPC also published detailed distributional analyses of the tax proposals put forward by GOP presidential candidates, including Speaker Gingrich, Governor Romney, Senator Santorum, Governor Perry, and Herman Cain.

Addressing the budget problem: tax expenditures. As more concern has focused on the long-term budget problem, many policymakers and analysts have questioned the more than $1 trillion in annual tax breaks embedded in the tax code. These “tax expenditures” include provisions that allow special

### Fair, Simple, and Efficient Taxation

Who pays no federal income tax? Policymakers and commentators often cite TPC’s estimate that about half of tax units do not pay federal income tax. The statistic has set off a firestorm of media attention, often without essential context. In July, Rachel Johnson, Jim Nunns, Jeff Rohaly, Eric Toder, and Roberton Williams published a detailed analysis examining why so many units don’t pay federal income tax. They concluded that about half of those paying no income tax had income too low to owe tax, even if they claimed only the standard deduction and personal exemptions. Most of the rest were elderly or low-income working families whose income tax bills were zeroed out by specific tax preferences, such as the exclusion of most Social Security benefits and the child and earned income tax credits.

Analyzing tax proposals affecting everyday citizens.

In the face of anemic job growth, burgeoning budget deficits, and a soaring national debt, political leaders and policymakers proposed various policies to deal with the nation’s problems. TPC took a leading role in examining the various proposals, showing how they would affect individual taxpayers and how much additional revenue they might raise.

In September, President Obama unveiled the American Jobs Act, a proposal that combined tax cuts and spending increases to boost the economy in 2012. TPC published widely cited analyses of the distributional consequences of the tax cuts proposed to increase demand (principally temporary reductions in employee and employer payroll taxes) and the tax increases the president called for to pay for them (mostly cutting the value of tax breaks for high-income families).

TPC also published detailed distributional analyses of the tax proposals put forward by GOP presidential candidates, including Speaker Gingrich, Governor Romney, Senator Santorum, Governor Perry, and Herman Cain.

Addressing the budget problem: tax expenditures. As more concern has focused on the long-term budget problem, many policymakers and analysts have questioned the more than $1 trillion in annual tax breaks embedded in the tax code. These “tax expenditures” include provisions that allow special

#### Fair, Simple, and Efficient Taxation

Who pays no federal income tax? Policymakers and commentators often cite TPC’s estimate that about half of tax units do not pay federal income tax. The statistic has set off a firestorm of media attention, often without essential context. In July, Rachel Johnson, Jim Nunns, Jeff Rohaly, Eric Toder, and Roberton Williams published a detailed analysis examining why so many units don’t pay federal income tax. They concluded that about half of those paying no income tax had income too low to owe tax, even if they claimed only the standard deduction and personal exemptions. Most of the rest were elderly or low-income working families whose income tax bills were zeroed out by specific tax preferences, such as the exclusion of most Social Security benefits and the child and earned income tax credits.

Analyzing tax proposals affecting everyday citizens.

In the face of anemic job growth, burgeoning budget deficits, and a soaring national debt, political leaders and policymakers proposed various policies to deal with the nation’s problems. TPC took a leading role in examining the various proposals, showing how they would affect individual taxpayers and how much additional revenue they might raise.

In September, President Obama unveiled the American Jobs Act, a proposal that combined tax cuts and spending increases to boost the economy in 2012. TPC published widely cited analyses of the distributional consequences of the tax cuts proposed to increase demand (principally temporary reductions in employee and employer payroll taxes) and the tax increases the president called for to pay for them (mostly cutting the value of tax breaks for high-income families).

TPC also published detailed distributional analyses of the tax proposals put forward by GOP presidential candidates, including Speaker Gingrich, Governor Romney, Senator Santorum, Governor Perry, and Herman Cain.

Addressing the budget problem: tax expenditures. As more concern has focused on the long-term budget problem, many policymakers and analysts have questioned the more than $1 trillion in annual tax breaks embedded in the tax code. These “tax expenditures” include provisions that allow special
The five most popular publications on the TPC web site during 2011:

**Most Cited Publications of 2011**

The five most popular publications on the TPC web site during 2011:

- **Why Some Tax Units Pay No Income Tax**
  by Rachel M. Johnson, Jim Nunns, Jeff Rohaly, Eric Toder, and Roberton Williams

- **Using a VAT for Deficit Reduction**
  by Jim Nunns, Joseph Rosenberg, and Eric Toder

- **Tax Reform: Lessons from History**
  by Eugene Steuerle

- **Options to Limit the Benefit of Tax Expenditures for High-Income Households**
  by Daniel Baneman, Jim Nunns, Jeff Rohaly, Eric Toder, and Roberton Williams

- **Spending in Disguise**
  by Donald Marron

In September, TPC held “Avoiding Budget Catastrophe,” an event concluding a two-year initiative led by TPC co-founder and former director Leonard Burman to address the nation’s long-term budget challenges. Panelists discussed options for fiscal reform and the trade-off between the immediate need to address a floundering economic recovery and the long-term need to achieve fiscal sustainability.

- TPC codirector William Gale and University of California, Berkeley, economics professor Alan Auerbach cowrote a series of papers and commentaries about the nation’s fiscal outlook. In their latest paper, “Tempting Fate: The Federal Budget Outlook,” they presented new estimates of the budget outlook, based on the latest projections from the Congressional Budget Office and the Medicare and Social Security Trustee reports.

- Social Security and Medicare taxes and benefits over a lifetime. Eugene Steuerle and Stephanie Rennane estimated the lifetime value of Social Security and Medicare benefits and taxes for typical workers in different generations at various earning levels; they found that most Americans receive more from these programs than they paid in earmarked taxes for them. This study was among the Urban Institute’s five most-cited research publications in 2011.

“Just how regressive is a VAT compared to our income tax structure? To payroll taxes?” As it happens, Joseph Rosenberg and Eric Toder wrote a paper on exactly this comparison for the Tax Policy Center last year. They found that a broad-based value-added tax of 5 percent, with education, charitable services, state and local services, and government-financed health care exempt, would be mildly regressive.”

*Washington Post, July 27*
Social Security and Expected Medicare Benefits and Taxes
For Average-Wage Two-Earner Couple ($43.5K)

Social Security Benefits
Medicare Benefits
Social Security Taxes
Medicare Taxes

Graph from Stephanie Rennane and C. Eugene Steuerle's "Social Security and Medicare Taxes and Benefits Over a Lifetime," June 28.
Social policy in the tax code. Much of social policy has shifted from direct expenditures to tax subsidies. We are evaluating this continuing evolution in tax and social policy.

Long-term implications of tax and budget choices. The United States faces a dismal fiscal future in part because of unfunded public obligations related to rising health care costs and the retirement of the baby boomers. We examine the implications for future generations of current policies and proposed tax changes.

State tax issues. State and local taxes play important roles in assisting low- and moderate-income families, attracting business development, and affecting the cyclical properties of the economy. Our ongoing examination of state and local issues builds on long-standing traditions at the Urban Institute and the Brookings Institution.

The Tax Policy Center, a joint venture of the Urban Institute and the Brookings Institution, has filled a critical need for effective, nonpartisan analysis of tax policy since opening its doors in 2002. Our objective, timely, and accessible information helps policymakers, journalists, academics, and taxpayers identify and evaluate current and emerging tax policy options. We believe that better information, rigorous analysis, and fresh ideas injected at key points in the policy debate can forestall bad policies and reinforce good ones. Since TPC’s inception, we have focused our efforts on four overarching areas:

Fair, simple, and efficient taxation. Virtually everyone agrees that taxes should be fair, simple, and efficient. But policymakers disagree over how to define and achieve those objectives. We quantify trade-offs among these goals and identify reforms that increase simplicity, equity, and efficiency.

State and local tax policy issues. TPC continued to focus on the fiscal challenges facing state and local governments. We released three briefs on state and local budget issues including a report on possible education reform in California, a discussion of ways to streamline local revenue sources, and a primer on municipal bond markets. In addition, TPC hosted conferences on the budget issues facing cities, ways to finance parks in urban and metropolitan regions, and housing issues and property taxes. Finally, TPC staff participated in workshops and annual conferences for specific cities and states and for state and local government organizations, including annual meetings of the National League of Cities, the Council of Chief State School Officers, the National Council of State Legislatures, and the National Governors Association, and forums on state and local fiscal reform in California, Michigan, and New Jersey.

The Urban Institute also increased its commitment to our work examining state and local finances and the interaction of federal and state tax systems. Kim Rueben will be spearheading the effort to provide more research and information on state tax policy and the effect of federal reform on state and local governments.

State & Local Finance Data Query System. In 2011, TPC updated the State & Local Finance Data Query System (SLF-DQS). The system allows users to create their own tables based on data from the Census of Governments State and Local Finance series. Those data include detailed revenue, expenditure and debt variables for the United States, each of the 50 states, and the District of Columbia for 1977–2009. This tool is useful for comparative, single-state, or time-series analysis.

Wayne Hasenbalg, Deputy Chief of Staff for Policy and Planning for N.J. Governor Chris Christie, Kim Rueben, TPC senior fellow, and Loretta Mester, executive vice president and director of research with the Federal Reserve Bank of Philadelphia, in a panel at the first Garden State Economic Forum on November 14.

“Kim Rueben, director of the state and local program at the Tax Policy Center in Washington, a nonpartisan research organization, says higher tax rates are tough to sustain in states that have progressive tax codes. New York, for instance, has seven tax brackets, with the highest rate kicking in at an annual income of $500,001. ‘There are certain places that I think can afford to increase the progressivity of their tax system,’ she says. ‘In places that have a more progressive system, like California and New York, it becomes harder to keep raising that revenue.’”

Bloomberg’s Businessweek, June 9
TPC’s microsimulation tax model. In 2011, TPC analysts used the model to produce more than 400 revenue and distribution tables. Our estimates played a central role in policy discussions and were frequently cited by media, congressional staffers, and policy advocates across the political spectrum. Many of those analyses took advantage of the modeling advances implemented during the year.

Last year, we made a series of investments in the model, bringing it up to date, expanding its capabilities, and streamlining its operation. In early 2011, we updated the model to incorporate the latest economic, budget, and demographic projections from the IRS, the Congressional Budget Office, the Joint Committee on Taxation (JCT), and the Bureau of the Census. In addition, we calibrated the retirement saving module to match new participation and contribution targets from the IRS, the Congressional Budget Office, and the Joint Committee on Taxation (JCT), and the Bureau of the Census. In addition, we calibrated the retirement saving module to match Treasury and JCT tax revenue and distribution data. Our estimates played a central role in policy discussions and were frequently cited by media, congressional staffers, and policy advocates across the political spectrum. Many of those analyses took advantage of the modeling advances implemented during the year.

In late 2011, we developed and implemented a statistical "raking" technique to use data provided by the IRS to impute the ages of taxpayers and their dependents to the “raking” technique to use data provided by the IRS to impute the ages of taxpayers and their dependents to the model. Using this new technique will ensure that the ages in subsequent versions of our tax model will more accurately reflect the true age distribution of tax filers and their dependents.

TPC web site. Traffic to the TPC web site has risen steadily over the years, with occasional spikes when particular tax policy issues are in the news. TPC has become the media’s go-to source for objective nonpartisan analysis of tax and budget issues. Visits to our web site increased sharply near the end of 2011 as attention turned to TPC’s analyses of the GOP presidential candidates’ tax plans and other TPC work that helped voters understand the differences among the candidates’ stances on taxes and the economy.

In the past year, we continued to improve our web site and expand our web-based resources (www.taxpolicycenter.org). With the help of external web site consultants, TPC launched a major redesign to improve content layout, develop better site infrastructure, and reorganize content into a more intuitive structure that will help users find the materials they seek.

Payroll tax calculator. In December, TPC unveiled a payroll tax calculator (www.taxpolicycenter.org/taxfacts/payroll-tax-calculator) that lets users see how the initial two-month extension of the payroll tax holiday would affect them and their dependents.

blog, TaxVox, again increased its readership for timely commentary on tax and fiscal issues. We improved TPC’s tax-calculator) that let users see how the initial two-month extension of the payroll tax holiday would affect them and their dependents.

TPC Products

TPC’s microsimulation tax model. In 2011, TPC analysts used the model to produce more than 400 revenue and distribution tables. Our estimates played a central role in policy discussions and were frequently cited by media, congressional staffers, and policy advocates across the political spectrum. Many of those analyses took advantage of the modeling advances implemented during the year.

In late 2011, we developed and implemented a statistical “raking” technique to use data provided by the IRS to impute the ages of taxpayers and their dependents to the model. Using this new technique will ensure that the ages in subsequent versions of our tax model will more accurately reflect the true age distribution of tax filers and their dependents.

TPC web site. Traffic to the TPC web site has risen steadily over the years, with occasional spikes when particular tax policy issues are in the news. TPC has become the media’s go-to source for objective nonpartisan analysis of tax and budget issues. Visits to our web site increased sharply near the end of 2011 as attention turned to TPC’s analyses of the GOP presidential candidates’ tax plans and other TPC work that helped voters understand the differences among the candidates’ stances on taxes and the economy.

In the past year, we continued to improve our web site and expand our web-based resources (www.taxpolicycenter.org). With the help of external web site consultants, TPC launched a major redesign to improve content layout, develop better site infrastructure, and reorganize content into a more intuitive structure that will help users find the materials they seek.

Payroll tax calculator. In December, TPC unveiled a payroll tax calculator (www.taxpolicycenter.org/taxfacts/payroll-tax-calculator) that lets users see how the initial two-month extension of the payroll tax holiday would affect them and their dependents.

blog, TaxVox, again increased its readership for timely commentary on tax and fiscal issues. We improved TPC’s web site and made progress on a complete site redesign, due to launch in 2012. And, we made key improvements to our state-of-the-art model of the U.S. tax system.

In short, 2011 was busy and productive. A particular highlight came early in the year, when the MacArthur Foundation honored the Tax Policy Center with a MacArthur Award for Creative & Effective Institutions. Each year MacArthur awards grants to exceptional organizations that are key contributors to fields that are core to the foundation’s work. TPC was praised for “providing nonpartisan, expert, but common language analysis of the likely implications of tax policies and proposals, making it a key resource for journalists, policymakers, and citizens.”

Taxes will continue to be a vital issue in 2012 and beyond. Tax reform and deficit reduction will dominate budget discussions, and the weak economy will continue to inspire interest in fiscal policies that could spur job creation. Concerns about income disparities will focus attention on both the taxation of high-income taxpayers and the ways we use the tax system to provide benefits to low-income workers and children. Presidential candidates will continue to debate tax and fiscal policies. And, at the end of 2012, the country will once again face the question of what to do with expiring tax cuts.

How tax policy evolves over the next few years will be pivotal for America’s economy and fiscal future. And in today’s political climate, the sophisticated, nonpartisan analysis of tax issues that TPC delivers is urgently needed. With the support of our generous funders, we will continue to play a central role in these debates, and we look forward to continuing our good work.
Letter from the Directors

Tax policy figures prominently in our nation’s economic decisions. The tax system is essential for funding government programs and plays a crucial role in our nation’s social safety net. Unfortunately, it is needlessly complex, economically inefficient, and often unfair. We believe that policymakers can and should make the system fairer, simpler, and more conducive to economic growth; address long-term budget challenges; and provide a robust safety net for children and low-income families. Doing so, however, requires that citizens and policymakers have the information they need to make good decisions.

The Tax Policy Center provides that information. Our vision is simple: better information, careful analysis, fresh ideas, and clear communication can together lead to better policy decisions. With that in mind, TPC educates policymakers, the media, advocacy groups, and the public about how our tax system works and how changes would affect taxpayers and the federal budget.

Tax issues moved to the forefront of domestic policy debates in 2011, as the nation confronted anemic job growth, soaring debt, and rising concern about income inequality. Political leaders offered various proposals to address these challenges, and TPC played a prominent role in examining how they would affect individual taxpayers and future deficits. Some of the highlights include:

- TPC’s analyses of the GOP presidential candidates’ plans, showing how they would affect individual taxpayers and future deficits. Congress had not extended the payroll tax cut beyond December 31, 2011; Congress had allowed the two-month extension to expire as scheduled after February 28; and Congress further extended the tax cut for all of 2012 (as it subsequently did).

- Tax calculator upgrade. The calculator helps users understand how current tax policy affects real families and what would happen if we changed that policy. The current version lets users compare three alternative tax policies to see how different taxpayers would make out in either 2010 or 2011:
  - 2010 law with all the 2001–03 tax cuts (often called the “Bush tax cuts”) and the 2009 stimulus tax provisions still in place;
  - 2011 law if the 2001–03 tax cuts had expired as originally scheduled; and
  - 2011 law as enacted in the 2010 compromise between President Obama and congressional leaders.

What would happen if Congress subsequently extended the tax cut for all of 2012. The calculator compares the amounts of payroll tax that employers would withhold from a worker’s paycheck in 2012 under each of three scenarios:

- Congress had extended the payroll tax cut beyond December 31, 2011;
- Congress had allowed the two-month extension to expire as scheduled after February 28; and
- Congress further extended the tax cut for all of 2012 (as it subsequently did).

Users can also turn the alternative minimum tax (AMT) “patch” on or off to see how raising the exemption affects whether taxpayers must pay the AMT.

TaxVox. TPC’s blog communicates quickly and directly with the online community interested in tax and fiscal policy issues. During 2011, TaxVox continued to expand its reach by partnering with other high-profile web sites. The Christian Science Monitor (csmonitor.com) and Forbes.com regularly repost TaxVox articles, while other high-profile sites, including CNNMoney.com, republish occasional TaxVox posts. The Christian Science Monitor reports that TaxVox was their business page’s number 1 guest blog in 2010, generating more traffic than any other guest blog. Sites such as Real Clear Politics and economic blogs at The New York Times, The Washington Post, and The Wall Street Journal frequently linked to TaxVox articles; in 2009, The Wall Street Journal named TaxVox one of the nation’s best economics blogs. The number of subscribers to the TaxVox web feed increased nearly 50 percent during 2011, from 11,914 to 17,709. Additionally, the average time visitors spent on the site increased from 55 seconds to 1 minute and 12 seconds, a strong indication that people are reading more posts.

Republicans that extended most 2001–09 tax cuts through 2012.
2011 List of Funders

Contributions to TPC help keep our mission intact and ensure excellence and innovation in our work. We are funded largely through grants and contributions and could not exist without your help. TPC recognizes with immense gratitude all those who supported us.

The Urban Institute and the Brookings Institution are both 501(c)(3) nonprofit organizations, which means your gifts are tax deductible. By supporting the Center, you can help inform the debate about America’s fiscal future. And thanks to a recent award from the MacArthur Foundation, you can now double the impact of your donation. The Foundation will match every dollar given by new donors with an additional dollar to support the Center’s activities.

If you would like to support the Tax Policy Center, visit us at http://taxpolicycenter.org/aboutus/support.cfm

The Urban Institute, 2100 M Street, NW, Washington, DC 20037
The Brookings Institution, 1775 Massachusetts Ave., NW, Washington, DC 20036
“In a tax debate in which bombast and sound bites often crowd out facts, figures, and reasoned analysis, the Tax Policy Center provides all three, in an easy-to-access, easy-to-understand fashion.”

David Wessel, Wall Street Journal

“In a highly polarized political environment, many people did not know whom to believe. The Tax Policy Center was there to help. The Center provides nonpartisan, expert but common language analysis of the likely implications of tax policies and proposals, making it a key resource for journalists, policymakers, and citizens.”

The John D. and Catherine T. MacArthur Foundation, in awarding TPC a 2010 MacArthur Award for Creative & Effective Institutions