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Congress of the United States

JOINT COMMITTEE ON TAXATION

1625 LONGWORTH HOUSE OFFICE BUILDING

WASHINGTON, DC 20515-6453

(202) 225-3621

<http://www.jct.gov>

OCT 11 2012

Honorable Max Baucus
United States Senate
SH-511
Washington, DC 20510

Honorable Orrin G. Hatch
United States Senate
Sh-104
Washington, DC 20510

Dear Chairman Baucus and Senator Hatch:

On September 19, 2012, Chairman Baucus convened a meeting of the members of the Senate Committee on Finance to discuss the alternative minimum tax and provisions of the Internal Revenue Code that have either expired over the past year or are about to expire. During that meeting, Chairman Baucus asked what could be said about the concept of repealing all tax expenditures and using all or part of the revenues to reduce statutory marginal tax rates. I reported the preliminary results of an experiment that I had designed as a preliminary first step towards answering such a question. I promised the Committee members that after my colleagues and I had double checked our work I would provide a written description of the experiment and the results to all of the members of the Committee.

The general approach of the experiment was to assume the repeal of a number of the largest tax expenditures under the individual income tax as identified in our publication, *Estimates of Federal Tax Expenditures for Fiscal Years 2011-2015*, (JCS-1-12), and use the resulting revenue raised to reduce the statutory rates of the individual income tax while also repealing the individual alternative minimum tax and the PEP and Pease limitations. The result was to be approximately revenue neutral over the 10-year budget period, 2013-2022.

The experiment would make several changes to present law. These changes include: (a) repealing the individual alternative minimum tax; (b) repealing the overall limitation on itemized deductions and personal exemptions for certain taxpayers; (c) repealing all itemized deductions; (d) taxing capital gains (and dividends) as ordinary income; and (e) repealing the interest exclusion on State and local bonds issued after December 31, 2012. No transition relief would be provided under any repeal.

The itemized deductions, taxing income from capital gain realizations at preferential rates, and the interest exclusion on State and local bonds each are large tax expenditure provisions. Other large tax expenditure provisions that I did not include in this experiment

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include the earned income tax credit, the child credit, the exclusion of employer provided and self-employed health benefits, and the present law treatment of various forms of retirement income and pension plans. I did not include health and retirement because of the complexity of the analysis modifying such provisions would require and in the interest of keeping the experiment somewhat simple. Regarding the earned income tax credit and the child credit, for the experiment I assumed that the provisions of EGTRRA and ARRA that modify the earned income tax credit and the child tax credit would be made permanent. There are a significant number of other identified individual income tax expenditures or other possible base broadening policies that I did not include in this experiment.

The Joint Committee staff estimated these changes relative to the present-law baseline. That is, the tax rates for the individual income tax in 2013 and beyond are: 15 percent, 28 percent, 31 percent, 36 percent, and 39.6 percent. There is no "AMT patch" under the present-law baseline and the PEP and Pease provisions are part of the present law baseline. The Joint Committee staff used its conventional modeling to estimate the provisions described above and used the resulting net revenues gained over the budget period to estimate an equal percentage decrease for all tax rates on ordinary income that would make the package roughly revenue neutral for the fiscal year 2013-2022 period. The revenue-neutral tax reform package outlined above would permit a four-percent decrease in all ordinary income tax rates. Under the proposal, the individual income tax rates would be: 14.4 percent, 26.88 percent, 29.76 percent, 34.56 percent, and 38.02 percent.

I enclose table #12-2 155 which provides the estimated revenue effects of the different components of the experiment. I also enclose a distributional analysis of this proposal (table #D-12-15). As is the case for the revenue analysis, the distributional analysis compares the policy of the experiment to that of the present-law baseline.

Congress of the United States

JOINT COMMITTEE ON TAXATION

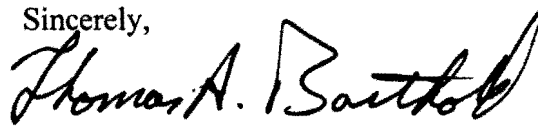
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Honorable Orrin G. Hatch
United States Senate

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I hope this information is useful. I would be pleased to discuss this material further with you.

Sincerely,

A handwritten signature in black ink that reads "Thomas A. Barthold". The signature is written in a cursive, flowing style.

Thomas A. Barthold

Enclosures: Tables #12-2 155 and #D-12-15

cc: Honorable Jeff Bingaman, Honorable Richard Burr, Honorable Maria Cantwell, Honorable Benjamin L. Cardin, Honorable Thomas R. Carper, Honorable Tom Coburn, Honorable Kent Conrad, Honorable John Cornyn, Honorable Mike Crapo, Honorable Michael B. Enzi, Honorable Chuck Grassley, Honorable John F. Kerry, Honorable Jon Kyl, Honorable Robert Menendez, Honorable Bill Nelson, Honorable Pat Roberts, Honorable John D. Rockefeller IV, Honorable Charles E. Schumer, Honorable Olympia J. Snowe, Honorable Debbie Stabenow, Honorable John Thune, and Honorable Ron Wyden, Russ Sullivan, Lily Batchelder, Chris Campbell, Mark Prater

**DISTRIBUTIONAL EFFECTS OF A PROPOSAL TO
REPEAL THE INDIVIDUAL AMT, ELIMINATE CERTAIN DEDUCTIONS,
TAX CAPITAL GAINS AS ORDINARY INCOME, AND REDUCE
MARGINAL INCOME TAX RATES BY FOUR PERCENT (1)**

Calendar Year 2013

| INCOME CATEGORY (2) | CHANGE IN FEDERAL TAXES (3) | | FEDERAL TAXES (3) UNDER PRESENT LAW | | FEDERAL TAXES (3) UNDER PROPOSAL | | Average Tax Rate (4) | |
|----------------------------------|-----------------------------------|-------------|---|---------------|--|---------------|----------------------|--------------|
| | Millions | Percent | Billions | Percent | Billions | Percent | Present Law | Proposal |
| | | | | | | | Percent | Percent |
| Less than \$10,000..... | -\$1,239 | -19.0% | \$7 | 0.3% | \$5 | 0.2% | 8.5% | 7.1% |
| \$10,000 to \$20,000..... | -\$6,511 | -61.4% | \$11 | 0.4% | \$4 | 0.2% | 4.0% | 1.6% |
| \$20,000 to \$30,000..... | -\$7,249 | -18.7% | \$39 | 1.6% | \$31 | 1.3% | 8.1% | 6.6% |
| \$30,000 to \$40,000..... | -\$6,858 | -10.5% | \$65 | 2.7% | \$58 | 2.4% | 11.3% | 10.2% |
| \$40,000 to \$50,000..... | -\$5,390 | -6.4% | \$84 | 3.5% | \$79 | 3.3% | 12.8% | 12.2% |
| \$50,000 to \$75,000..... | -\$4,986 | -2.0% | \$254 | 10.6% | \$249 | 10.3% | 15.1% | 15.0% |
| \$75,000 to \$100,000..... | -\$1,343 | -0.5% | \$264 | 11.0% | \$262 | 10.9% | 17.3% | 17.4% |
| \$100,000 to \$200,000..... | \$11,705 | 1.6% | \$729 | 30.5% | \$741 | 30.7% | 22.4% | 23.1% |
| \$200,000 to \$500,000..... | \$9,652 | 2.3% | \$421 | 17.6% | \$430 | 17.8% | 27.8% | 29.0% |
| \$500,000 to \$1,000,000.. | \$4,590 | 2.9% | \$159 | 6.7% | \$164 | 6.8% | 31.7% | 33.6% |
| \$1,000,000 and over..... | \$25,566 | 7.1% | \$362 | 15.1% | \$388 | 16.1% | 31.4% | 36.9% |
| Total, All Taxpayers..... | \$17,836 | 0.7% | \$2,394 | 100.0% | \$2,412 | 100.0% | 20.5% | 21.1% |

Source: Joint Committee on Taxation
Detail may not add to total due to rounding.

- (1) The proposal would: (a) repeal the individual AMT; (b) the eliminate the phase out of personal exemptions for certain individuals; (c) permanently extend the EGTRRA and ARRA provisions related to the EITC and the child tax credit; (d) repeal all itemized deductions; (e) repeal the interest exclusion for new issues of State and local bonds; (f) tax capital gains as ordinary income; and (g) reduce all individual income tax rates by four percent. Under the proposal, the marginal income tax rates for individuals would be: 14.40%, 26.88%, 29.76%, 34.56%, and 38.02%.
- (2) The income concept used to place tax returns into income categories is adjusted gross income (AGI) plus: [1] tax-exempt interest, [2] employer contributions for health plans and life insurance, [3] employer share of FICA tax, [4] worker's compensation, [5] nontaxable Social Security benefits, [6] insurance value of Medicare benefits, [7] alternative minimum tax preference items, and [8] excluded income of U.S. citizens living abroad. Categories are measured at 2011 levels.
- (3) Federal taxes are equal to individual income tax (including the outlay portion of refundable credits), employment tax (attributed to employees), and excise taxes (attributed to consumers). Corporate income tax is not included due to uncertainty concerning the incidence of the tax. Individuals who are dependents of other taxpayers and taxpayers with negative income are excluded from the analysis. Does not include indirect effects.
- (4) The average tax rate is equal to Federal taxes described in footnote (3) divided by income described in footnote (2).

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Calendar Year 2015

| INCOME CATEGORY (2) | CHANGE IN FEDERAL TAXES (3) | | FEDERAL TAXES (3) UNDER PRESENT LAW | | FEDERAL TAXES (3) UNDER PROPOSAL | | Average Tax Rate (4) | |
|----------------------------------|-----------------------------------|-------------|---|---------------|--|---------------|----------------------|--------------|
| | Millions | Percent | Billions | Percent | Billions | Percent | Present Law | Proposal |
| | | | | | | | Percent | Percent |
| Less than \$10,000..... | -\$1,441 | -24.5% | \$6 | 0.2% | \$4 | 0.2% | 7.4% | 5.7% |
| \$10,000 to \$20,000..... | -\$6,729 | -89.8% | \$7 | 0.3% | \$1 | (5) | 2.6% | 0.3% |
| \$20,000 to \$30,000..... | -\$7,669 | -23.5% | \$33 | 1.2% | \$25 | 0.9% | 6.5% | 5.0% |
| \$30,000 to \$40,000..... | -\$7,163 | -10.7% | \$67 | 2.4% | \$60 | 2.2% | 10.5% | 9.4% |
| \$40,000 to \$50,000..... | -\$5,449 | -5.9% | \$93 | 3.4% | \$87 | 3.2% | 12.7% | 12.1% |
| \$50,000 to \$75,000..... | -\$5,301 | -1.8% | \$291 | 10.6% | \$286 | 10.3% | 15.3% | 15.2% |
| \$75,000 to \$100,000..... | -\$2,488 | -0.8% | \$307 | 11.2% | \$305 | 11.0% | 17.8% | 17.9% |
| \$100,000 to \$200,000..... | \$7,131 | 0.9% | \$826 | 30.0% | \$833 | 30.2% | 22.8% | 23.4% |
| \$200,000 to \$500,000..... | \$4,821 | 1.0% | \$486 | 17.6% | \$491 | 17.8% | 28.3% | 29.3% |
| \$500,000 to \$1,000,000.. | \$4,081 | 2.2% | \$185 | 6.7% | \$189 | 6.9% | 31.8% | 33.8% |
| \$1,000,000 and over..... | \$25,670 | 5.7% | \$454 | 16.5% | \$480 | 17.4% | 31.2% | 37.0% |
| Total, All Taxpayers..... | \$5,464 | 0.2% | \$2,754 | 100.0% | \$2,759 | 100.0% | 20.8% | 21.4% |

Source: Joint Committee on Taxation
Detail may not add to total due to rounding.

- (1) The proposal would: (a) repeal the individual AMT; (b) the eliminate the phase out of personal exemptions for certain individuals; (c) permanently extend the EGTRRA and ARRA provisions related to the EITC and the child tax credit; (d) repeal all itemized deductions; (e) repeal the interest exclusion for new issues of State and local bonds; (f) tax capital gains as ordinary income; and (g) reduce all individual income tax rates by four percent. Under the proposal, the marginal income tax rates for individuals would be: 14.40%, 26.88%, 29.76%, 34.56%, and 38.02%.
- (2) The income concept used to place tax returns into income categories is adjusted gross income (AGI) plus: [1] tax-exempt interest, [2] employer contributions for health plans and life insurance, [3] employer share of FICA tax, [4] worker's compensation, [5] nontaxable Social Security benefits, [6] insurance value of Medicare benefits, [7] alternative minimum tax preference items, and [8] excluded income of U.S. citizens living abroad. Categories are measured at 2011 levels.
- (3) Federal taxes are equal to individual income tax (including the outlay portion of refundable credits), employment tax (attributed to employees), and excise taxes (attributed to consumers). Corporate income tax is not included due to uncertainty concerning the incidence of the tax. Individuals who are dependents of other taxpayers and taxpayers with negative income are excluded from the analysis. Does not include indirect effects.
- (4) The average tax rate is equal to Federal taxes described in footnote (3) divided by income described in footnote (2).

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Calendar Year 2017

| INCOME CATEGORY (2) | CHANGE IN FEDERAL TAXES (3) | | FEDERAL TAXES (3) UNDER PRESENT LAW | | FEDERAL TAXES (3) UNDER PROPOSAL | | Average Tax Rate (4) | |
|----------------------------------|-----------------------------------|--------------|---|---------------|--|---------------|----------------------|--------------|
| | Millions | Percent | Billions | Percent | Billions | Percent | Present Law | Proposal |
| | | | | | | | Percent | Percent |
| Less than \$10,000..... | -\$1,666 | -32.2% | \$5 | 0.2% | \$4 | 0.1% | 6.1% | 4.3% |
| \$10,000 to \$20,000..... | -\$7,170 | -101.4% | \$7 | 0.2% | \$0 | 0.0% | 2.3% | 0.0% |
| \$20,000 to \$30,000..... | -\$7,797 | -24.1% | \$32 | 1.0% | \$25 | 0.8% | 6.0% | 4.6% |
| \$30,000 to \$40,000..... | -\$7,478 | -9.8% | \$76 | 2.4% | \$69 | 2.1% | 10.5% | 9.5% |
| \$40,000 to \$50,000..... | -\$5,811 | -5.4% | \$107 | 3.4% | \$102 | 3.2% | 13.2% | 12.5% |
| \$50,000 to \$75,000..... | -\$7,089 | -2.1% | \$333 | 10.4% | \$326 | 10.2% | 15.7% | 15.5% |
| \$75,000 to \$100,000..... | -\$4,820 | -1.3% | \$358 | 11.2% | \$353 | 11.0% | 18.4% | 18.4% |
| \$100,000 to \$200,000..... | \$3,436 | 0.4% | \$934 | 29.2% | \$937 | 29.3% | 23.3% | 23.7% |
| \$200,000 to \$500,000..... | \$1,592 | 0.3% | \$574 | 18.0% | \$576 | 18.0% | 28.9% | 29.7% |
| \$500,000 to \$1,000,000..... | \$5,211 | 2.3% | \$224 | 7.0% | \$229 | 7.2% | 32.0% | 34.1% |
| \$1,000,000 and over..... | \$28,202 | 5.1% | \$548 | 17.1% | \$576 | 18.0% | 31.8% | 37.4% |
| Total, All Taxpayers..... | -\$3,390 | -0.1% | \$3,198 | 100.0% | \$3,195 | 100.0% | 21.4% | 21.9% |

Source: Joint Committee on Taxation
Detail may not add to total due to rounding.

- (1) The proposal would: (a) repeal the individual AMT; (b) the eliminate the phase out of personal exemptions for certain individuals; (c) permanently extend the EGTRRA and ARRA provisions related to the EITC and the child tax credit; (d) repeal all itemized deductions; (e) repeal the interest exclusion for new issues of State and local bonds; (f) tax capital gains as ordinary income; and (g) reduce all individual income tax rates by four percent. Under the proposal, the marginal income tax rates for individuals would be: 14.40%, 26.88%, 29.76%, 34.56%, and 38.02%.
- (2) The income concept used to place tax returns into income categories is adjusted gross income (AGI) plus: [1] tax-exempt interest, [2] employer contributions for health plans and life insurance, [3] employer share of FICA tax, [4] worker's compensation, [5] nontaxable Social Security benefits, [6] insurance value of Medicare benefits, [7] alternative minimum tax preference items, and [8] excluded income of U.S. citizens living abroad. Categories are measured at 2011 levels.
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Calendar Year 2019

| INCOME CATEGORY (2) | CHANGE IN FEDERAL TAXES (3) | | FEDERAL TAXES (3) UNDER PRESENT LAW | | FEDERAL TAXES (3) UNDER PROPOSAL | | Average Tax Rate (4) | |
|----------------------------------|-----------------------------------|--------------|---|---------------|--|---------------|----------------------|--------------|
| | Millions | Percent | Billions | Percent | Billions | Percent | Present Law | Proposal |
| | | | | | | | Percent | Percent |
| Less than \$10,000..... | -\$1,785 | -36.4% | \$5 | 0.1% | \$3 | 0.1% | 5.6% | 3.7% |
| \$10,000 to \$20,000..... | -\$7,502 | -107.5% | \$7 | 0.2% | -\$1 | 0.0% | 2.1% | -0.2% |
| \$20,000 to \$30,000..... | -\$8,165 | -23.7% | \$34 | 0.9% | \$26 | 0.7% | 5.9% | 4.5% |
| \$30,000 to \$40,000..... | -\$8,213 | -9.6% | \$86 | 2.4% | \$78 | 2.1% | 10.6% | 9.7% |
| \$40,000 to \$50,000..... | -\$6,345 | -5.1% | \$124 | 3.4% | \$117 | 3.2% | 13.5% | 12.9% |
| \$50,000 to \$75,000..... | -\$8,975 | -2.4% | \$382 | 10.5% | \$373 | 10.3% | 16.1% | 15.8% |
| \$75,000 to \$100,000..... | -\$7,898 | -1.9% | \$410 | 11.3% | \$402 | 11.1% | 18.9% | 18.7% |
| \$100,000 to \$200,000..... | -\$3,540 | -0.3% | \$1,042 | 28.6% | \$1,039 | 28.7% | 23.9% | 24.2% |
| \$200,000 to \$500,000..... | -\$2,346 | -0.4% | \$661 | 18.2% | \$658 | 18.2% | 29.6% | 30.3% |
| \$500,000 to \$1,000,000.. | \$6,074 | 2.4% | \$257 | 7.0% | \$263 | 7.2% | 32.4% | 34.5% |
| \$1,000,000 and over..... | \$30,574 | 4.8% | \$634 | 17.4% | \$664 | 18.3% | 32.2% | 37.6% |
| Total, All Taxpayers..... | -\$18,222 | -0.5% | \$3,640 | 100.0% | \$3,622 | 100.0% | 21.9% | 22.4% |

Source: Joint Committee on Taxation
Detail may not add to total due to rounding.

- (1) The proposal would: (a) repeal the individual AMT; (b) the eliminate the phase out of personal exemptions for certain individuals; (c) permanently extend the EGTRRA and ARRA provisions related to the EITC and the child tax credit; (d) repeal all itemized deductions; (e) repeal the interest exclusion for new issues of State and local bonds; (f) tax capital gains as ordinary income; and (g) reduce all individual income tax rates by four percent. Under the proposal, the marginal income tax rates for individuals would be: 14.40%, 26.88%, 29.76%, 34.56%, and 38.02%.
- (2) The income concept used to place tax returns into income categories is adjusted gross income (AGI) plus: [1] tax-exempt interest, [2] employer contributions for health plans and life insurance, [3] employer share of FICA tax, [4] worker's compensation, [5] nontaxable Social Security benefits, [6] insurance value of Medicare benefits, [7] alternative minimum tax preference items, and [8] excluded income of U.S. citizens living abroad. Categories are measured at 2011 levels.
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Calendar Year 2021

| INCOME CATEGORY (2) | CHANGE IN FEDERAL TAXES (3) | | FEDERAL TAXES (3) UNDER PRESENT LAW | | FEDERAL TAXES (3) UNDER PROPOSAL | | Average Tax Rate (4) | |
|----------------------------------|-----------------------------------|--------------|---|---------------|--|---------------|----------------------|--------------|
| | Millions | Percent | Billions | Percent | Billions | Percent | Present Law | Proposal |
| | | | | | | | Percent | Percent |
| Less than \$10,000..... | -\$1,871 | -42.6% | \$4 | 0.1% | \$3 | 0.1% | 4.9% | 2.9% |
| \$10,000 to \$20,000..... | -\$7,658 | -124.0% | \$6 | 0.2% | -\$1 | 0.0% | 1.8% | -0.4% |
| \$20,000 to \$30,000..... | -\$8,490 | -24.3% | \$35 | 0.9% | \$26 | 0.7% | 5.6% | 4.2% |
| \$30,000 to \$40,000..... | -\$9,070 | -9.6% | \$95 | 2.3% | \$86 | 2.1% | 10.7% | 9.7% |
| \$40,000 to \$50,000..... | -\$7,183 | -5.2% | \$137 | 3.4% | \$130 | 3.2% | 13.6% | 12.9% |
| \$50,000 to \$75,000..... | -\$11,337 | -2.6% | \$428 | 10.5% | \$417 | 10.3% | 16.1% | 15.8% |
| \$75,000 to \$100,000..... | -\$11,465 | -2.5% | \$462 | 11.4% | \$451 | 11.2% | 18.9% | 18.6% |
| \$100,000 to \$200,000..... | -\$14,023 | -1.2% | \$1,148 | 28.2% | \$1,134 | 28.1% | 24.3% | 24.3% |
| \$200,000 to \$500,000..... | -\$7,455 | -1.0% | \$747 | 18.4% | \$739 | 18.4% | 30.2% | 30.6% |
| \$500,000 to \$1,000,000.. | \$6,301 | 2.2% | \$286 | 7.0% | \$292 | 7.3% | 32.7% | 34.7% |
| \$1,000,000 and over..... | \$32,775 | 4.6% | \$720 | 17.7% | \$753 | 18.7% | 32.5% | 37.7% |
| Total, All Taxpayers..... | -\$39,576 | -1.0% | \$4,068 | 100.0% | \$4,029 | 100.0% | 22.2% | 22.5% |

Source: Joint Committee on Taxation
Detail may not add to total due to rounding.

- (1) The proposal would: (a) repeal the individual AMT; (b) the eliminate the phase out of personal exemptions for certain individuals; (c) permanently extend the EGTRRA and ARRA provisions related to the EITC and the child tax credit; (d) repeal all itemized deductions; (e) repeal the interest exclusion for new issues of State and local bonds; (f) tax capital gains as ordinary income; and (g) reduce all individual income tax rates by four percent. Under the proposal, the marginal income tax rates for individuals would be: 14.40%, 26.88%, 29.76%, 34.56%, and 38.02%.
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MARGINAL INCOME TAX RATES BY FOUR PERCENT (1)**

[Returns in Thousands; Dollars in Millions]

Calendar Year 2013

| INCOME CATEGORY (2) | CHANGE IN FEDERAL TAXES (3) | | | | | | | |
|----------------------------------|-----------------------------|-----------------|---------------|-----------------|---------------|-----------------|-------------------|------------------|
| | All Returns | | Single Filers | | Joint Filers | | Head of Household | |
| | Returns | Dollars | Returns | Dollars | Returns | Dollars | Returns | Dollars |
| Less than \$10,000..... | 2,319 | -\$1,239 | 634 | -\$220 | 299 | -\$254 | 1,386 | -\$765 |
| \$10,000 to \$20,000..... | 10,173 | -\$6,511 | 5,521 | -\$1,077 | 1,104 | -\$1,208 | 3,549 | -\$4,225 |
| \$20,000 to \$30,000..... | 12,010 | -\$7,249 | 6,508 | -\$791 | 1,830 | -\$2,513 | 3,671 | -\$3,945 |
| \$30,000 to \$40,000..... | 12,763 | -\$6,858 | 7,107 | -\$580 | 2,418 | -\$3,151 | 3,238 | -\$3,127 |
| \$40,000 to \$50,000..... | 12,706 | -\$5,390 | 7,189 | \$53 | 2,890 | -\$3,273 | 2,628 | -\$2,170 |
| \$50,000 to \$75,000..... | 24,163 | -\$4,986 | 10,540 | \$2,796 | 10,101 | -\$5,064 | 3,522 | -\$2,717 |
| \$75,000 to \$100,000..... | 16,715 | -\$1,344 | 3,968 | \$3,356 | 11,364 | -\$3,484 | 1,384 | -\$1,216 |
| \$100,000 to \$200,000..... | 23,270 | \$11,704 | 3,143 | \$6,648 | 19,237 | \$4,650 | 889 | \$406 |
| \$200,000 to \$500,000..... | 5,284 | \$9,653 | 575 | \$2,202 | 4,605 | \$7,299 | 104 | \$152 |
| \$500,000 to \$1,000,000.. | 730 | \$4,590 | 92 | \$988 | 622 | \$3,460 | 15 | \$142 |
| \$1,000,000 and over..... | 377 | \$25,566 | 47 | \$4,508 | 322 | \$20,618 | 8 | \$441 |
| Total, All Taxpayers..... | 120,512 | \$17,836 | 45,324 | \$17,881 | 54,793 | \$17,081 | 20,395 | -\$17,024 |

Source: Joint Committee on Taxation
Detail may not add to total due to rounding.

- (1) The proposal would: (a) repeal the individual AMT; (b) the eliminate the phase out of personal exemptions for certain individuals; (c) permanently extend the EGTRRA and ARRA provisions related to the EITC and the child tax credit; (d) repeal all itemized deductions; (e) repeal the interest exclusion for new issues of State and local bonds; (f) tax capital gains as ordinary income; and (g) reduce all individual income tax rates by four percent. Under the proposal, the marginal income tax rates for individuals would be: 14.40%, 26.88%, 29.76%, 34.56%, and 38.02%.
- (2) The income concept used to place tax returns into income categories is adjusted gross income (AGI) plus: [1] tax-exempt interest, [2] employer contributions for health plans and life insurance, [3] employer share of FICA tax, [4] worker's compensation, [5] nontaxable Social Security benefits, [6] insurance value of Medicare benefits, [7] alternative minimum tax preference items, and [8] excluded income of U.S. citizens living abroad. Categories are measured at 2011 levels.
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**DISTRIBUTIONAL EFFECTS OF A PROPOSAL TO
REPEAL THE INDIVIDUAL AMT, ELIMINATE CERTAIN DEDUCTIONS,
TAX CAPITAL GAINS AS ORDINARY INCOME, AND REDUCE
MARGINAL INCOME TAX RATES BY FOUR PERCENT (1)**

[Returns in Thousands; Dollars in Millions]

Calendar Year 2015

| INCOME CATEGORY (2) | CHANGE IN FEDERAL TAXES (3) | | | | | | | |
|----------------------------------|-----------------------------|----------------|---------------|-----------------|---------------|----------------|-------------------|------------------|
| | All Returns | | Single Filers | | Joint Filers | | Head of Household | |
| | Returns | Dollars | Returns | Dollars | Returns | Dollars | Returns | Dollars |
| Less than \$10,000..... | 2,434 | -\$1,441 | 693 | -\$258 | 313 | -\$303 | 1,428 | -\$880 |
| \$10,000 to \$20,000..... | 10,490 | -\$6,729 | 5,799 | -\$1,063 | 1,112 | -\$1,265 | 3,579 | -\$4,401 |
| \$20,000 to \$30,000..... | 12,378 | -\$7,669 | 6,612 | -\$915 | 1,852 | -\$2,608 | 3,913 | -\$4,145 |
| \$30,000 to \$40,000..... | 13,760 | -\$7,163 | 7,729 | -\$584 | 2,546 | -\$3,316 | 3,484 | -\$3,263 |
| \$40,000 to \$50,000..... | 13,396 | -\$5,449 | 7,603 | \$183 | 2,990 | -\$3,160 | 2,802 | -\$2,472 |
| \$50,000 to \$75,000..... | 25,944 | -\$5,302 | 11,266 | \$3,429 | 10,966 | -\$5,045 | 3,712 | -\$3,686 |
| \$75,000 to \$100,000..... | 17,714 | -\$2,488 | 4,350 | \$3,907 | 11,895 | -\$4,694 | 1,469 | -\$1,701 |
| \$100,000 to \$200,000..... | 24,083 | \$7,132 | 3,363 | \$7,006 | 19,766 | \$167 | 954 | -\$42 |
| \$200,000 to \$500,000..... | 5,599 | \$4,821 | 613 | \$2,105 | 4,882 | \$2,641 | 105 | \$75 |
| \$500,000 to \$1,000,000.. | 784 | \$4,081 | 100 | \$946 | 669 | \$2,992 | 16 | \$143 |
| \$1,000,000 and over..... | 423 | \$25,671 | 54 | \$4,711 | 360 | \$20,537 | 9 | \$422 |
| Total, All Taxpayers..... | 127,005 | \$5,464 | 48,183 | \$19,468 | 57,351 | \$5,945 | 21,472 | -\$19,949 |

Source: Joint Committee on Taxation

Detail may not add to total due to rounding.

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REPEAL THE INDIVIDUAL AMT, ELIMINATE CERTAIN DEDUCTIONS,
TAX CAPITAL GAINS AS ORDINARY INCOME, AND REDUCE
MARGINAL INCOME TAX RATES BY FOUR PERCENT (1)**

[Returns in Thousands; Dollars in Millions]

Calendar Year 2017

| INCOME CATEGORY (2) | CHANGE IN FEDERAL TAXES (3) | | | | | | | |
|----------------------------------|-----------------------------|-----------------|---------------|-----------------|---------------|-----------------|-------------------|------------------|
| | All Returns | | Single Filers | | Joint Filers | | Head of Household | |
| | Returns | Dollars | Returns | Dollars | Returns | Dollars | Returns | Dollars |
| Less than \$10,000..... | 2,756 | -\$1,666 | 947 | -\$375 | 333 | -\$262 | 1,476 | -\$1,029 |
| \$10,000 to \$20,000..... | 10,927 | -\$7,170 | 6,105 | -\$1,122 | 1,139 | -\$1,401 | 3,683 | -\$4,647 |
| \$20,000 to \$30,000..... | 12,987 | -\$7,797 | 6,845 | -\$880 | 1,917 | -\$2,687 | 4,224 | -\$4,230 |
| \$30,000 to \$40,000..... | 14,815 | -\$7,478 | 8,378 | -\$543 | 2,672 | -\$3,386 | 3,764 | -\$3,549 |
| \$40,000 to \$50,000..... | 13,990 | -\$5,811 | 7,826 | \$227 | 3,200 | -\$3,042 | 2,964 | -\$2,996 |
| \$50,000 to \$75,000..... | 26,871 | -\$7,089 | 11,199 | \$3,427 | 11,845 | -\$5,427 | 3,827 | -\$5,090 |
| \$75,000 to \$100,000..... | 18,325 | -\$4,820 | 4,461 | \$4,315 | 12,338 | -\$7,109 | 1,526 | -\$2,026 |
| \$100,000 to \$200,000..... | 24,467 | \$3,436 | 3,414 | \$7,226 | 20,091 | -\$3,368 | 962 | -\$422 |
| \$200,000 to \$500,000..... | 5,915 | \$1,592 | 661 | \$2,759 | 5,144 | -\$1,211 | 110 | \$44 |
| \$500,000 to \$1,000,000..... | 863 | \$5,211 | 112 | \$1,264 | 733 | \$3,770 | 17 | \$178 |
| \$1,000,000 and over..... | 432 | \$28,202 | 56 | \$5,451 | 367 | \$22,280 | 10 | \$472 |
| Total, All Taxpayers..... | 132,346 | -\$3,390 | 50,004 | \$21,749 | 59,779 | -\$1,845 | 22,563 | -\$23,294 |

Source: Joint Committee on Taxation
Detail may not add to total due to rounding.

- (1) The proposal would: (a) repeal the individual AMT; (b) the eliminate the phase out of personal exemptions for certain individuals; (c) permanently extend the EGTRRA and ARRA provisions related to the EITC and the child tax credit; (d) repeal all itemized deductions; (e) repeal the interest exclusion for new issues of State and local bonds; (f) tax capital gains as ordinary income; and (g) reduce all individual income tax rates by four percent. Under the proposal, the marginal income tax rates for individuals would be: 14.40%, 26.88%, 29.76%, 34.56%, and 38.02%.
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MARGINAL INCOME TAX RATES BY FOUR PERCENT (1)**

[Returns in Thousands; Dollars in Millions]

Calendar Year 2019

| INCOME CATEGORY (2) | CHANGE IN FEDERAL TAXES (3) | | | | | | | |
|----------------------------------|-----------------------------|------------------|---------------|-----------------|---------------|------------------|-------------------|------------------|
| | All Returns | | Single Filers | | Joint Filers | | Head of Household | |
| | Returns | Dollars | Returns | Dollars | Returns | Dollars | Returns | Dollars |
| Less than \$10,000..... | 2,866 | -\$1,785 | 1,097 | -\$408 | 340 | -\$286 | 1,429 | -\$1,092 |
| \$10,000 to \$20,000..... | 11,088 | -\$7,502 | 6,181 | -\$1,185 | 1,177 | -\$1,541 | 3,731 | -\$4,775 |
| \$20,000 to \$30,000..... | 13,425 | -\$8,165 | 6,988 | -\$923 | 1,977 | -\$2,844 | 4,460 | -\$4,400 |
| \$30,000 to \$40,000..... | 15,675 | -\$8,213 | 8,862 | -\$515 | 2,811 | -\$3,581 | 4,002 | -\$4,117 |
| \$40,000 to \$50,000..... | 14,600 | -\$6,345 | 8,193 | \$369 | 3,323 | -\$3,023 | 3,084 | -\$3,689 |
| \$50,000 to \$75,000..... | 28,146 | -\$8,975 | 11,563 | \$3,969 | 12,666 | -\$6,372 | 3,917 | -\$6,572 |
| \$75,000 to \$100,000..... | 19,002 | -\$7,898 | 4,697 | \$5,075 | 12,733 | -\$10,517 | 1,571 | -\$2,456 |
| \$100,000 to \$200,000..... | 24,629 | -\$3,536 | 3,493 | \$7,158 | 20,146 | -\$9,687 | 990 | -\$1,007 |
| \$200,000 to \$500,000..... | 6,148 | -\$2,352 | 693 | \$3,249 | 5,334 | -\$5,585 | 121 | -\$16 |
| \$500,000 to \$1,000,000.. | 907 | \$6,074 | 117 | \$1,564 | 771 | \$4,320 | 18 | \$191 |
| \$1,000,000 and over..... | 445 | \$30,574 | 57 | \$5,929 | 378 | \$24,134 | 10 | \$510 |
| Total, All Taxpayers..... | 136,931 | -\$18,222 | 51,941 | \$24,282 | 61,657 | -\$14,982 | 23,333 | -\$27,421 |

Source: Joint Committee on Taxation
Detail may not add to total due to rounding.

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MARGINAL INCOME TAX RATES BY FOUR PERCENT (1)**

[Returns in Thousands; Dollars in Millions]

Calendar Year 2021

| INCOME CATEGORY (2) | CHANGE IN FEDERAL TAXES (3) | | | | | | | |
|----------------------------------|-----------------------------|------------------|---------------|-----------------|---------------|------------------|-------------------|------------------|
| | All Returns | | Single Filers | | Joint Filers | | Head of Household | |
| | Returns | Dollars | Returns | Dollars | Returns | Dollars | Returns | Dollars |
| Less than \$10,000..... | 2,909 | -\$1,871 | 1,191 | -\$440 | 345 | -\$318 | 1,374 | -\$1,113 |
| \$10,000 to \$20,000..... | 11,017 | -\$7,658 | 6,073 | -\$1,237 | 1,161 | -\$1,572 | 3,783 | -\$4,848 |
| \$20,000 to \$30,000..... | 13,630 | -\$8,490 | 6,905 | -\$909 | 2,045 | -\$2,964 | 4,681 | -\$4,617 |
| \$30,000 to \$40,000..... | 16,217 | -\$9,069 | 9,147 | -\$491 | 2,914 | -\$3,783 | 4,157 | -\$4,795 |
| \$40,000 to \$50,000..... | 15,186 | -\$7,183 | 8,576 | \$579 | 3,425 | -\$3,190 | 3,184 | -\$4,571 |
| \$50,000 to \$75,000..... | 29,472 | -\$11,336 | 12,142 | \$4,624 | 13,279 | -\$7,779 | 4,051 | -\$8,182 |
| \$75,000 to \$100,000..... | 19,924 | -\$11,465 | 5,008 | \$5,704 | 13,257 | -\$14,039 | 1,659 | -\$3,130 |
| \$100,000 to \$200,000..... | 24,890 | -\$14,023 | 3,602 | \$6,962 | 20,258 | -\$19,204 | 1,030 | -\$1,781 |
| \$200,000 to \$500,000..... | 6,383 | -\$7,455 | 715 | \$3,528 | 5,543 | -\$10,905 | 125 | -\$78 |
| \$500,000 to \$1,000,000.. | 935 | \$6,301 | 120 | \$1,700 | 796 | \$4,417 | 19 | \$184 |
| \$1,000,000 and over..... | 467 | \$32,775 | 59 | \$6,444 | 397 | \$25,790 | 11 | \$542 |
| Total, All Taxpayers..... | 141,033 | -\$39,576 | 63,538 | \$26,462 | 63,420 | -\$33,548 | 24,075 | -\$32,391 |

Source: Joint Committee on Taxation
Detail may not add to total due to rounding.

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ESTIMATED REVENUE EFFECTS OF A POSSIBLE INDIVIDUAL TAX REFORM PACKAGE

Fiscal Years 2013 - 2022

[Billions of Dollars]

| Provision | Effective | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2013-17 | 2013-22 |
|--|---------------|-------------|-------------|------------|------------|-------------|-------------|--------------|--------------|--------------|--------------|-------------|--------------|
| 1. Repeal the individual AMT..... | tyba 12/31/12 | -5.8 | -72.0 | -68.4 | -77.3 | -88.6 | -102.0 | -116.9 | -132.5 | -150.8 | -171.4 | -312.2 | -985.8 |
| 2. Repeal overall limitation on itemized deductions and the personal exemption phaseout for certain taxpayers..... | tyba 12/31/12 | -13.2 | -27.8 | -30.7 | -33.9 | -37.4 | -41.0 | -44.2 | -47.1 | -50.1 | -53.3 | -143.0 | -378.6 |
| 3. Extend the EITC [1]..... | tyba 12/31/12 | -0.1 | -6.2 | -6.1 | -6.1 | -6 | -6.1 | -6.1 | -6.2 | -6.4 | -6.5 | -24.6 | -55.9 |
| 4. Extend the child tax credit [1]..... | tyba 12/31/12 | -2.8 | -38 | -38.2 | -38.3 | -38.1 | -38.2 | -38.1 | -38 | -37.9 | -37.9 | -155.4 | -345.6 |
| 5. Repeal itemized deductions..... | tyba 12/31/12 | 134.4 | 205.8 | 215.0 | 230.1 | 244.4 | 258.2 | 271.7 | 284.8 | 298.2 | 312.1 | 1,029.6 | 2,454.6 |
| 6. Repeal interest exclusion for new issues of State and local bonds..... | bia 12/31/12 | 0.4 | 1.8 | 4.0 | 6.5 | 9.6 | 13.1 | 16.7 | 20.5 | 24.3 | 27.6 | 22.3 | 124.4 |
| 7. Tax capital gains (and dividends) as ordinary income and decrease all tax rates by four percent..... | tyba 12/31/12 | -42.3 | -65.4 | -71.5 | -77.8 | -84.0 | -90.4 | -96.3 | -101.9 | -107.6 | -113.4 | -341.0 | -850.5 |
| NET TOTAL | | 70.6 | -1.8 | 4.1 | 3.2 | -0.1 | -6.4 | -13.2 | -20.4 | -30.3 | -42.8 | 75.6 | -37.4 |

Joint Committee on Taxation

NOTE: Details may not add to totals due to rounding. The date of enactment is assumed to be December 31, 2012.

Legend for "Effective" column:

bia = bonds issued after

tyba = taxable years beginning after

[1] Estimate includes the following outlay effects:

| | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> | <u>2019</u> | <u>2020</u> | <u>2021</u> | <u>2022</u> | <u>2013-17</u> | <u>2013-22</u> |
|----------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|----------------|----------------|
| Extend the EITC..... | — | 4.8 | 4.8 | 4.8 | 4.7 | 4.7 | 4.8 | 4.8 | 4.9 | 5 | 19.0 | 43.1 |
| Extend the child tax credit..... | — | 23.7 | 23.5 | 23.1 | 22.5 | 22.4 | 22.2 | 22 | 21.9 | 21.9 | 92.8 | 203.1 |