[JOINT COMMITTEE PRINT]

SELECTED MATERIALS RELATING TO THE FEDERAL TAX SYSTEM UNDER PRESENT LAW AND VARIOUS ALTERNATIVE TAX SYSTEMS

PREPARED BY THE STAFF

OF THE

JOINT COMMITTEE ON TAXATION

IN CONNECTION WITH A RETREAT

OF THE

HOUSE COMMITTEE ON WAYS AND MEANS

HELD ON

MARCH 1–3, 1996

MARCH 14, 1996

U.S. GOVERNMENT PRINTING OFFICE

23–071 WASHINGTON : 1996 JCS–1–96

JOINT COMMITTEE ON TAXATION

104TH CONGRESS, 2D SESSION

SENATE

WILLIAM V. ROTH, JR., Delaware, *Chairman*
JOHN H. CHAFEE, Rhode Island
ORRIN G. HATCH, Utah
DANIEL PATRICK MOYNIHAN, New York
MAX BAUCUS, Montana

HOUSE

BILL ARCHER, Texas, *Vice Chairman*
PHILIP M. CRANE, Illinois
WILLIAM M. THOMAS, California
SAM M. GIBBONS, Florida
CHARLES B. RANGEL, New York

KENNETH J. KIES, *Chief of Staff*
MARY M. SCHMITT, *Deputy Chief of Staff (Law)*
BERNARD A. SCHMITT, *Deputy Chief of Staff (Revenue Analysis)*

CONTENTS

	Page
INTRODUCTION	1
A. Overview of Federal Revenue and Spending	2
1. Growth of Mandatory Spending in the Federal Budget	3
2. Projected Fiscal Year 1996 Federal Receipts by Source	4
3. Aggregate Federal Receipts by Source, 1890–1994	5
4. Federal Receipts by Source, as a Percentage of GDP, 1934–1994	9
5. Federal Receipts by Source, as a Percentage of Total Revenues, 1890–1994	12
6. Revenue From the Estate and Gift Taxes, Selected Years, 1940–1994	16
7. Number of Taxable Estate Tax Returns Filed as a Percentage of Adult Deaths, Selected Years, 1935–1994	17
8. Selected Excise Tax Receipts, 1940–1994	18
9. Selected Excise Tax Receipts as a Percentage of Total Excise Tax Receipts, 1940–1994	20
B. Selected Materials Relating to Social Security and Medicare	22
1. History of FICA/SECA Taxes, 1937–1996	23
2. Projected Lifetime OASI Benefits, Taxes, and Transfers	26
3. Years to Recover Combined Employee/Employer OASI Taxes for Average Earners Retiring at Age 65	27
4. OASDI Year-End Projected Trust Fund Assets, Selected Years, 1995–2030	28
5. Social Security Tax Collections Exceed Current Benefits, But Are Not Enough to Fund Future Promises	29
6. Projected OASDI Trust Fund Accumulations, Current Dollars	30
7. Summarized Income Rates, Cost Rates and Balances for the OASDI Program for Three 25-Year Periods	31
8. Medicare HI is Projected to be Insolvent by 2002	32
9. Status of the Hospital Insurance Trust Fund	33
10. Projected Growth in Population by Age Group, 1980–2050	34

Page

11. Life Expectancy at Age 65 for Females in the U.S., 1990 Through 2050, Three Scenarios 35
12. Old-Age Dependency Ratios for the G7: 1990 and Projections for 2030 36
13. Two-Elderly-Generation Support Ratio 37

C. Demographics of Individual and Corporate Taxpayers Under Present Law 38

General:
1. Estimated Amounts Deducted or Excluded from Income Under the Present Income Tax for Various Items 39

Individual Taxpayers:
2. Sources of Gross Income for All Individual Taxpayers (Including Nonfilers) (Projected 1995 Levels of Income) 40
3. Percent of Aggregate Income of the Age 65 and Older Population From Various Sources, 1992 41
4. Income and Consumption Profile, By Age, 1990 42
5. Distribution of Federal Tax Liability, 1995 Projections 43
6. Number of Taxpayers by Marginal Tax Rate (Projected 1995 Levels of Income) 44
7. Total Taxable Income of Taxpayers in Each Marginal Rate Bracket (Projected 1995 Levels of Income) 45
8. Tax Returns That Claim the Standard Deduction and Tax Returns That Itemize (1995 Projections) 46
9. Tax Returns Claiming Major Itemized Deductions 47
10. Tax Returns Claiming an Itemized Deduction For a Charitable Contribution (1995 Projections) 48
11. Tax Returns Claiming an Itemized Deduction for Mortgage Interest Paid (1995 Projections) 49
12. Tax Returns Claiming an Itemized Deduction for Investment Interest Paid (1995 Projections) 50
13. Tax Returns Claiming an Itemized Deduction for State and Local Income Taxes Paid (1995 Projections) 51
14. Tax Returns Claiming an Itemized Deduction for Real Property Taxes Paid (1995 Projections) 52
15. Tax Returns Claiming an Itemized Deduction for Other State and Local Taxes Paid (1995 Projections) 53
16. Tax Returns Claiming an Itemized Deduction for Medical Expenses Incurred in Excess of 7.5 Percent of Adjusted Gross Income (1995 Projections) 54
17. Tax Returns Claiming an Itemized Deduction for Miscellaneous Expenses in Excess of 2 Percent of Adjusted Gross Income (1995 Projections) 55
18. Tax Returns Claiming an "Above the Line" Deduction for Moving Expenses (1995 Projections) 56

Page

19. Earned Income Credit by Type of Household, 1996 Projection 57
20. Distribution of the Earned Income Credit, 1996 Projection 58
21. Earned Income Credit: Total Cost and Portion Representing Refunds to Individuals Projected in 1996 .. 59

Corporate Taxpayers:
22. Distribution of Total 1993 Corporate Income Tax After Credits by Asset Size and Industry 60

D. Savings Under Present Federal Tax System 61

1. Personal Savings as a Percentage of Disposable Personal Income, Selected Years, 1929–1995 62
2. Components of Net National Savings as a Percentage of GDP, Selected Years, 1929–1993 63
3. Historic Capital Gains Realizations and CBO Baseline Forecast 65
4. Capital Gains Realizations 66
5. IRA Participation, 1979–1994 67

E. Compliance and Administration 68

1. $505 Billion of 1987 Federal Income Tax Liability By Collection Status 69
2. Range of Estimates of the Gross Legal-Sector Income Tax Gap and Voluntary Compliance Rates (VCRs), Selected Tax Years, 1973–1992 70
3. Estimates of the Size of the Underground Economy . 71
4. Internal Revenue Service Income Tax Returns Filed and Examination Coverage 73
5. Internal Revenue Service Income Tax Returns Filed and Examination Coverage, Income Tax Audit Rates 74
6. Internal Revenue Service Returns Filed and Examination Coverage 75
7. Internal Revenue Service Collections, Costs, and Employees 76
8. Perceived Sources of Complexity in the Tax Law 77
9. IRS Regulation Inventory, 1975–1995 78

F. Comparison With State Tax Systems 79

1. State and Local Tax Collections, Fiscal Year 1992 80
2. Composition of Combined State and Local Tax Collections, Fiscal Year 1992 81
3. Degree of Conformity between State and Federal Income Taxes 82

G. Comparison of U.S. Tax System and Savings Rate With Certain Foreign Countries 83

1. Percentage Distribution of Tax Receipts by Type of Tax, Selected Countries, 1992 84

Page

2. Net Household Saving as a Percentage of Disposable Household Income, Selected Years, 1972–1994 85
3. Net National Saving as a Percentage of GDP in Selected Countries, Selected Years, 1962–1989 86

H. Major Components of Various Alternative Tax Systems ... 87

1. Characteristics of a Consumption-Based Tax 88
2. Characteristics of an Income-Based Tax 88
3. Treatment of Individuals Under Various Tax Systems 89
4. Treatment of Businesses Under Various Tax Systems 90

INTRODUCTION

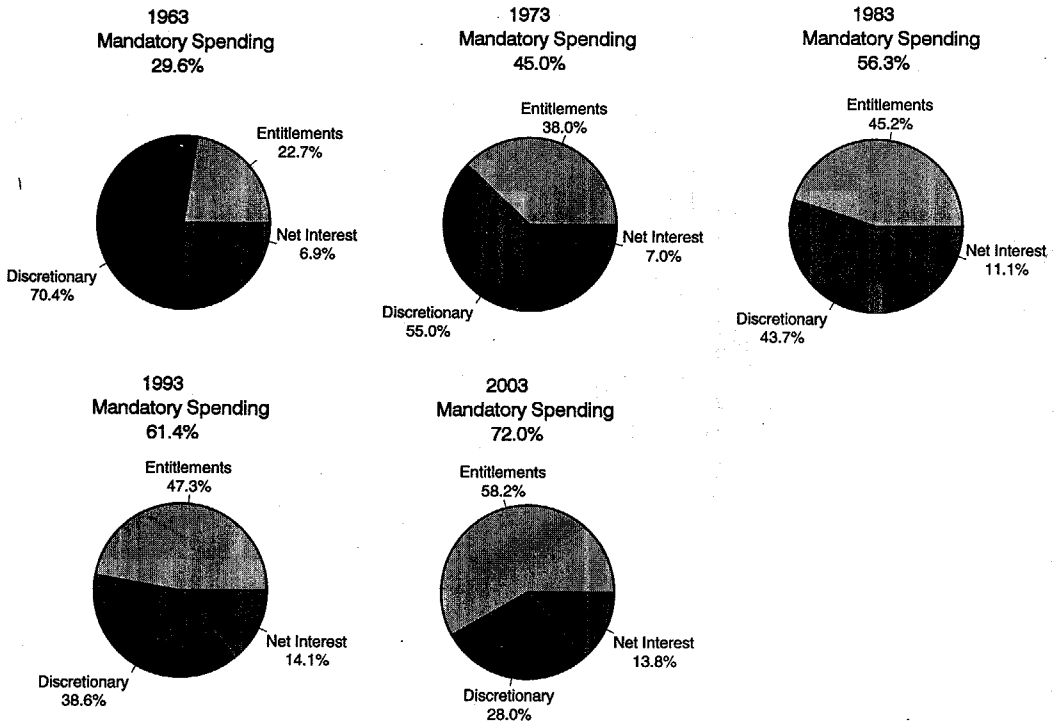
This pamphlet[1] contains background information compiled by the staff of the Joint Committee on Taxation relating to the present Federal tax system and information about the structure of various alternative tax systems. It has been compiled in connection with a retreat of the Committee on Ways and Means held on March 1–3, 1996, to consider issues arising in the context of fundamental tax reform. This information is being published to make available to the public the same information provided to the Members of the Ways and Means Committee by the staff of the Joint Committee on Taxation.

[1] This pamphlet may be cited as follows: Joint Committee on Taxation, *Selected Materials Relating to the Federal Tax System Under Present Law and Various Alternative Tax Systems,* (JCS–1–96), March 14, 1996.

A. Overview of Federal Revenue and Spending

The following tables and graphs provide background information relating to Federal receipts and outlays. The tables include information concerning the growth of Federal mandatory spending, the historic levels of Federal receipts by source, by source as a percentage of GDP, and by source as a percentage of total revenues. In addition, specific information is provided with respect to estate and gift tax receipts and excise tax receipts.

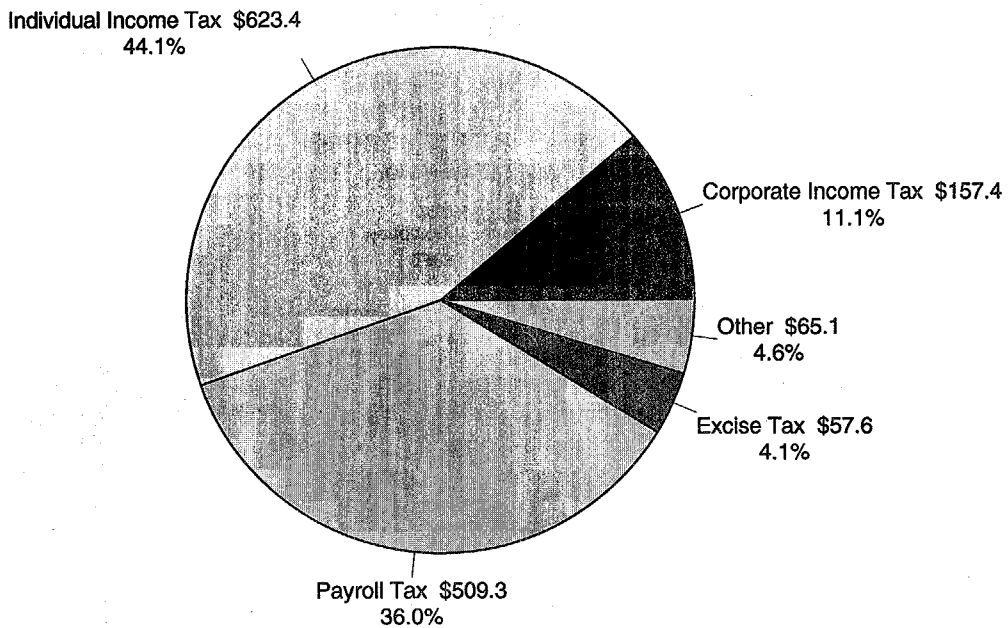
A-1.--Growth of Mandatory Spending in the Federal Budget



Source: Bipartisan Commission on Entitlement and Tax Reform, Final Report to the President, January 1995

A-2.--Projected Fiscal Year 1996 Federal Receipts by Source

($ in Billions)



Source: OMB, Budget of the United States, fiscal year 1996

A–3.—Aggregate Federal Receipts by Source, 1890–1994 (nominal dollars)

[In billions of dollars]

Year	Individual income tax	Payroll tax	Corporate income tax	Excise taxes	Other receipts
1994	543.1	461.5	140.4	55.2	57.6
1993	509.7	428.3	117.5	48.1	50.0
1992	476.0	413.7	100.3	45.6	55.0
1991	467.8	396.0	98.1	42.4	49.9
1990	466.9	380.0	93.5	35.3	55.5
1989	445.7	359.4	103.3	34.4	47.9
1988	401.2	334.3	94.5	35.2	43.7
1987	392.6	303.3	83.9	32.5	41.9
1986	349.0	283.9	63.1	32.9	40.2
1985	334.5	265.2	61.1	36.0	37.2
1984	298.4	239.4	56.9	37.4	34.4
1983	288.9	209.0	37.0	35.3	30.3
1982	297.7	201.5	49.2	36.3	33.0
1981	285.9	182.7	61.1	40.8	28.7
1980	244.1	157.8	64.6	24.3	26.3
1979	217.8	138.9	65.7	18.7	22.1
1978	181.0	121.0	60.0	18.4	19.3
1977	157.6	106.5	54.9	17.5	19.0
1976	131.6	90.8	41.4	17.0	17.3
1975	122.4	84.5	40.6	16.6	15.0
1974	119.0	75.1	38.6	16.8	13.7
1973	103.2	63.1	36.2	16.3	12.0
1972	94.7	52.6	32.2	15.5	12.4
1971	86.2	47.3	26.8	16.6	10.2
1970	90.4	44.4	32.8	15.7	9.5
1969	87.2	39.0	36.7	15.2	8.7

A-3.—Aggregate Federal Receipts by Source, 1890–1994 (nominal dollars)—Continued

[In billions of dollars]

Year	Individual income tax	Payroll tax	Corporate income tax	Excise taxes	Other receipts
1968	68.7	33.9	28.7	14.1	7.6
1967	61.5	32.6	34.0	13.7	7.0
1966	55.4	25.5	30.1	13.1	6.7
1965	48.8	22.2	25.5	14.6	5.8
1964	48.7	22.0	23.5	13.7	4.7
1963	47.6	19.8	21.6	13.2	4.4
1962	45.6	17.0	20.5	12.5	4.0
1961	41.3	16.4	21.0	11.9	3.8
1960	40.7	14.7	21.5	11.7	3.9
1959	36.7	11.7	17.3	10.6	2.9
1958	34.7	11.2	20.1	10.6	3.0
1957	35.6	10.0	21.2	10.5	2.7
1956	32.2	9.3	20.9	9.9	2.3
1955	28.7	7.9	17.9	9.1	1.9
1954	29.5	7.2	21.1	9.9	1.9
1953	29.8	6.8	21.2	9.9	1.9
1952	27.9	6.4	21.2	8.9	1.7
1951	21.6	5.7	14.1	8.6	1.6
1950	15.8	4.3	10.4	7.6	1.4
1949	15.6	3.8	11.2	7.5	1.4
1948	19.3	3.8	9.7	7.4	1.5
1947	17.9	3.4	8.6	7.2	1.3
1946	16.1	3.1	11.9	7.0	1.2
1945	18.4	3.5	16.0	6.3	1.1
1944	19.7	3.5	14.8	4.8	1.0
1943	6.5	3.0	9.6	4.1	0.8

1942	3.3	2.5	4.7	3.4	0.8
1941	1.3	1.9	2.1	2.6	0.8
1940	0.9	1.8	1.2	2.0	0.7
1939	1.0	1.6	1.1	1.9	0.7
1938	1.3	1.5	1.3	1.9	0.8
1937	1.1	0.6	1.0	1.9	0.8
1936	0.7	0.1	0.7	1.6	0.8
1935	0.5	0	0.5	1.4	1.1
1934	0.4	0	0.4	1.4	0.8
1933	0.4	0	0.4	0.8	0.0
1932	0.4	0	0.6	0.5	0.0
1931	0.8	0	1.0	0.5	0.0
1930	1.1	0	1.3	0.6	0.1
1929	1.1	0	1.2	0.5	0.1
1928	0.9	0	1.3	0.5	0.1
1927	0.9	0	1.3	0.5	0.2
1926	0.9	0	1.1	0.6	0.3
1925	0.8	0	0.9	0.5	0.3
1924	0.8	0	0.9	0.7	0.4
1923	0.9	0	0	0.6	0
1922	0.7	0	0	0.6	0
1921	1.1	0	0	0.7	0
1920	1.3	0	0	0.8	0
1919	1.1	0	0	0.8	0
1918	0.8	0	0	0.6	0
1917	0.2	0	0.2	0.4	0
1916	0.1	0	0.1	0.3	0
1915	0	0	0	0.3	0
1914	0	0	0	0.3	0
1913	0	0	0	0.3	0
1912	0	0	0	0.3	0
1911	0	0	0	0.3	0

A-3.—Aggregate Federal Receipts by Source, 1890–1994 (nominal dollars)—Continued

[In billions of dollars]

Year	Individual income tax	Payroll tax	Corporate income tax	Excise taxes	Other receipts
1910	0	0	0	0.3	0
1909	0	0	0	0.2	0
1908	0	0	0	0.3	0
1907	0	0	0	0.3	0
1906	0	0	0	0.2	0
1905	0	0	0	0.2	0
1904	0	0	0	0.2	0
1903	0	0	0	0.2	0
1902	0	0	0	0.3	0
1901	0	0	0	0.3	0
1900	0	0	0	0.3	0
1899	0	0	0	0.3	0
1898	0	0	0	0.2	0
1897	0	0	0	0.1	0
1896	0	0	0	0.1	0
1895	0	0	0	0.1	0
1894	0	0	0	0.1	0
1893	0	0	0	0.2	0
1892	0	0	0	0.2	0
1891	0	0	0	0.1	0
1890	0	0	0	0.1	0

Source: Joint Committee on Taxation; Office of Management and Budget, *Historical Tables, Budget of the United States Government, Fiscal Year 1996;* and Census Bureau, Department of Commerce, *Historical Statistics of the United States, Colonial Times to Present.*

A–4.—Federal Receipts By Source, As a Percentage of GDP, 1934–1994

Year	Total receipts	Individual income tax	Payroll taxes	Corporate income tax	Excise taxes	Other receipts
1994	18.96	8.19	6.96	2.12	0.83	0.87
1993	18.43	8.14	6.84	1.88	0.77	0.80
1992	18.42	8.04	6.99	1.69	0.77	0.93
1991	18.57	8.24	6.98	1.73	0.75	0.88
1990	18.81	8.52	6.93	1.71	0.64	1.01
1989	19.15	8.62	6.95	2.00	0.66	0.93
1988	18.90	8.34	6.95	1.97	0.73	0.91
1987	19.18	8.82	6.81	1.88	0.73	0.94
1986	18.23	8.27	6.73	1.50	0.78	0.95
1985	18.50	8.43	6.68	1.54	0.91	0.94
1984	18.04	8.08	6.48	1.54	1.01	0.93
1983	18.11	8.71	6.30	1.12	1.06	0.91
1982	19.79	9.54	6.45	1.58	1.16	1.06
1981	20.22	9.65	6.16	2.06	1.38	0.97
1980	19.56	9.23	5.97	2.44	0.92	1.00
1979	19.07	8.97	5.72	2.70	0.77	0.91
1978	18.54	8.40	5.61	2.78	0.85	0.89
1977	18.55	8.22	5.55	2.86	0.92	0.99
1976	17.70	7.81	5.39	2.46	1.01	1.03
1975	18.49	8.11	5.60	2.69	1.10	0.99
1974	18.75	8.47	5.35	2.75	1.20	0.98
1973	18.12	8.10	4.95	2.84	1.28	0.94
1972	18.06	8.25	4.58	2.80	1.35	1.08
1971	17.81	8.21	4.50	2.55	1.58	0.97
1970	19.57	9.18	4.50	3.33	1.59	0.96
1969	20.19	9.43	4.21	3.96	1.64	0.94

A–4.—Federal Receipts By Source, As a Percentage of GDP, 1934–1994—Continued

Year	Total receipts	Individual income tax	Payroll taxes	Corporate income tax	Excise taxes	Other receipts
1968	18.06	8.11	4.00	3.38	1.66	0.89
1967	18.76	7.76	4.11	4.28	1.73	0.88
1966	17.79	7.54	3.47	4.09	1.78	0.91
1965	17.41	7.27	3.31	3.79	2.17	0.86
1964	18.01	7.79	3.51	3.76	2.20	0.76
1963	18.23	8.14	3.39	3.69	2.26	0.75
1962	17.95	8.21	3.07	3.70	2.26	0.72
1961	18.26	8.00	3.18	4.05	2.29	0.73
1960	18.33	8.07	2.91	4.26	2.31	0.78
1959	16.50	7.65	2.44	3.60	2.20	0.61
1958	17.77	7.75	2.51	4.48	2.37	0.66
1957	18.25	8.13	2.28	4.83	2.40	0.61
1956	17.92	7.73	2.24	5.02	2.39	0.55
1955	17.01	7.47	2.04	4.64	2.37	0.48
1954	18.94	8.03	1.96	5.73	2.70	0.52
1953	19.13	8.20	1.87	5.84	2.71	0.51
1952	19.43	8.20	1.89	6.23	2.60	0.50
1951	16.46	6.90	1.81	4.50	2.76	0.50
1950	14.84	5.93	1.63	3.93	2.84	0.51
1949	15.00	5.92	1.44	4.26	2.86	0.53
1948	16.85	7.83	1.52	3.92	2.98	0.59
1947	17.28	8.05	1.54	3.86	3.24	0.60
1946	18.49	7.58	1.47	5.59	3.29	0.57
1945	21.30	8.67	1.63	7.54	2.96	0.51
1944	21.69	9.77	1.72	7.36	2.36	0.48
1943	13.68	3.71	1.74	5.45	2.34	0.46

1942	10.32	2.30	1.73	3.33	2.40	0.56
1941	7.74	1.17	1.72	1.89	2.27	0.70
1940	6.86	0.94	1.87	1.25	2.07	0.73
1939	7.17	1.17	1.81	1.28	2.13	0.77
1938	7.69	1.46	1.76	1.47	2.12	0.88
1937	6.21	1.26	0.67	1.20	2.16	0.92
1936	5.06	0.87	0.07	0.93	2.10	1.09
1935	5.25	0.77	0.05	0.77	2.09	1.58
1934	4.89	0.70	0.05	0.60	2.24	1.30

Source: Joint Committee on Taxation; Office of Management and Budget, *Historical Tables, Budget of the United States Government, Fiscal Year 1996;* and Census Bureau, Department of Commerce, *Historical Statistics of the United States, Colonial Times to Present.*

23-071 O - 96 - 2

A-5.—Federal Receipts By Source, As a Percentage of Total Revenues, 1890–1994

Year	Individual income taxes	Payroll taxes	Corporate income taxes	Excise taxes	Other receipts
1994	43.18	36.69	11.16	4.39	4.58
1993	44.18	37.13	10.19	4.17	4.33
1992	43.65	37.94	9.20	4.18	5.04
1991	44.37	37.56	9.30	4.02	4.74
1990	45.27	36.85	9.07	3.43	5.39
1989	44.99	36.28	10.43	3.47	4.84
1988	44.14	36.78	10.40	3.88	4.81
1987	45.96	35.51	9.83	3.80	4.90
1986	45.37	36.91	8.21	4.28	5.22
1985	45.57	36.12	8.33	4.90	5.07
1984	44.78	35.92	8.54	5.61	5.16
1983	48.11	34.80	6.16	5.88	5.05
1982	48.20	32.62	7.96	5.88	5.34
1981	47.71	30.49	10.20	6.81	4.78
1980	47.20	30.52	12.49	4.70	5.09
1979	47.02	29.99	14.18	4.05	4.77
1978	45.30	30.27	15.00	4.60	4.82
1977	44.33	29.95	15.44	4.94	5.35
1976	44.15	30.45	13.89	5.69	5.81
1975	43.85	30.29	14.55	5.93	5.37
1974	45.19	28.52	14.67	6.40	5.22
1973	44.73	27.35	15.66	7.05	5.21
1972	45.70	25.36	15.52	7.47	5.96
1971	46.08	25.29	14.31	8.88	5.44
1970	46.89	23.01	17.03	8.15	4.93
1969	46.69	20.88	19.63	8.15	4.66

1968	44.93	22.18	18.74	9.20	4.96
1967	41.34	21.92	22.83	9.22	4.69
1966	42.38	19.53	22.99	9.98	5.13
1965	41.77	19.04	21.80	12.47	4.92
1964	43.24	19.50	20.86	12.19	4.20
1963	44.66	18.58	20.25	12.38	4.12
1962	45.72	17.10	20.59	12.57	4.02
1961	43.80	17.42	22.20	12.57	4.02
1960	44.02	15.87	23.24	12.62	4.24
1959	46.33	14.79	21.84	13.35	3.69
1958	43.60	14.11	25.21	13.36	3.72
1957	44.53	12.50	26.46	13.17	3.34
1956	43.15	12.50	27.99	13.31	3.04
1955	43.92	12.01	27.29	13.95	2.83
1954	42.38	10.34	30.27	14.27	2.73
1953	42.83	9.80	30.51	14.19	2.67
1952	42.22	9.74	32.08	13.38	2.58
1951	41.88	10.99	27.32	16.75	3.06
1950	39.94	11.00	26.49	19.14	3.43
1949	39.46	9.59	28.40	19.03	3.52
1948	46.47	9.03	23.29	17.70	3.51
1947	46.57	8.89	22.37	18.72	3.46
1946	40.97	7.93	30.24	17.81	3.06
1945	40.68	7.64	35.40	13.87	2.40
1944	45.04	7.94	33.92	10.88	2.22
1943	27.10	12.68	39.82	17.07	3.33
1942	22.30	16.76	32.25	23.23	5.47
1941	15.08	22.27	24.38	29.29	8.98
1940	13.62	27.26	18.28	30.19	10.64
1939	16.35	25.31	17.90	29.72	10.72
1938	19.05	22.83	19.06	27.60	11.46
1937	20.27	10.77	19.27	34.82	14.87

A-5.—Federal Receipts By Source, As a Percentage of Total Revenues, 1890–1994—Continued

Year	Individual income taxes	Payroll taxes	Corporate income taxes	Excise taxes	Other receipts
1936	17.18	1.33	18.33	41.58	21.59
1935	14.60	0.86	14.66	39.87	30.01
1934	14.21	1.02	12.32	45.82	26.63
1933	21.79	0	24.32	51.79	2.10
1932	27.41	0	40.44	29.14	3.02
1931	34.35	0	42.26	21.42	1.98
1930	37.73	0	41.55	18.59	2.14
1929	37.29	0	42.06	18.37	2.28
1928	31.64	0	46.29	17.23	4.84
1927	31.82	0	45.64	16.82	5.72
1926	30.99	0	38.61	20.13	10.26
1925	32.70	0	35.45	21.01	10.84
1924	30.22	0	32.76	23.86	13.16
1923	32.84	0	0	23.84	0
1922	22.49	0	0	18.55	0
1921	23.39	0	0	14.91	0
1920	23.48	0	0	14.94	0
1919	29.30	0	0	21.74	0
1918	21.49	0	0	17.22	0
1917	22.25	0	25.59	47.96	4.20
1916	13.26	0	11.11	66.28	9.36
1915	9.86	0	0	78.85	0
1914	7.37	0	0	80.79	0
1913	0	0	0	89.53	10.47
1912	0	0	0	90.37	9.63
1911	0	0	0	88.85	11.15

1910	0	0	0	92.07	7.93
1909	0	0	0	99.59	0.41
1908	0	0	0	99.21	0.79
1907	0	0	0	99.26	0.74
1906	0	0	0	99.60	0.40
1905	0	0	0	99.15	0.85
1904	0	0	0	98.71	1.29
1903	0	0	0	96.54	3.46
1902	0	0	0	95.22	4.78
1901	0	0	0	95.77	4.23
1900	0	0	0	96.27	3.73
1899	0	0	0	97.07	2.93
1898	0	0	0	98.83	1.17
1897	0	0	0	99.32	0.68
1896	0	0	0	98.64	1.36
1895	0	0	0	99.30	0.70
1894	0	0	0	98.64	1.36
1893	0	0	0	98.76	1.24
1892	0	0	0	98.70	1.30
1891	0	0	0	99.32	0.68
1890	0	0	0	99.30	0.70

Source: Joint Committee on Taxation; Office of Management and Budget, *Historical Tables, Budget of the United States Government, Fiscal Year 1996;* and Census Bureau, Department of Commerce, *Historical Statistics of the United States, Colonial Times to Present.*

A–6.—Revenue From the Estate and Gift Taxes, Selected Years, 1940–1994

(Nominal Dollars)

Year	Estate and gift tax receipts (millions)	Percentage of total Federal receipts
1940	$357	6.9
1945	638	1.4
1950	698	1.9
1955	924	1.4
1960	1,606	1.7
1965	2,716	2.3
1970	3,644	1.9
1975	4,611	1.7
1976	5,216	1.7
1977	7,327	2.1
1978	5,285	1.3
1979	5,411	1.2
1980	6,389	1.2
1981	6,787	1.1
1982	7,991	1.3
1983	6,053	1.0
1984	6,010	0.9
1985	6,422	0.9
1986	6,958	0.9
1987	7,493	0.9
1988	7,594	0.8
1989	8,745	0.9
1990	11,500	1.12
1991	11,138	1.06
1992	11,143	1.02
1993	12,577	1.09
1994	15,225	1.21

Sources: Joint Economic Committee, *The Federal Tax System: Facts and Problems,* 1964; Joseph A. Pechman, *Federal Tax Policy* (Washington: Brookings Institution), 1987; and U.S. Office of Management and Budget, *Budget of the United States Government, Fiscal Year 1996.*

A–7.—Number of Taxable Estate Tax Returns Filed as a Percentage of Adult Deaths, Selected Years, 1935–1994

Year	Deaths	Number	Percent of deaths
1935	1,172,245	8,655	0.74
1940	1,237,186	12,907	1.04
1945	1,239,713	13,869	1.12
1950	1,304,343	17,411	1.33
1955	1,379,826	25,143	1.82
1961	1,548,665	[2] 45,439	2.93
1966	1,727,240	67,404	3.90
1970	1,796,940	[2] 93,424	5.20
1973	1,867,689	[2] 120,761	6.47
1977	1,819,107	[2] 139,115	7.65
1982	1,897,820	[2,3] 41,620	2.19
1983	1,945,913	[2,3] 35,148	1.81
1984	1,968,128	[2,3] 31,507	1.60
1985	2,086,440	[2,3] 30,518	1.46
1986	2,105,361	23,731	1.13
1987	2,123,323	21,335	1.00
1988	[4] 2,167,999	[2] 18,948	0.87
1989 [5]	2,150,466	20,856	0.97
1990 [5]	2,148,463	23,215	1.08
1991 [5]	2,169,518	24,897	1.15
1992 [5]	2,175,613	27,187	1.25
1993 [5]	2,268,000	27,506	1.21
1994 [5]	NA	31,926	NA

[1] Estate returns need to be filed in the year of the decedent's death.

[2] Not strictly comparable with pre-1966 data. For later years, the estate tax after credits was the basis for determining taxable returns. For prior years, the basis was the estate tax before credits.

[3] Although the filing requirement was for gross estates in excess of $225,000 for 1982 deaths, $275,000 for 1983 deaths, and $325,000 for 1984 deaths, the data are limited to gross estates of $300,000 or more.

[4] Death numbers from 1988 on as reported in the *Statistical Abstract of the United States* from U.S. National Center for Health Statistics, Vital Statistics of the United States.

[5] Taxable estate data from 1989–1994 calculated by JCT staff from Statistics of Income data.

Sources: Joseph A. Pechman, *Federal Tax Policy* (Washington Brookings Institution), 1987; Internal Revenue Service, Statistics of Income; and U.S. National Center for Health Statistics.

A–8.—Selected Excise Tax Receipts, 1940–1994

[All figures in millions of nominal dollars]

Year	Non trust fund excise taxes				Trust fund excise taxes				Total excise tax receipts
	Alcohol	Tobacco	Telephone[1]	Transportation fuels	Highway	Airport and airway	Superfund	Total trust fund	
1940	623	606	26.4	...	...	...	...	...	1,977
1941	818	691	...	...	...	...	...	...	2,552
1942	1,046	779	...	...	...	...	...	...	3,399
1943	1,422	913	...	...	...	...	...	...	4,096
1944	1,604	986	...	...	...	...	...	...	4,759
1945	2,275	929	441.6	...	...	...	...	...	6,265
1946	2,490	1,156	...	...	...	...	...	...	6,998
1947	2,429	1,231	...	...	...	...	...	...	7,211
1948	2,217	1,297	...	...	...	...	...	...	7,356
1949	2,168	1,319	...	...	...	...	...	...	7,502
1950	2,180	1,326	559.6	...	...	...	...	...	7,550
1951	2,508	1,378	...	...	...	...	...	...	8,648
1952	2,515	1,562	...	...	...	...	...	...	8,852
1953	2,723	1,652	...	...	...	...	...	...	9,877
1954	2,738	1,578	748.4	...	...	...	...	...	9,945
1955	2,689	1,568	...	...	...	...	...	...	9,131
1956	2,866	1,607	...	...	...	...	...	...	9,929
1957	2,915	1,669	...	...	1,479	...	...	1,479	10,534
1958	2,882	1,728	...	...	2,026	...	...	2,026	10,638
1959	2,958	1,798	...	...	2,074	...	...	2,074	10,578
1960	3,127	1,927	717.3	...	2,539	...	...	2,539	11,676
1961	3,146	1,986	...	...	2,798	...	...	2,798	11,860
1962	3,268	2,022	...	...	2,949	...	...	2,949	12,534
1963	3,366	2,075	...	...	3,279	...	...	3,279	13,194
1964	3,499	2,048	...	...	3,519	...	...	3,519	13,731
1965	3,689	2,142	1,079	...	3,659	...	...	3,659	14,570
1966	3,720	2,066	...	...	3,917	...	...	3,917	13,062
1967	3,980	2,077	...	...	4,441	...	...	4,441	13,719
1968	4,189	2,121	...	...	4,379	...	...	4,379	14,079

1969	4,447	2,136	1,316	.....	4,637	.....	.....	4,637	15,222
1970	4,646	2,093	.....	.....	5,354	.....	.....	5,354	15,702
1971	4,696	2,205	.....	.....	5,542	563	.....	6,104	16,614
1972	5,004	2,205	.....	.....	5,322	649	.....	5,971	15,477
1973	5,040	2,274	1,885	.....	5,665	758	.....	6,424	16,260
1974	5,248	2,435	.....	.....	6,260	840	.....	7,100	16,844
1975	5,238	2,312	.....	.....	6,188	962	.....	7,151	16,551
1976	5,318	2,484	.....	.....	5,413	938	.....	6,351	16,963
1977	5,295	2,393	1,709	.....	6,709	1,191	.....	7,900	17,548
1978	5,492	2,444	.....	.....	6,904	1,326	.....	8,323	18,376
1979	5,531	2,492	.....	.....	7,189	1,526	.....	8,937	18,745
1980	5,601	2,443	1,118	.....	6,620	1,874	.....	8,766	17,395
1981	5,606	2,581	.....	.....	6,305	21	128	6,711	17,587
1982	5,382	2,537	.....	.....	6,744	133	244	7,641	17,904
1983	5,557	4,136	.....	.....	8,297	2,165	230	11,214	23,165
1984	5,315	4,660	2,035	.....	11,743	2,499	261	15,082	28,455
1985	5,562	4,779	2,147	.....	13,015	2,851	273	16,894	29,644
1986	5,828	4,589	2,339	.....	13,363	2,736	15	16,866	30,668
1987	5,971	4,763	2,522	.....	13,032	3,060	635	17,613	32,457
1988	5,709	4,616	2,610	.....	14,114	3,189	698	19,042	35,227
1989	5,661	4,378	2,791	.....	15,628	3,664	883	21,239	34,386
1990	5,695	4,081	2,995	.....	13,867	3,700	818	19,754	35,345
1991	7,364	4,706	3,094	.....	16,979	4,910	810	24,127	42,402
1992	8,011	5,049	3,146	.....	16,733	4,645	818	23,733	45,569
1993	7,583	5,875	3,320	.....	18,039	3,262	826	23,535	48,057
1994	7,539	5,691	3,526	9,402	16,668	5,189	807	23,999	55,225

[1] Reported for selected years prior to 1984. Telephone excise tax has been continuously collected throughout the period 1940–1994.

Source: Joint Committee on Taxation, Office of Management and Budget, *Historical Tables, Budget of the United States Government, Fiscal Year 1996,* Joint Committee on Internal Revenue Taxation, *Federal Excise Tax Data* (JCS–2–67), May 1967; and selected years of the Budget of the United States Government.

A-9.—Selected Excise Tax Receipts as a Percentage of Total Excise Tax Receipts, 1940–1994

Year	Non Trust Fund Excise Taxes				Trust Fund Excise Taxes			
	Alcohol	Tobacco	Telephone[1]	Transportation Fuels	Highway	Airport and Airway	Superfund	Total
1940	32	31	1	...	...	...	...	...
1941	32	27	...	...	...	...	...	...
1942	31	23	...	...	...	...	...	...
1943	35	22	...	...	...	...	...	...
1944	34	21	...	...	...	...	...	...
1945	36	15	7	...	...	...	...	...
1946	36	17	...	...	...	...	...	...
1947	34	17	...	...	...	...	...	...
1948	30	18	...	...	...	...	...	...
1949	29	18	...	...	...	...	...	...
1950	29	18	7	...	...	...	...	...
1951	29	16	...	...	...	...	...	...
1952	28	18	...	...	...	...	...	...
1953	28	17	...	...	...	...	...	...
1954	28	16	8	...	...	...	...	...
1955	29	17	...	...	...	...	...	...
1956	29	16	...	...	...	...	...	...
1957	28	16	...	...	14	...	...	14
1958	27	16	...	...	19	...	...	19
1959	28	17	...	...	20	...	...	20
1960	27	17	6	...	22	...	...	22
1961	27	17	...	...	24	...	...	24
1962	26	16	...	...	24	...	...	24
1963	26	16	...	...	25	...	...	25
1964	25	15	...	...	26	...	...	26
1965	25	15	7	...	25	...	...	25
1966	28	16	...	...	30	...	...	30
1967	29	15	...	...	32	...	...	32
1968	30	15	...	...	31	...	...	31
1969	29	14	9	...	30	...	...	30
1970	30	13	...	...	34	...	...	34

1971	28	13	.....	.....	33	3	.....	37
1972	32	14	.....	.....	34	4	.....	39
1973	31	14	12	.....	35	5	.....	40
1974	31	14	.....	.....	37	5	.....	42
1975	32	14	.....	.....	37	6	.....	43
1976	31	15	.....	.....	32	6	.....	37
1977	30	14	10	.....	38	7	.....	45
1978	30	13	.....	.....	38	7	.....	45
1979	30	13	.....	.....	38	8	.....	48
1980	32	14	6	.....	38	11	.....	50
1981	32	15	.....	.....	36	0	1	38
1982	30	14	.....	.....	38	1	1	43
1983	24	18	.....	.....	36	9	1	48
1984	19	16	7	.....	41	9	1	53
1985	19	16	7	.....	44	10	1	57
1986	19	15	8	.....	44	9	0	55
1987	18	15	8	.....	40	9	2	54
1988	16	13	7	.....	40	9	2	54
1989	16	13	8	.....	45	11	3	62
1990	16	12	8	.....	39	10	2	56
1991	17	11	7	.....	40	12	2	57
1992	18	11	7	.....	37	10	2	52
1993	16	12	7	.....	38	7	2	49
1994	14	10	6	17	30	9	1	43

[1] Reported for selected years prior to 1984. Telephone excise tax has been continuously collected throughout the period 1940–1994.

Source: Joint Committee on Taxation; Office of Management and Budget, *Historical Tables, Budget of the United States Government, Fiscal Year 1996;* Joint Committee on Internal Revenue Taxation, *Federal Excise Tax Data* (JCS–2–67), May 1967; and selected years of the Budget of the United States Government.

B. Selected Materials Relating to Social Security and Medicare

Payroll taxes, of which the taxes to fund Social Security (OASDI) and Medicare (HI) are a major portion, are projected to equal 36 percent of Federal receipts for fiscal year 1996. In addition, the Social Security program is financed partially by the income tax collected on certain Social Security benefits, which equaled approximately $5.6 billion in 1993. The following materials provide certain information relating to the Social Security and Medicare programs. The materials include a history of FICA/SECA taxes, information relating to the extent to which FICA/SECA tax payments fund Social Security benefits, projected information relating to the status of the Social Security and Medicare trust funds, and projected demographics of the elderly population.

B-1.--History of FICA/SECA Taxes
1937-1996*

Calendar Year	Wage Base	Tax Rates, Employer and Employee, Each			Maximum Employee Tax	Tax Rate, Self-Employed			Maximum Self-Empl. Tax
		OASDI	HI	Total		OASDI	HI	Total	
1996	$62,700	6.2	1.45	7.65	***	12.4	2.9	15.3	***
1995	61,200	6.2	1.45	7.65	***	12.4	2.9	15.3	***
1994	60,600	6.2	1.45	7.65	***	12.4	2.9	15.3	***
1993**	57,600	6.2	1.45	7.65	$5,528.70	12.4	2.9	15.3	$9,343.50
1992**	55,500	6.2	1.45	7.65	5,328.90	12.4	2.9	15.3	9,005.84
1991**	53.400	6.2	1.45	7.65	5,123.30	12.4	2.9	15.3	8,658.38
1990	51,300	6.2	1.45	7.65	3,924.45	12.4	2.9	15.3	6,553.83
1989	48,000	6.06	1.45	7.51	3,604.80	12.12	2.9	15.02	6,249.60
1988	45,000	6.06	1.45	7.51	3,379.50	12.12	2.9	15.02	5,859.00
1987	43,800	5.70	1.45	7.15	3,131.70	11.4	2.9	14.30	5,387.40
1986	42,000	5.70	1.45	7.15	3,003.00	11.4	2.9	14.30	5,166.00

* Sources: Kollman, Geoffrey, CRS Report for Congress, "Summary of Major Changes in the Social Security Cash Benefits Program: 1935-1993, 94-36 EPW"; Joint Committee on Taxation. The dollar amounts for maximum self-employment tax do not equal two times the maximum employee tax because of deductions or credits available to self-employed individuals in some years.

** For 1991, the cap on wages and self-employment income subject to the HI tax was $125,000. For 1992, the cap for HI purposes was $130,200 and for 1993, the cap for HI purposes was $135,000.

*** After 1993, the cap on wages and self-employment income subject to the HI tax was removed.

Calendar Year	Wage Base	Tax Rates, Employer and Employee, Each OASDI	HI	Total	Maximum Employee Tax	Tax Rate, Self-Employed OASDI	HI	Total	Maximum Self-Empl. Tax
1985	39,600	5.70	1.35	7.05	2,791.80	11.4	2.7	14.10	4,672.80
1984	37,800	5.70	1.3	7.00	2,532.60	11.4	2.6	14.0	4,271.40
1983	35,700	5.40	1.3	6.70	2,391.90	8.05	1.3	9.35	3,337.95
1982	32,400	5.40	1.3	6.70	2,170.80	8.05	1.3	9.35	3.029.40
1981	29,700	5.35	1.3	6.65	1,975.05	8.00	1.3	9.3	2,762.10
1980	25,900	5.08	1.05	6.13	1,587.67	7.05	1.05	8.1	2,097.90
1979	22,900	5.08	1.05	6.13	1,403.77	7.05	1.05	8.1	1,854.90
1978	17,700	5.05	1.0	6.05	1,070.85	7.1	1.0	8.1	1,433.70
1977	16,500	4.95	.9	5.85	965.25	7.0	.9	7.9	1,303.50
1976	15,300	4.95	.9	5.85	895.05	7.0	.9	7.9	1,208.70
1975	14,100	4.95	.9	5.85	824.85	7.0	.9	7.9	1,113.90
1974	13,200	4.95	.9	5.85	772.20	7.0	.9	7.9	1,042.00
1973	10,800	4.85	1.0	5.85	631.80	7.0	1.0	8.0	874.00
1972	9,000	4.6	.6	5.2	468.00	6.9	.8	7.5	675.00
1971	7,800	4.6	.6	5.2	405.60	6.9	.6	7.5	585.00
1970	7,800	4.2	.6	4.8	374.40	6.3	.6	6.9	538.20
1969	7,800	4.2	.6	4.8	374.40	6.3	.6	6.9	538.20
1968	7,800	3.8	.6	4.4	343.20	5.8	.6	6.4	499.20

Calendar Year	Wage Base	Tax Rates, Employer and Employee, Each OASDI	HI	Total	Maximum Employee Tax	Tax Rate, Self-Employed OASDI	HI	Total	Maximum Self-Empl. Tax
1967	6,600	3.9	.5	4.4	290.40	5.9	.5	6.4	422.40
1966	6,600	3.85	.35	4.2	277.20	5.8	.35	6.15	405.90
1963-65	4,800	3.625	--	3.625	174.00	5.4	--	5.4	259.20
1962	4,800	3.125	--	3.125	150.00	4.7	--	4.7	225.60
1960-61	4,800	3.0	--	3.0	144.00	4.5	--	4.5	216.00
1959	4,800	2.5	--	2.5	120.00	3.75	--	3.75	180.00
1957-58	4,200	2.25	--	2.25	94.50	3.375	--	3.375	141.75
1955-56	4,200	2.0	--	2.0	84.00	3.0	--	3.0	126.00
1954	3,600	2.0	--	2.0	72.00	3.0	--	3.0	108.00
1951-53	3,600	1.5	--	1.5	54.00	2.25	--	2.25	81.00
1950	3,000	1.5	--	1.5	45.00	--	--	--	--
1937-49	3,000	1.0	--	1.0	30.00	--	--	--	--

B–2.—Projected Lifetime OASI Benefits, Taxes, and Transfers

[In thousands of constant 1993 dollars]

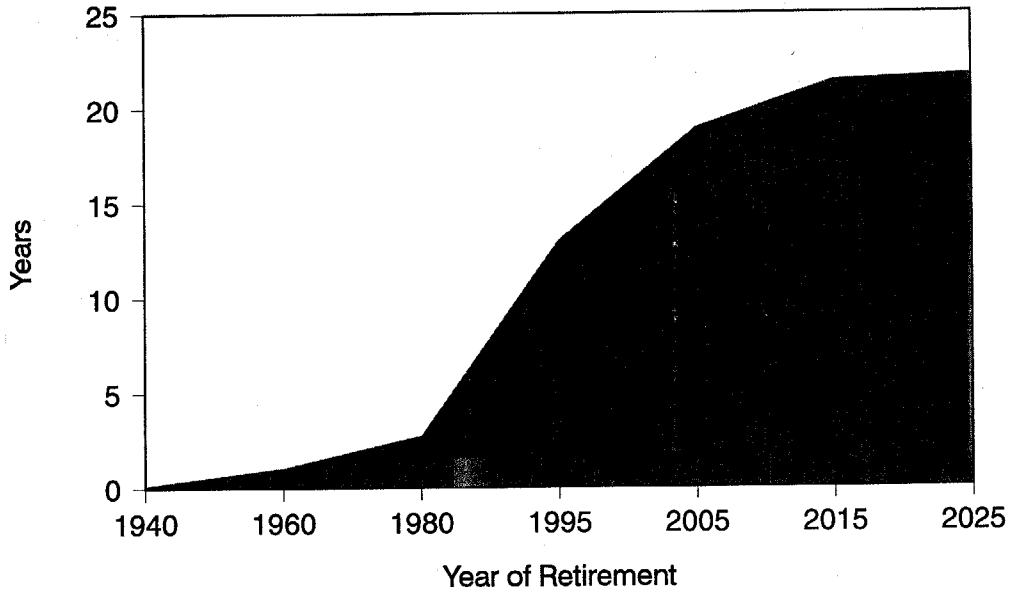
Year cohort turns 65	Single Male			Single Female			One-Earner Couple			Two-Earner Couple		
	Low wage	Avg. wage	High wage	Low wage	Avg. wage	High wage	Low wage	Avg. wage	High wage	Low & low	Avg. & low	High & Avg.
1960:												
Benefits	30.1	45.5	50.6	45.7	69.0	76.7	66.3	98.9	111.0	76.8	102.0	122.1
Taxes	4.0	9.0	13.8	4.3	9.6	14.6	4.0	9.0	13.8	8.4	13.3	23.4
Net transfer	26.1	36.5	36.8	41.4	59.4	62.1	62.3	89.9	97.2	68.4	88.7	98.7
1980:												
Benefits	54.3	90.2	114.6	80.8	134.3	170.5	129.3	209.9	264.3	146.9	208.4	273.2
Taxes	22.9	51.0	71.9	24.2	53.9	76.1	22.9	51.0	71.9	47.2	75.2	125.7
Net transfer	31.4	39.3	42.7	56.6	80.5	94.4	106.4	158.9	192.4	99.7	133.3	147.5
1995:												
Benefits	58.0	95.7	133.6	80.6	132.9	185.5	134.9	223.4	305.4	155.2	226.6	312.6
Taxes	45.4	100.8	107.7	47.2	104.8	179.0	45.4	100.8	170.7	92.5	148.0	275.5
Net transfer	12.6	−5.1	−37.1	33.4	28.1	6.5	89.5	122.5	134.7	62.6	78.6	37.1
2010:												
Benefits	69.0	115.2	175.9	93.6	156.1	238.4	154.6	258.8	388.6	178.9	261.7	394.2
Taxes	68.2	151.5	310.8	70.4	156.5	322.4	68.2	151.5	310.8	138.6	221.9	467.3
Net transfer	0.9	−36.3	−135.0	23.2	−0.4	−84.1	86.5	107.3	77.7	40.3	39.8	−73.1
2030:												
Benefits	84.0	139.6	220.3	113.7	189.0	298.1	187.4	312.8	493.0	215.9	316.5	498.1
Taxes	88.1	195.8	468.8	91.3	202.8	485.4	88.1	195.8	468.8	179.4	287.1	671.6
Net transfer	−4.1	−56.2	−248.5	22.5	−13.8	−187.3	99.3	117.0	24.2	36.5	29.4	−173.5

Notes: All amounts are discounted to present value at age 65 using a 2-percent real interest rate. Adjusts for chance of death in all years after age 21. Included actuarial value of all OASI workers, spousal, and survivors benefits payable over a lifetime. Includes both employer and employee portions of OASI payroll tax. Couples are assumed to be the same age and to have two children born when parents are aged 25 and 30. Assumes retirement at the OASI normal retirement age. Projections are based on the intermediate assumptions from the 1993 OASDI Board of Trustees report. OASI tax rate is assumed to be set at 10.65 percent after 1992.

Source: C. Eugene Steuerle and Jon M. Bakija, *Retooling Social Security for the 21st Century: Right and Wrong Approaches to Reform*, Urban Institute Press, February 1994.

B-3.--Years to Recover Combined Employee/Employer OASI Taxes* for Average Earners**

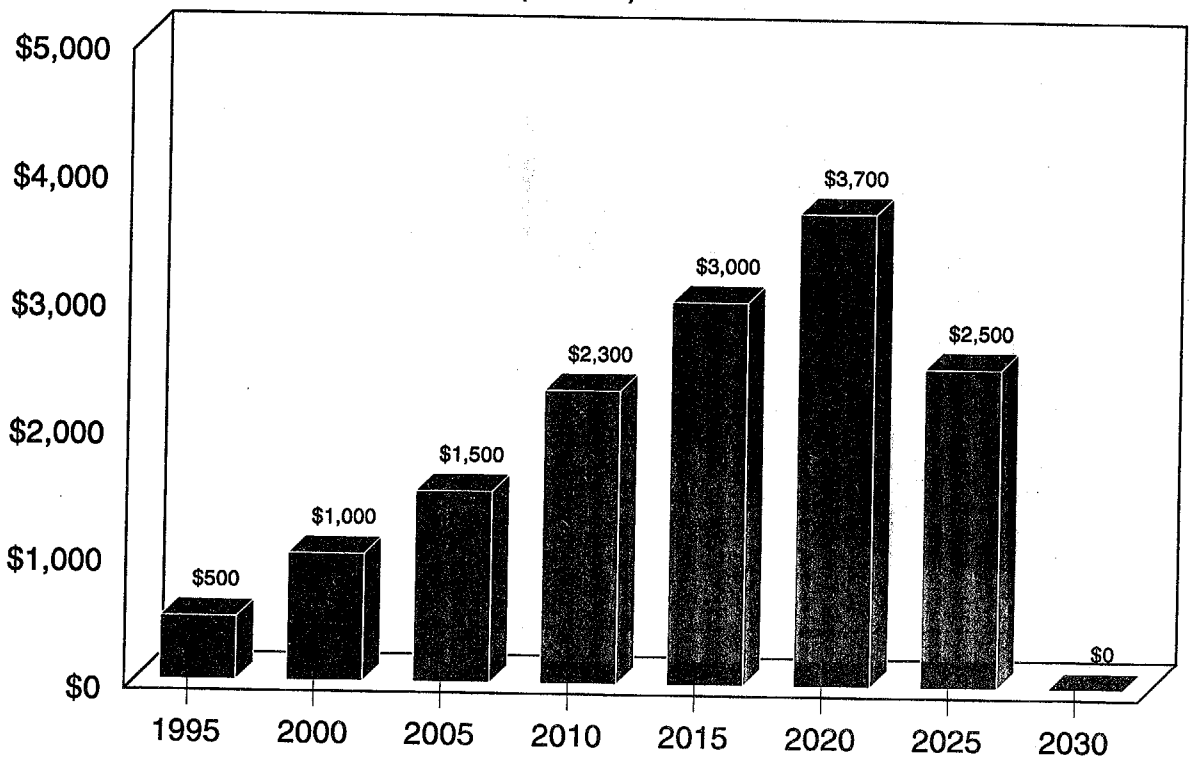
Retiring at Age 65



*Taxes plus interest.
**An average earner is one whose wages have always equaled Social Security's "average wage series."
Source: CRS Report for Congress, Social Security: The Relationship of Taxes and Benefits for Past, Present, and Future Retirees, 95-149 EPW

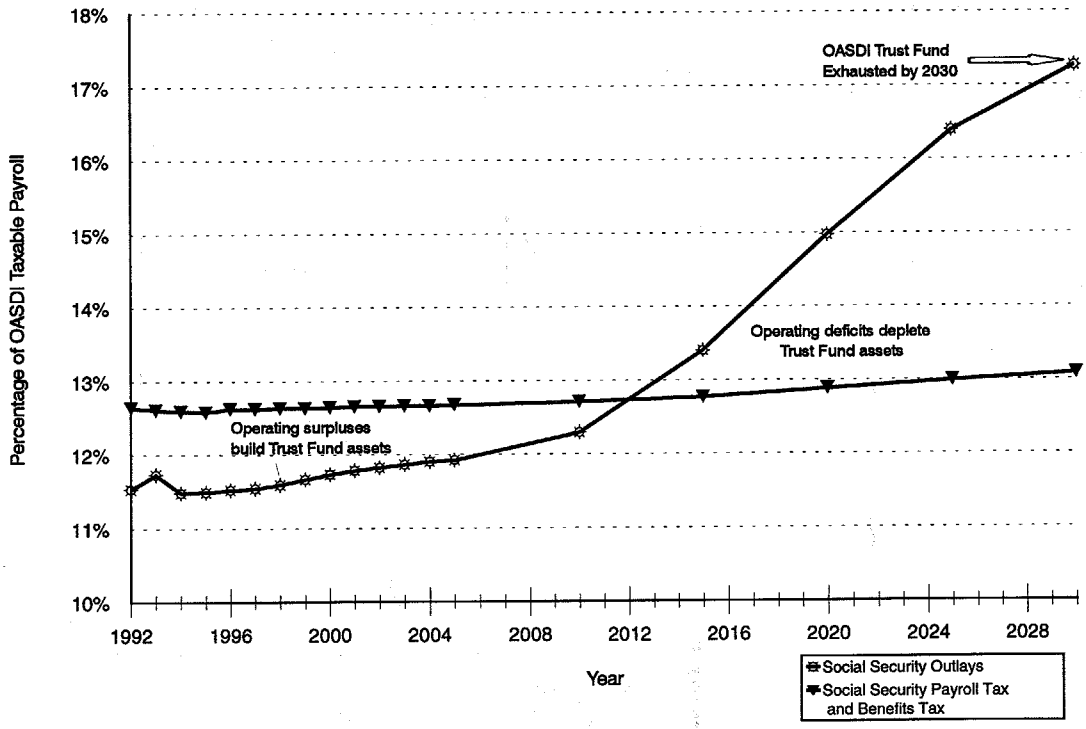
23-071 O - 96 - 3

B-4.--OASDI Year-End Projected Trust Fund Assets, Selected Years, 1995-2030
(Billions)



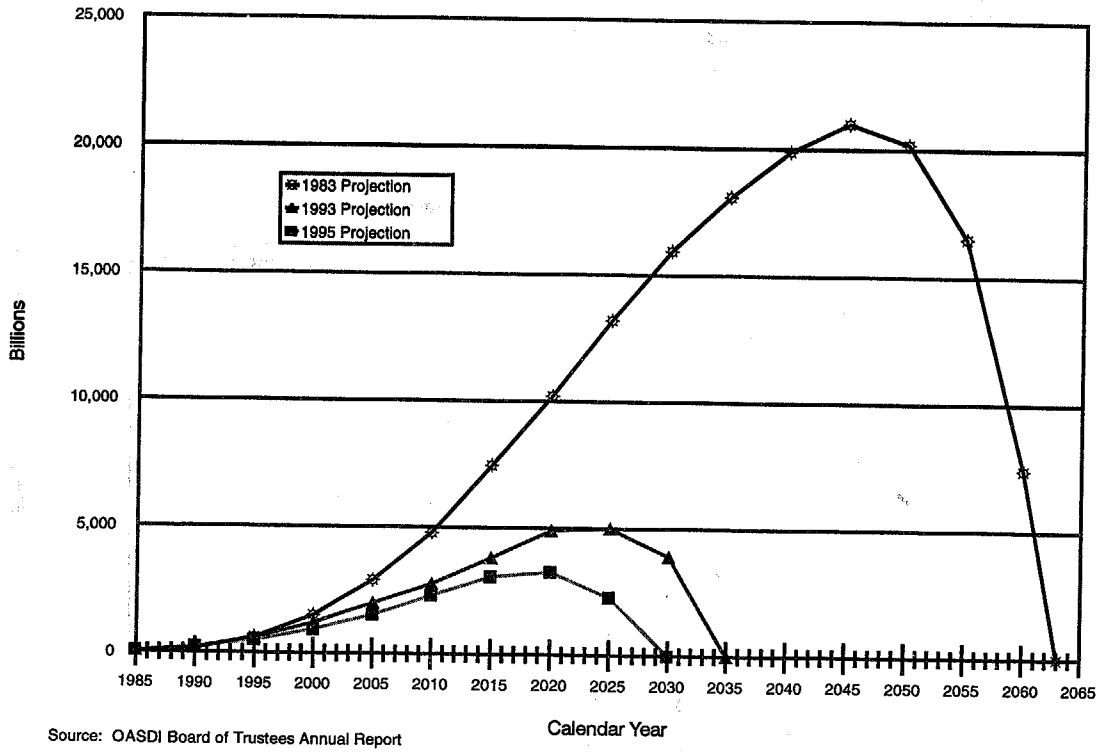
Source: OASDI Board of Trustees 1995 Annual Report

B-5.--Social Security Tax Collections Exceed Current Benefits, But Are Not Enough To Fund Future Promises



Source: OASDI Board of Trustees 1995 Annual Report

B-6.--Projected OASDI Trust Fund Accumulations
Current Dollars



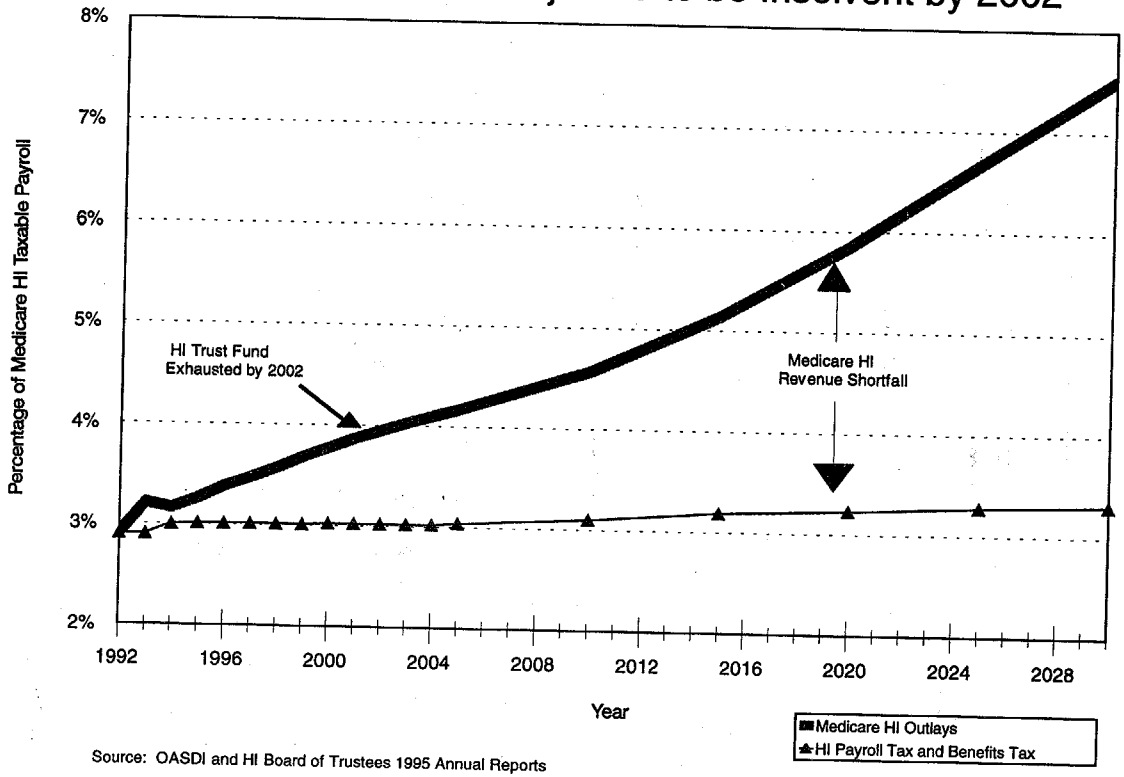
Source: OASDI Board of Trustees Annual Report

B-7.--Summarized Income Rates, Cost Rates and Balances for the OASDI Program for Three 25-Year Periods

		Income Rate*	Cost Rate**	Balance
Intermediate:	1995-2019	12.68%	12.38%	0.31%
	2020-2044	13.06%	16.95%	-3.89%
	2045-2069	13.25%	18.22%	-4.98%
Low Cost:	1995-2019	12.64%	10.99%	1.65%
	2020-2044	12.92%	13.80%	-0.88%
	2045-2069	13.00%	13.22%	-0.22%
High Cost:	1995-2019	12.73%	13.91%	-1.18%
	2020-2044	13.23%	20.63%	-7.40%
	2045-2069	13.60%	25.49%	-11.89%

* The income rate is the ratio of income from tax revenues on a liability basis (payroll tax contributions and income from the taxation of benefits) to the OASDI taxable payroll for the year.
** The cost rate for a year is the ratio of the cost of the Program to the Taxable payroll for the year.
Source: OASDI Board of Trustees 1995 Annual Report.

B-8.--Medicare HI is Projected to be Insolvent by 2002



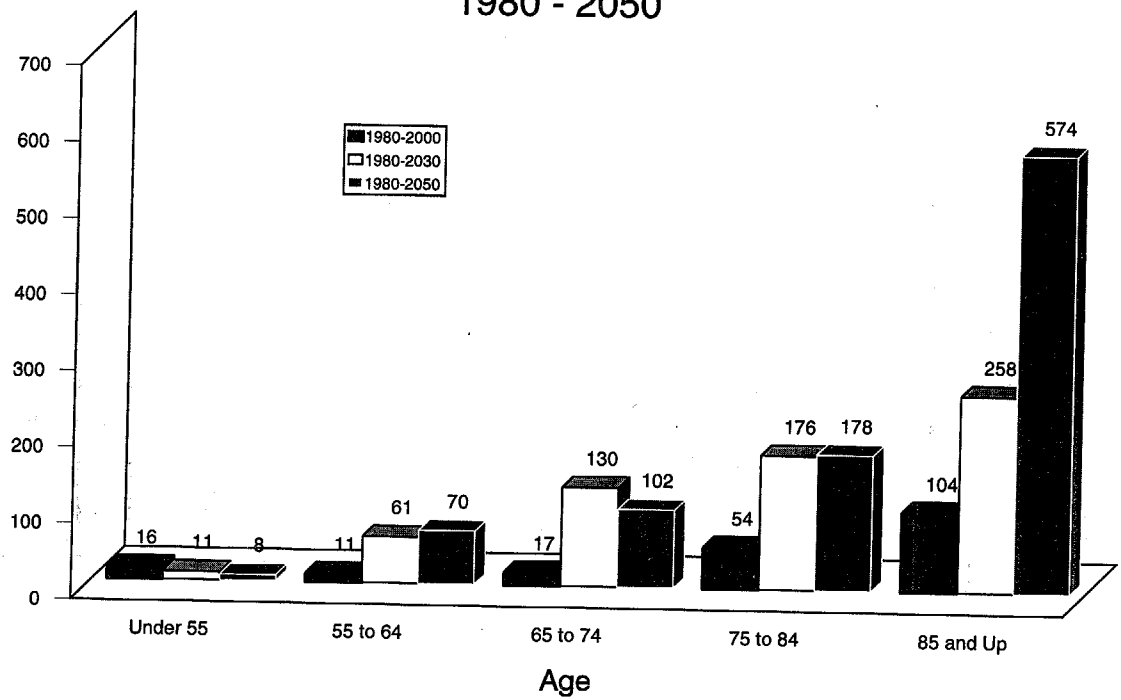
Source: OASDI and HI Board of Trustees 1995 Annual Reports

B-9.--Status of the Hospital Insurance Trust Fund

	Year in which the Trust Fund is exhausted as published in the --			75-Year actuarial balance of the HI program as published in the --		
Set of Assumptions	1993 Report	1994 Report	1995 Report	1993 Report	1994 Report	1995 Report
Intermediate	1999	2001	2002	-5.11%	-4.14%	-3.52%
Low Cost	2000	2004	2006	-2.04%	-1.31%	-1.03%
High Cost	1998	2000	2001	-10.61%	-9.26%	-8.04%

Source: HI Board of Trustees 1994 and 1995 Annual Reports

B-10.--Projected Growth in Population by Age Group 1980 - 2050

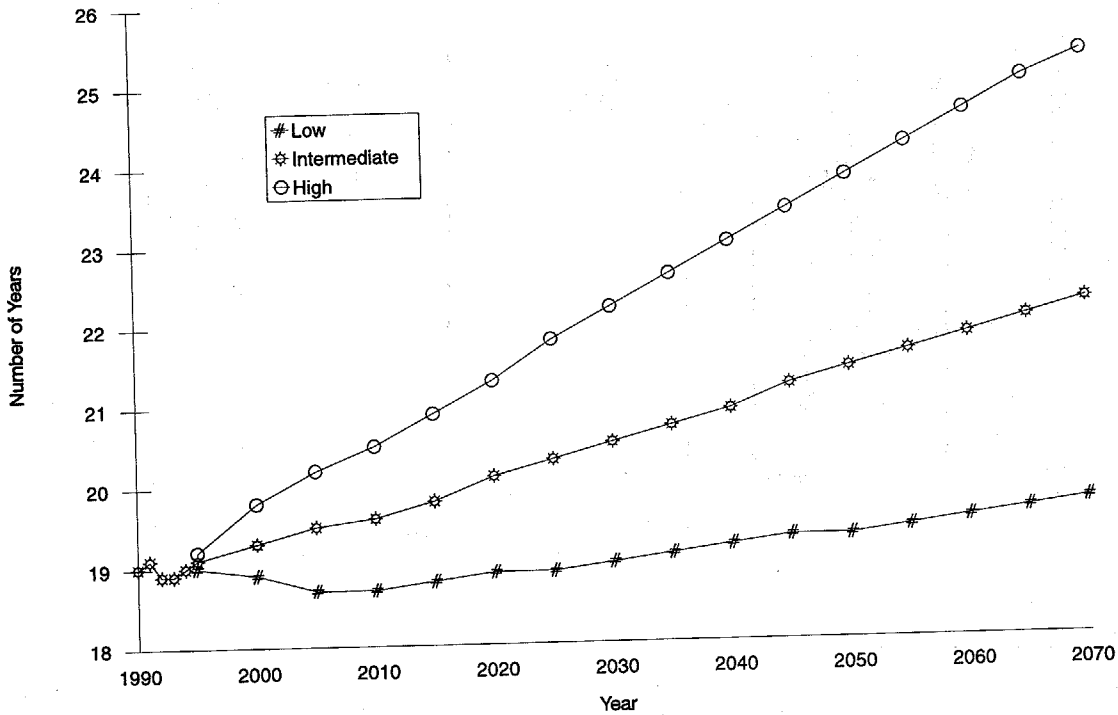


Source: U.S. Bureau of the Census. "Projections of the Population of the United States by Age, Sex and Race: 1988 to 2080," by Gregory Spencer. *Current Population Reports* Series P-25, No. 1018 (January 1989).

B-11.--Life Expectancy at Age 65 for Females in the U.S.

1990 through 2050

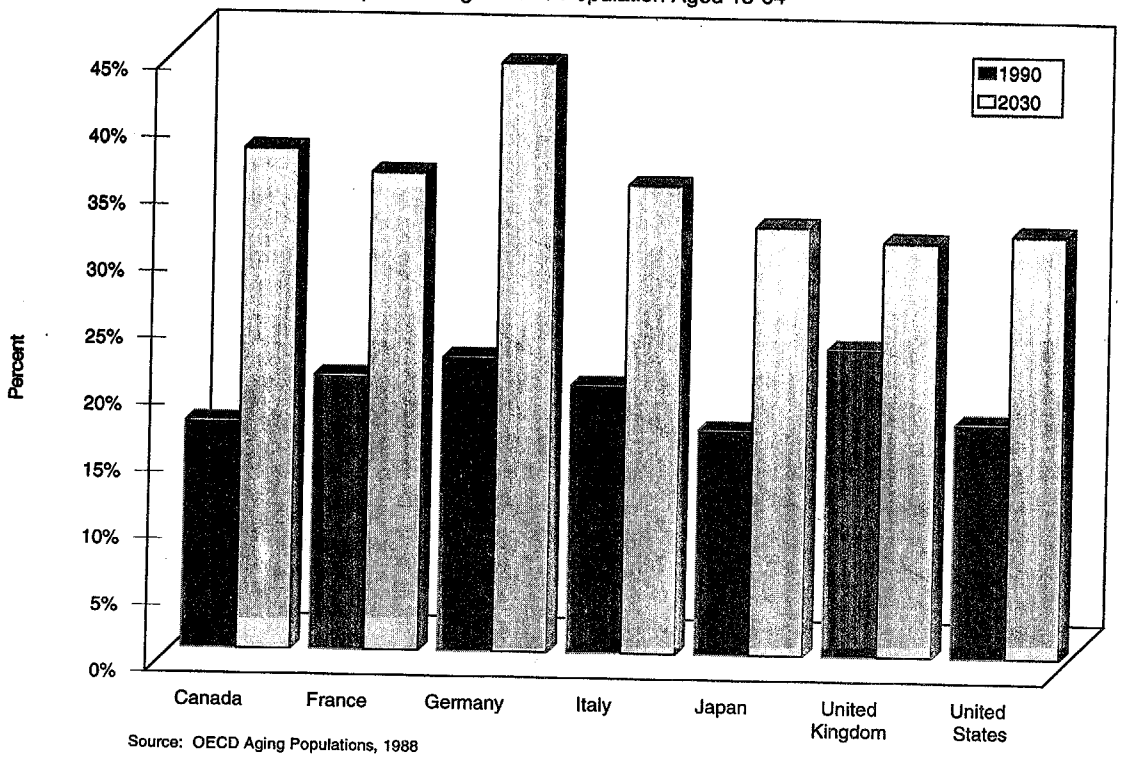
Three Scenarios



Source: 1995 OASDI Trustees Report

B-12.--Old-Age Dependency Ratios for the G7: 1990 and Projections for 2030

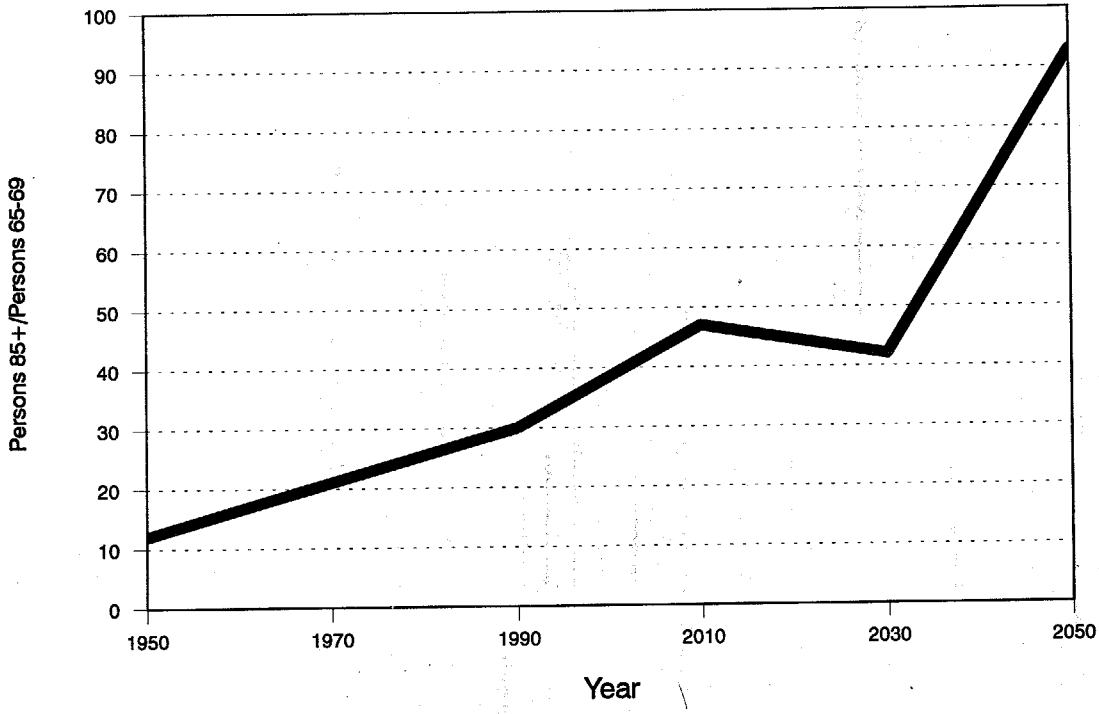
Population Aged 65+ / Population Aged 15-64



Source: OECD Aging Populations, 1988

B-13.--Two-Elderly-Generation Support Ratio

(ratio of persons aged 85+ to persons aged 65-69)



Source: U.S. Census Bureau

C. Demographics of Individual and Corporate Taxpayers Under Present Law

This section includes charts and graphs showing the sources of income for individuals, a comparison of income and consumption, the distribution of individual Federal tax liability, information relating to individuals in each tax rate bracket, deductions claimed by individuals, and information relating to use of the earned income tax credit.

The Federal income tax law currently provides for five rate brackets for individual taxpayers: (1) 15 percent; (2) 28 percent; (3) 31 percent; (4) 36 percent; and (5) 39.6 percent. The rates apply to progressively higher income brackets, and the break points for each successive rate depend on the filing status of the taxpayer. The five filing statuses under present law for taxpayers subject to tax as individuals are: (1) married individuals filing joint returns; (2) heads of households; (3) unmarried individuals; (4) married individuals filing separate returns; and (5) estates and trusts (which are treated as individuals for purposes of applying the rate brackets).

Approximately 114 million individual Federal tax returns were filed for taxable year 1993. For that year, receipts from the individuals Federal income tax were approximately $509 billion.

This section also includes information relating to the distribution of the Federal income tax on corporations by asset size and by industry. Under present law, there are four rate brackets applicable to corporations: (1) 15 percent; (2) 25 percent; (3) 34 percent; and (4) 35 percent. The taxable income brackets for these rates are: (1) $0 to $50,000; (2) $50,000 to $75,000; (3) $75,000 to $10 million; and (4) over $10 million.

Approximately 4.0 million corporate Federal tax returns were filed for taxable year 1993. Of those 4.0 million returns, about half (1.9 million) were returns of pass-through entities that generally were not subject to tax at the corporate level (S corporations, regulated investment companies (RICs), and real estate investment trusts (REITs)). Receipts from the corporate Federal income tax were approximately $120 billion for taxable year 1993, reflecting tax paid from approximately 805,000 corporate tax returns.

C-1. -- ESTIMATED AMOUNTS DEDUCTED OR EXCLUDED FROM INCOME UNDER THE PRESENT INCOME TAX FOR VARIOUS ITEMS

Taxable Years 1996 - 2000

[Billions of Dollars]

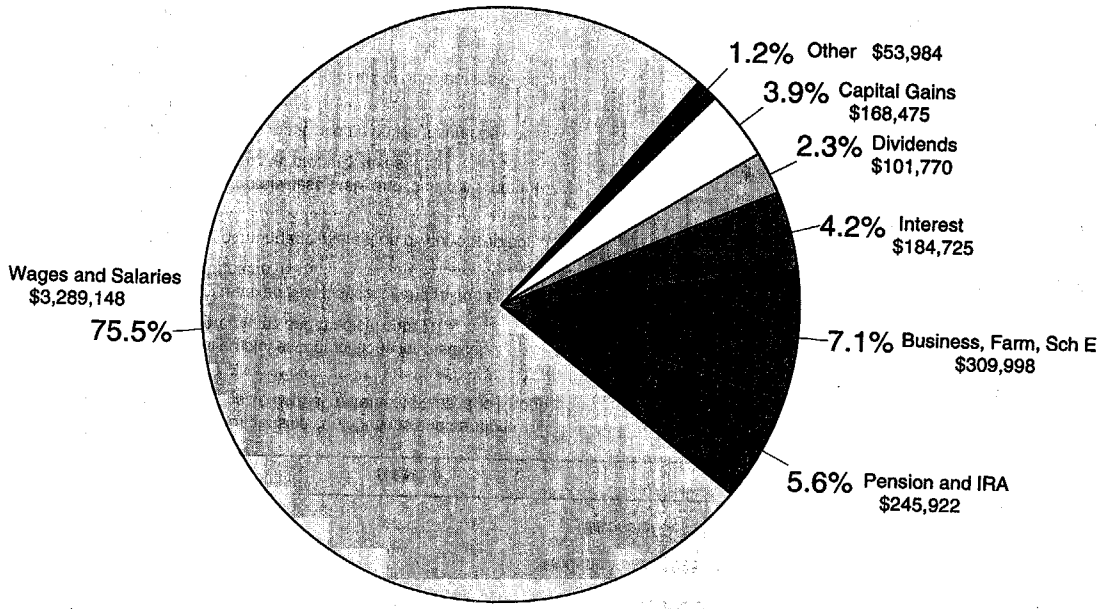
ITEM	1996	1997	1998	1999	2000	1996-00
1. Net exclusion of pension contributions and earnings (employer plans, individual retirement plans, and Keogh plans)	311.2	312.8	325.3	338.3	351.7	1,639.3
2. Exclusion of employer contributions for medical insurance premiums and medical care [1]	278.2	299.3	323.2	345.8	371.3	1,617.8
3. Exclusion of untaxed social security and railroad retirement benefits	252.6	263.2	274.3	285.9	297.9	1,373.9
4. Deductibility of mortgage interest on owner-occupied residences	227.3	240.9	254.6	269.7	285.6	1,278.1
5. Deduction of nonbusiness State and local government income and personal property taxes	101.1	106.9	113.2	119.8	126.7	567.7
6. Exclusion of investment income on life insurance and annuity contracts	35.6	53.8	74.0	97.1	115.8	376.3
7. Deferral of capital gains on sales of principal residences	65.1	67.7	69.8	72.3	74.9	349.8
8. Exclusion of capital gains at death	55.6	61.1	67.9	72.6	77.4	334.6
9. Deductibility of property tax on owner-occupied homes	59.5	62.8	66.3	69.9	73.7	332.2

Source: Joint Committee on Taxation

NOTE: Details may not add to totals due to rounding.

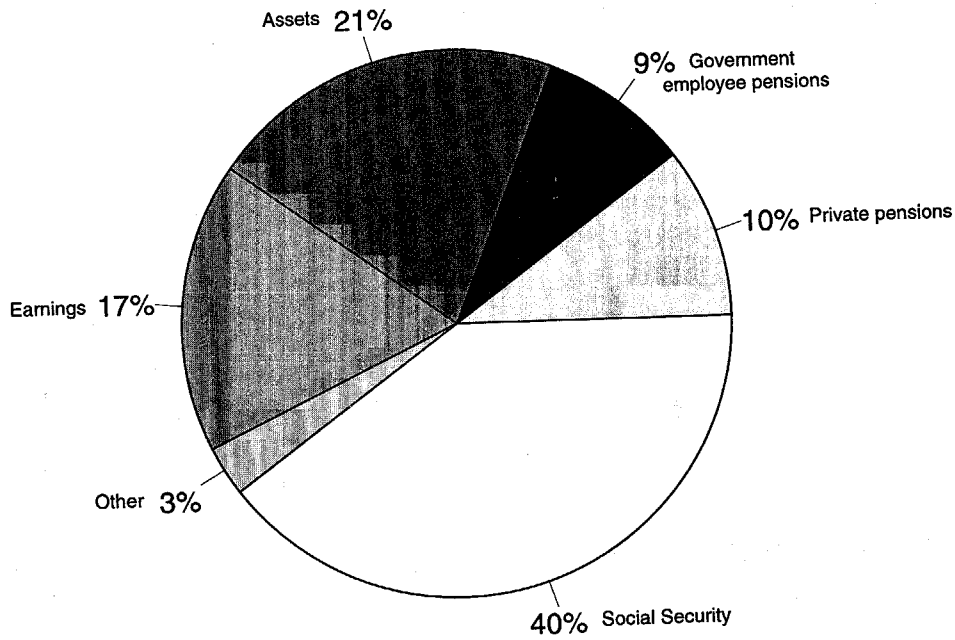
[1] Estimate includes employer-provided health insurance purchased through cafeteria plans.

C-2.--Sources of Gross Income for All Individual Taxpayers
(including Nonfilers)
(Projected 1995 Levels of Income)
(Millions)



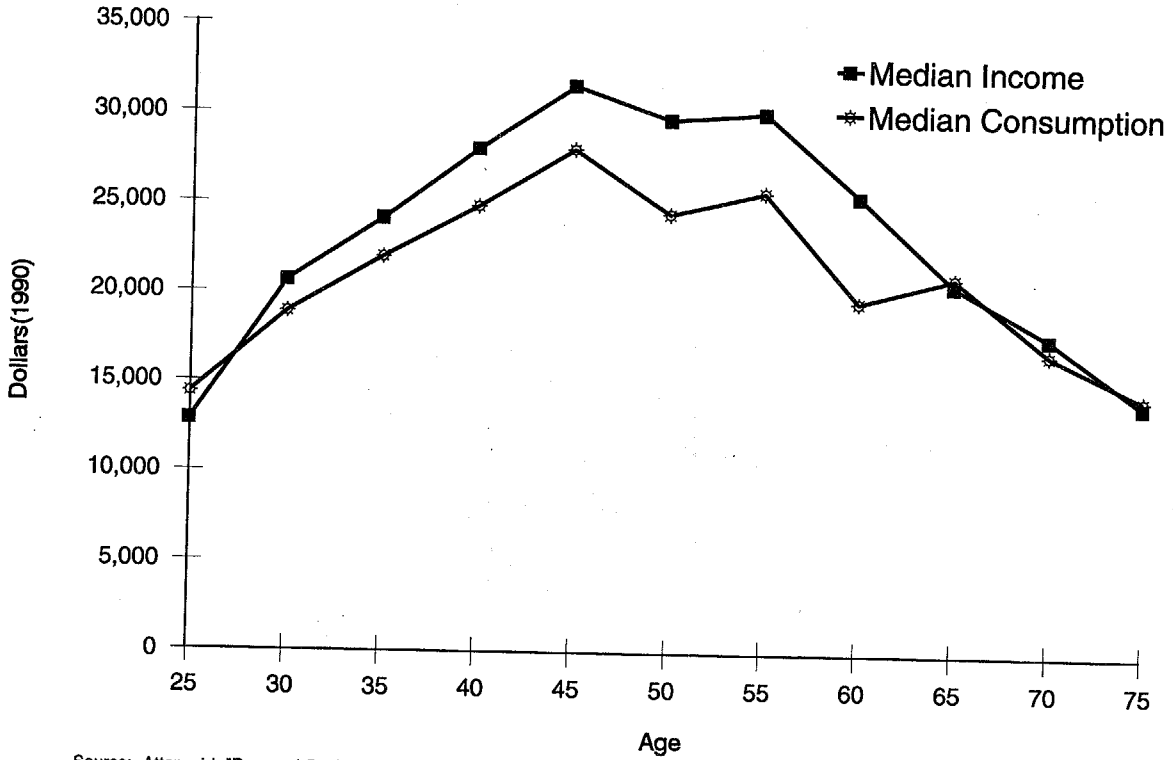
Source: Joint Committee on Taxation

C-3.--Percent of Aggregate Income of the Age 65 and Older Population From Various Sources, 1992



Source: Social Security Administration

C-4.--Income-Consumption Profile, By Age, 1990



Source: Attanasid, "Personal Saving in the United States," Poterba (ed.), INTERNATIONAL COMPARISONS OF HOUSEHOLD SAVING, 1994

C–5.—Distribution of Federal Tax Liability

[1995 Projection]

Income category[1]	Individual income tax		Total Federal taxes[2]	
	Billions	Percent	Billions	Percent
Less than $10,000	−$5	−1.0	$8	0.7
$10,000 to $20,000	−2	−0.3	36	3.3
$20,000 to $30,000	19	3.3	73	6.6
$30,000 to $40,000	36	6.3	100	9.1
$40,000 to $50,000	43	7.5	106	9.6
$50,000 to $75,000	100	17.6	228	20.7
$75,000 to $100,000	78	13.8	156	14.2
$100,000 to $200,000	115	20.2	184	16.7
$2000,000 and over	184	32.5	210	19.1
Total, all taxpayers	$567	100.0	1,100	100.0

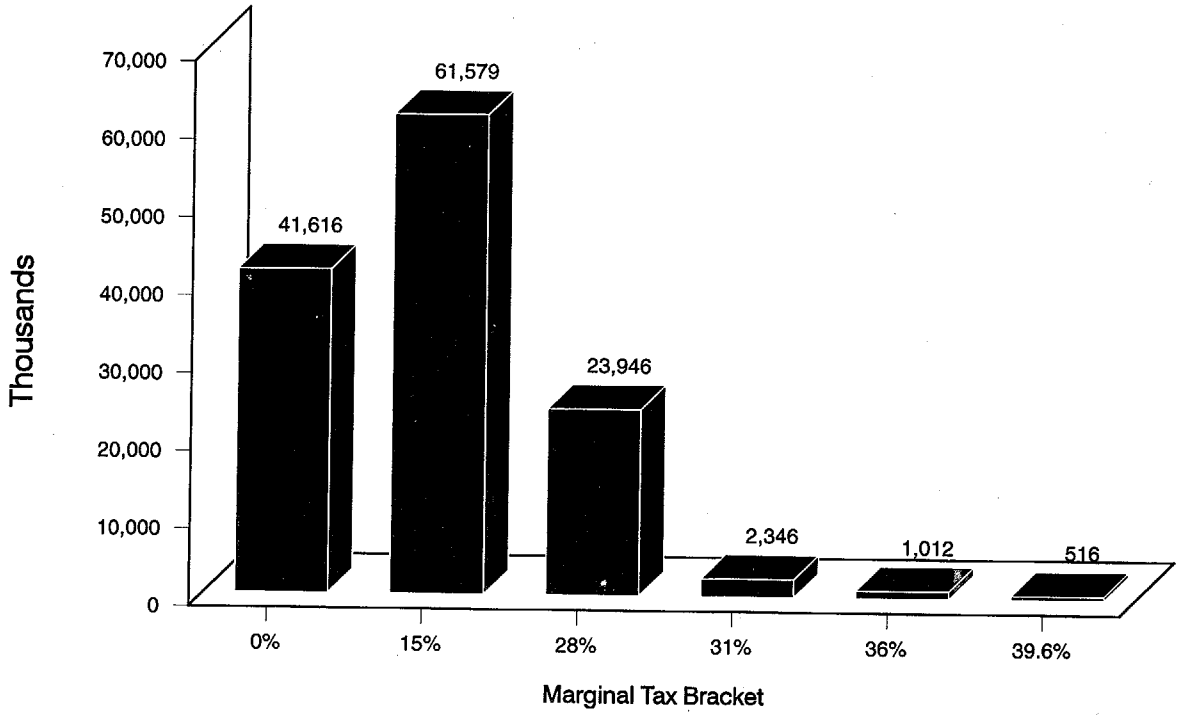
[1] The income concept used to place tax returns into income categories is adjusted gross income (AGI) plus: [1] tax exempt interest, [2] employer contributions for health plans and life insurance, [3] employer share of FICA tax, [4] workers compensation, [5] nontaxable social security benefits, [6] insurance value of Medicare benefits, [7] alternative minimum tax preference items, and [8] excluded income of U.S. citizens living abroad.

[2] Federal taxes are equal to individual income tax (including the outlay portion of the EITC), 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.

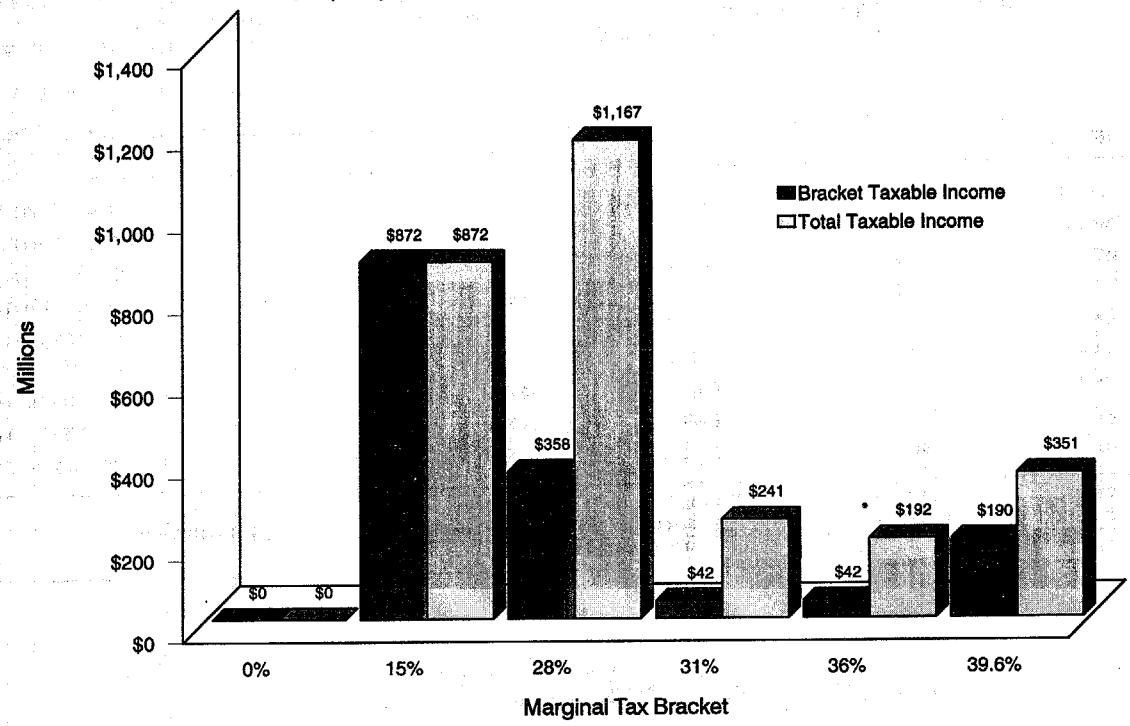
Note: Details may not add to totals due to rounding.

Source: Joint Committee on Taxation.

C-6.--Number of Taxpayers By Marginal Tax Rate (Projected 1995 Levels of Income)



C-7.--Total Taxable Income of Taxpayers in Each Marginal Rate Bracket
(Projected 1995 Levels of Income)



C-8. -- TAX RETURNS THAT CLAIM THE STANDARD DEDUCTION AND TAX RETURNS THAT ITEMIZE

(1995 Projections)

Income Category [1]	Standard Deductions		Itemized Deductions	
	Number of Tax Returns (thousands)	Dollars Claimed (millions)	Number of Tax Returns (thousands)	Dollars Claimed (millions)
Less than $10,000	10,879	$55,716	165	$2,131
$10,000 to $20,000	16,315	78,628	898	9,739
$20,000 to $30,000	15,585	79,235	2,071	20,677
$30,000 to $40,000	12,120	67,205	3,543	38,173
$40,000 to $50,000	7,899	47,326	4,212	47,458
$50,000 to $75,000	7,827	49,724	9,797	128,410
$75,000 to $100,000	1,775	11,887	6,312	101,851
$100,000 to $200,000	691	4,735	5,239	123,262
$200,000 and over	113	743	1,520	107,576
TOTAL	**73,204**	**$395,201**	**33,757**	**$579,276**

Source: Joint Committee on Taxation

NOTE: Details may not add to totals due to rounding.

[1] The income concept used to place tax returns into income categories is adjusted gross income (AGI) plus: employer contributions for health plans; employer contributions for the purchase of life insurance; employer share of payroll taxes; workers compensation; tax exempt interest; excluded income of U.S. citizens living abroad; nontaxable Social Security benefits; insurance value of Medicare benefits; and alternative minimum tax preference items.

C-9. -- RETURNS CLAIMING MAJOR ITEMIZED DEDUCTIONS (1)

(1995 Projections)

(Returns in Thousands)

INCOME CATEGORY (2)	RETURNS WITH ITEMIZED DEDUCTIONS	RETURNS WITH ALL MAJOR ITEMIZED DEDUCTIONS	RETURNS WITH ANY MAJOR ITEMIZED DEDUCTIONS	RETURNS WITH ONLY MAJOR ITEMIZED DEDUCTIONS
Less than $10,000	157	35	145	51
10,000 to 20,000	899	250	854	218
20,000 to 30,000	2,058	808	2,017	502
30,000 to 40,000	3,489	1,726	3,453	783
40,000 to 50,000	4,179	2,332	4,162	1,086
50,000 to 75,000	9,861	6,384	9,848	2,727
75,000 to 100,000	6,174	4,315	6,173	1,711
100,000 to 200,000	5,233	3,685	5,229	1,373
200,000 and over	1,469	974	1,468	353
Total, All Taxpayers	**33,519**	**20,509**	**33,349**	**8,804**

Source: Joint Committee on Taxation

NOTE: Details may not add to totals due to rounding.

(1) Major itemized deductions are defined as: charitable contributions, mortgage interest, real property tax, and state and local income tax.

(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.

C-10. -- TAX RETURNS CLAIMING AN ITEMIZED DEDUCTION FOR A CHARITABLE CONTRIBUTION

(1995 Projections)

Income Category [1]	Number of Tax Returns (thousands)	Dollars Claimed (millions)
Less than $10,000	100	$53
$10,000 to $20,000	603	523
$20,000 to $30,000	1,655	1,841
$30,000 to $40,000	3,027	3,848
$40,000 to $50,000	3,686	5,043
$50,000 to $75,000	8,981	13,862
$75,000 to $100,000	6,000	11,440
$100,000 to $200,000	5,031	14,127
$200,000 and over	1,466	17,630
TOTAL	**30,549**	**$68,367**

Source: Joint Committee on Taxation

NOTE: Details may not add to totals due to rounding.

[1] The income concept used to place tax returns into income categories is adjusted gross income (AGI) plus: employer contributions for health plans; employer contributions for the purchase of life insurance; employer share of payroll taxes; workers compensation; tax exempt interest; excluded income of U.S. citizens living abroad; nontaxable Social Security benefits; insurance value of Medicare benefits; and alternative minimum tax preference items.

C-11. -- TAX RETURNS CLAIMING AN ITEMIZED DEDUCTION FOR MORTGAGE INTEREST PAID

(1995 Projections)

Income Category [1]	Number of Tax Returns (thousands)	Dollars Claimed (millions)
Less than $10,000	118	$1,129
$10,000 to $20,000	603	4,152
$20,000 to $30,000	1,478	8,755
$30,000 to $40,000	2,711	17,492
$40,000 to $50,000	3,446	22,988
$50,000 to $75,000	8,495	64,772
$75,000 to $100,000	5,567	49,417
$100,000 to $200,000	4,477	56,579
$200,000 and over	1,216	29,131
TOTAL	**28,110**	**$254,415**

Source: Joint Committee on Taxation

NOTE: Details may not add to totals due to rounding.

[1] The income concept used to place tax returns into income categories is adjusted gross income (AGI) plus: employer contributions for health plans; employer contributions for the purchase of life insurance; employer share of payroll taxes; workers compensation; tax exempt interest; excluded income of U.S. citizens living abroad; nontaxable Social Security benefits; insurance value of Medicare benefits; and alternative minimum tax preference items.

C-12. -- TAX RETURNS CLAIMING AN ITEMIZED DEDUCTION FOR INVESTMENT INTEREST PAID

(1995 Projections)

Income Category [1]	Number of Tax Returns (thousands)	Dollars Claimed (millions)
Less than $10,000	2	$8
$10,000 to $20,000	17	39
$20,000 to $30,000	51	149
$30,000 to $40,000	72	177
$40,000 to $50,000	88	217
$50,000 to $75,000	257	531
$75,000 to $100,000	245	609
$100,000 to $200,000	505	2,118
$200,000 and over	478	9,110
TOTAL	**1,715**	**$12,958**

Source: Joint Committee on Taxation

NOTE: Details may not add to totals due to rounding.

[1] The income concept used to place tax returns into income categories is adjusted gross income (AGI) plus: employer contributions for health plans; employer contributions for the purchase of life insurance; employer share of payroll taxes; workers compensation; tax exempt interest; excluded income of U.S. citizens living abroad; nontaxable Social Security benefits; insurance value of Medicare benefits; and alternative minimum tax preference items.

C-13. -- TAX RETURNS CLAIMING AN ITEMIZED DEDUCTION FOR STATE AND LOCAL INCOME TAXES PAID

(1995 Projections)

Income Category [1]	Number of Tax Returns (thousands)	Dollars Claimed (millions)
Less than $10,000	75	$49
$10,000 to $20,000	491	290
$20,000 to $30,000	1,446	1,271
$30,000 to $40,000	2,788	3,424
$40,000 to $50,000	3,417	5,894
$50,000 to $75,000	8,309	19,822
$75,000 to $100,000	5,424	19,139
$100,000 to $200,000	4,544	26,802
$200,000 and over	1,327	37,495
TOTAL	**27,819**	**$114,186**

Source: Joint Committee on Taxation

NOTE: Details may not add to totals due to rounding.

[1] The income concept used to place tax returns into income categories is adjusted gross income (AGI) plus: employer contributions for health plans; employer contributions for the purchase of life insurance; employer share of payroll taxes; workers compensation; tax exempt interest; excluded income of U.S. citizens living abroad; nontaxable Social Security benefits; insurance value of Medicare benefits; and alternative minimum tax preference items.

C-14. -- TAX RETURNS CLAIMING AN ITEMIZED DEDUCTION FOR REAL PROPERTY TAXES PAID

(1995 Projections)

Income Category [1]	Number of Tax Returns (thousands)	Dollars Claimed (millions)
Less than $10,000	120	$245
$10,000 to $20,000	678	1,202
$20,000 to $30,000	1,662	2,809
$30,000 to $40,000	2,892	4,588
$40,000 to $50,000	3,615	5,741
$50,000 to $75,000	8,722	15,521
$75,000 to $100,000	5,810	12,356
$100,000 to $200,000	4,918	14,639
$200,000 and over	1,440	8,377
TOTAL	**29,858**	**$65,479**

Source: Joint Committee on Taxation

NOTE: Details may not add to totals due to rounding.

[1] The income concept used to place tax returns into income categories is adjusted gross income (AGI) plus: employer contributions for health plans; employer contributions for the purchase of life insurance; employer share of payroll taxes; workers compensation; tax exempt interest; excluded income of U.S. citizens living abroad; nontaxable Social Security benefits; insurance value of Medicare benefits; and alternative minimum tax preference items.

C-15. -- TAX RETURNS CLAIMING AN ITEMIZED DEDUCTION FOR OTHER STATE AND LOCAL TAXES PAID

(1995 Projections)

Income Category [1]	Number of Tax Returns (thousands)	Dollars Claimed (millions)
Less than $10,000	58	$27
$10,000 to $20,000	328	135
$20,000 to $30,000	841	317
$30,000 to $40,000	1,668	646
$40,000 to $50,000	2,059	673
$50,000 to $75,000	4,985	1,787
$75,000 to $100,000	3,429	1,506
$100,000 to $200,000	2,901	1,563
$200,000 and over	823	1,001
TOTAL	**17,094**	**$7,656**

Source: Joint Committee on Taxation

NOTE: Details may not add to totals due to rounding.

[1] The income concept used to place tax returns into income categories is adjusted gross income (AGI) plus: employer contributions for health plans; employer contributions for the purchase of life insurance; employer share of payroll taxes; workers compensation; tax exempt interest; excluded income of U.S. citizens living abroad; nontaxable Social Security benefits; insurance value of Medicare benefits; and alternative minimum tax preference items.

C-16. -- TAX RETURNS CLAIMING AN ITEMIZED DEDUCTION FOR MEDICAL EXPENSES INCURRED IN EXCESS OF 7.5 PERCENT OF ADJUSTED GROSS INCOME

(1995 Projections)

Income Category [1]	Number of Tax Returns (thousands)	Dollars Claimed (millions)
Less than $10,000	78	$568
$10,000 to $20,000	395	2,843
$20,000 to $30,000	810	4,245
$30,000 to $40,000	1,058	5,407
$40,000 to $50,000	872	4,257
$50,000 to $75,000	1,212	5,185
$75,000 to $100,000	414	2,602
$100,000 to $200,000	201	1,818
$200,000 and over	26	712
TOTAL	**5,067**	**$27,636**

Source: Joint Committee on Taxation

NOTE: Details may not add to totals due to rounding.

[1] The income concept used to place tax returns into income categories is adjusted gross income (AGI) plus: employer contributions for health plans; employer contributions for the purchase of life insurance; employer share of payroll taxes; workers compensation; tax exempt interest; excluded income of U.S. citizens living abroad; nontaxable Social Security benefits; insurance value of Medicare benefits; and alternative minimum tax preference items.

C-17. -- TAX RETURNS CLAIMING AN ITEMIZED DEDUCTION FOR MISCELLANEOUS EXPENSES IN EXCESS OF 2 PERCENT OF ADJUSTED GROSS INCOME

(1995 Projections)

Income Category [1]	Number of Tax Returns (thousands)	Dollars Claimed (millions)
Less than $10,000	42	$51
$10,000 to $20,000	241	530
$20,000 to $30,000	518	1,244
$30,000 to $40,000	980	2,581
$40,000 to $50,000	1,057	2,651
$50,000 to $75,000	2,457	6,883
$75,000 to $100,000	1,500	4,894
$100,000 to $200,000	1,166	5,973
$200,000 and over	283	4,516
TOTAL	**8,245**	**$29,323**

Source: Joint Committee on Taxation

NOTE: Details may not add to totals due to rounding.

[1] The income concept used to place tax returns into income categories is adjusted gross income (AGI) plus: employer contributions for health plans; employer contributions for the purchase of life insurance; employer share of payroll taxes; workers compensation; tax exempt interest; excluded income of U.S. citizens living abroad; nontaxable Social Security benefits; insurance value of Medicare benefits; and alternative minimum tax preference items.

C-18. -- TAX RETURNS CLAIMING AN "ABOVE THE LINE" DEDUCTION FOR MOVING EXPENSES

(1995 Projections)

Income Category [1]	Number of Tax Returns (thousands)	Dollars Claimed (millions)
Less than $10,000	9	$15
$10,000 to $20,000	77	91
$20,000 to $30,000	237	249
$30,000 to $40,000	285	363
$40,000 to $50,000	241	325
$50,000 to $75,000	455	689
$75,000 to $100,000	234	548
$100,000 to $200,000	256	864
$200,000 and over	55	280
TOTAL	**1,850**	**$2,425**

Source: Joint Committee on Taxation

NOTE: Details may not add to totals due to rounding.

[1] The income concept used to place tax returns into income categories is adjusted gross income (AGI) plus: employer contributions for health plans; employer contributions for the purchase of life insurance; employer share of payroll taxes; workers compensation; tax exempt interest; excluded income of U.S. citizens living abroad; nontaxable Social Security benefits; insurance value of Medicare benefits; and alternative minimum tax preference items.

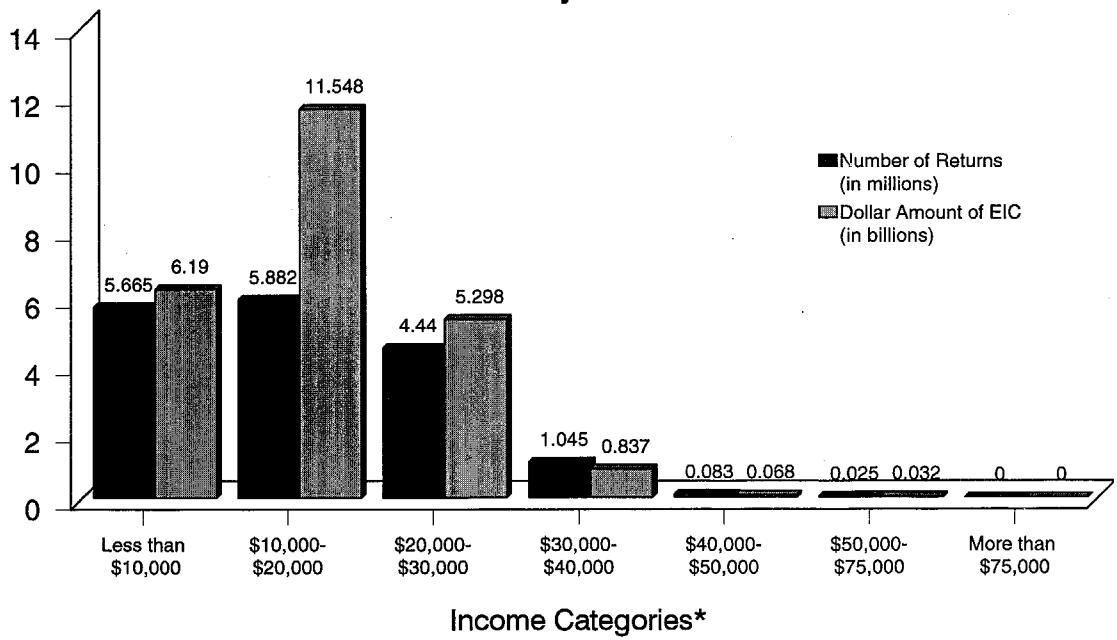
C–19.—Earned Income Credit by Type of Household, 1996 Projection

Type of household	Number of households (thousands)	EIC (millions)	Percentage of dollars
No qualifying children	3,594	$615	2
One qualifying child	7,788	10,825	43
Two or more qualifying children	6,868	13,939	55
All households	18,249	25,379	100

Source: Joint Committee on Taxation.

C-20.--Distribution of the Earned Income Credit

1996 Projection

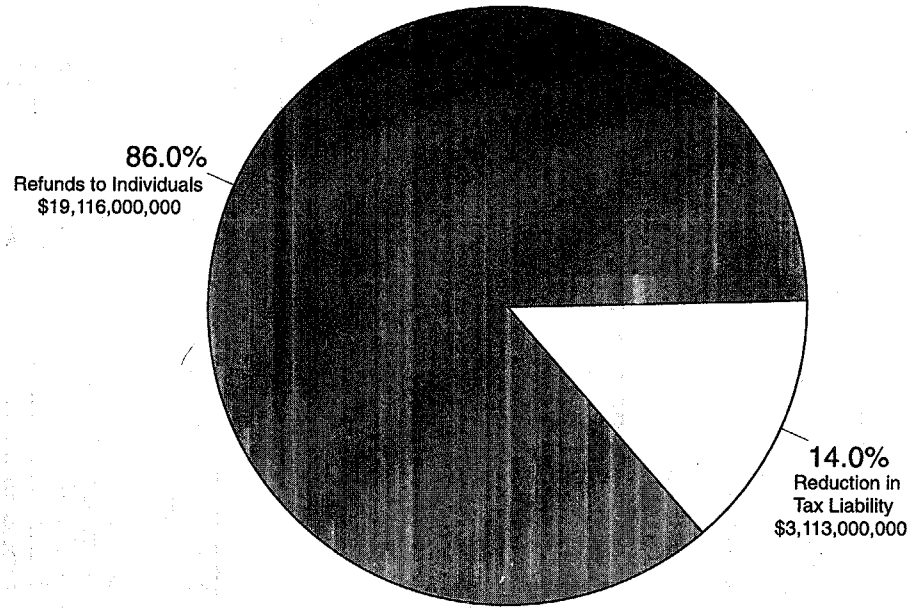


Source: Joint Committee on Taxation

* For this chart, the income concept used to place tax returns into income categories is AGI plus (1) tax-exempt income, (2) employer contributions for health and life insurance, (3) employer share of FICA tax, (4) workers' 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. Returns with negative income are not included in any of the income categories nor in the total.

C-21.--Earned Income Credit: Total Cost and Portion Representing Refunds to Individuals Projected in 1996

Total $22,229,000,000



Source: Joint Committee on Taxation

C–22.—Distribution of Total 1993 Corporate Income Tax After Credits by Asset Size and Industry

[Returns in thousands, dollars in millions]

	Returns		Income tax	
	Total[1]	With tax	Amount	% dist.
By Total Asset Size:				
Less than or equal zero	239	22	$1,297	1.1
$1 to $100,000	2,049	280	375	0.3
$100,000 to $250,000	635	151	557	0.5
$250,000 to $500,000	394	118	759	0.6
$500,000 to $1,000,000	269	91	1,039	0.9
$1,000,000 to $10,000,000	319	113	6,016	5.0
$10,000,000 to $50,000,000	37	18	6,550	5.5
$50,000,000 to $100,000,000	8	5	4,104	3.4
$100,000,000 to $250,000,000	7	4	7,388	6.2
$250,000,000 to $500,000,000	3	2	6,407	5.3
$500,000,000 and over	4	2	85,447	71.2
Total, all returns	3,965	805	$119,937	100.0
By Industry[2]:				
Agriculture	141	35	569	0.5
Mining	35	4	738	0.6
Construction	417	85	1,493	1.2
Manufacturing	307	78	38,071	31.7
Transportation	143	32	2,676	2.2
Communications	18	4	8,275	6.9
Utilities	15	3	7,953	6.6
Trade	1,073	235	15,153	12.6
Financial	641	147	38,723	32.3
Services	1,173	181	6,288	5.2
Total, all returns	3,965	805	$119,937	100.0

[1] Includes corporations filing forms 1120, 1120A, 1120S, 1120L, 1120RIC, 1120F, 1120REIT, and 1120PC.

[2] For consolidated returns, the parent company and its affiliates are grouped by the industry of the parent company.

Source: Joint Committee on Taxation.

D. Savings Under Present Federal Tax System

The present-law Federal tax system contains certain provisions designed to encourage savings. The extent to which present law provides sufficient incentives for savings is one of the principal issues in the debate over restructuring of the tax system.

Individual taxpayers are provided with certain Federal tax incentives to encourage savings and investment. For example, a deducation is permitted for individual retirement arrangement (IRA) contributions by certain taxpayers who do not participate in a qualified employer-maintained retirement plan or who have income below certain levels. In addition, present law provides that contributions made by employers to qualified retirement plans are not required to be included in an employee's income currently and the earnings on assets in such plans are not subject to tax until distributed to an employee (or retiree). The qualified retirement plan provisions should cause employees to prefer to receive some of their compensation in the form of contributions by an employer to a qualified plan. Assets in pension plans in the United States currently total approximately $4.9 trillion; contributions to these plans are projected to be approxiamtely $60 billion for 1996.

Under present law, individuals with capital gains income are subject to tax on such income at a maximum rate of 28 percent, as opposed to the maximum marginal tax rate on ordinary income of 39.6 percent.

D–1.—Personal Saving as a Percentage of Disposable Personal Income, Selected Years, 1929–1995

Year	Personal saving as a percentage of disposable personal income
1929	3.2
1939	2.6
1944	25.1
1949	3.9
1954	6.3
1959	7.0
1964	7.7
1969	7.0
1974	9.3
1975	9.0
1976	7.6
1977	6.6
1978	7.1
1979	7.4
1980	8.2
1981	9.1
1982	8.8
1983	6.6
1984	8.4
1985	6.9
1986	6.2
1987	5.0
1988	5.2
1989	4.8
1990	5.0
1991	5.7
1992	5.9
1993	4.5
1994	3.8
1995 [1]	4.1

[1] Third quarter.

Source: Department of Commerce, Bureau of Economic Analysis

D–2.—Components of Net National Savings as a Percentage of GDP, Selected Years, 1929–1993

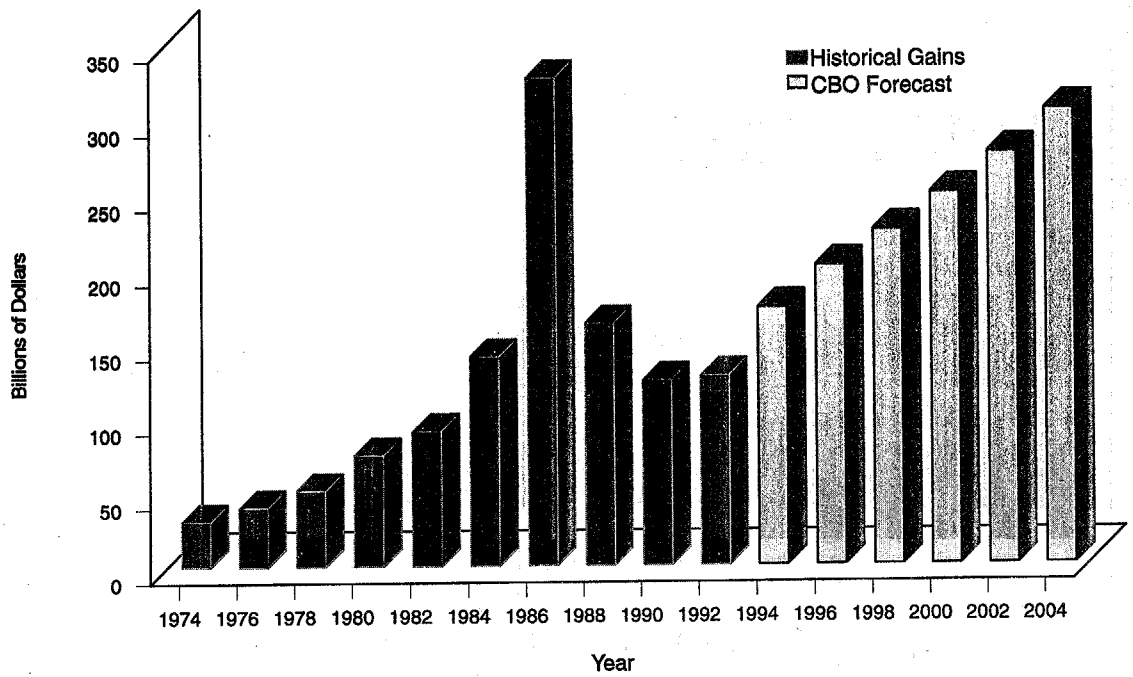
Year	Net personal saving	Net business saving	Total net private saving	Public saving	Total national saving
1929	2.5	2.3	4.8	1.0	5.8
1939	2.0	0.3	2.3	−2.4	−0.1
1949	2.8	4.0	6.9	−1.3	5.6
1954	4.4	2.6	7.0	−1.9	5.1
1959	4.5	3.2	7.7	−0.6	7.0
1964	4.9	4.0	8.9	−0.2	8.7
1969	4.5	2.6	7.1	1.0	8.1
1974	6.4	1.5	7.9	−0.3	7.6
1975	6.3	2.6	8.9	−4.1	4.8
1976	5.3	2.7	7.9	−2.2	5.8
1977	4.5	3.1	7.6	−0.9	6.7
1978	4.8	3.1	8.0	0.1	8.1
1979	5.0	2.5	7.4	0.4	7.8
1980	5.7	1.2	6.9	−1.3	5.6
1981	6.3	1.0	7.4	−1.0	6.4
1982	6.3	0.6	6.9	−3.4	3.5
1983	5.0	1.6	6.5	−4.1	2.4
1984	5.9	2.3	8.2	−2.9	5.3
1985	4.7	2.3	7.0	−3.1	3.9
1986	4.4	1.3	5.7	−3.4	2.2
1987	3.1	1.9	5.0	−2.5	2.6
1988	3.2	2.3	5.5	−2.0	3.5
1989	2.9	1.7	4.6	−1.5	3.1
1990	3.1	1.6	4.7	−2.5	2.2
1991	3.5	1.8	5.3	−3.4	1.9
1992	4.0	1.5	5.5	−4.5	1.0

D–2.—Components of Net National Savings as a Percentage of GDP, Selected Years, 1929–1993—Continued

Year	Net personal saving	Net business saving	Total net private saving	Public saving	Total national saving
1993	3.0	2.2	5.3	−3.4	1.9
Average 1950–59	4.7	2.8	7.5	−0.1	7.4
Average 1960–69	4.7	3.6	8.3	−0.1	8.1
Average 1970–79	5.5	2.6	8.1	−1.0	7.2
Average 1980–89	4.8	1.6	5.9	−2.5	3.9
Average 1990–93	3.4	1.8	5.2	−3.5	1.8

Source: Department of Commerce, Bureau of Economic Analysis.

D-3.--Historic Capital Gains Realizations and CBO Baseline Forecast



Source: Joint Committee on Taxation, Congressional Budget Office

D–4. Capital Gains Realizations

[In billions of dollars]

Calendar year	Total capital gains (nominal dollars)	Total capital gains (1974 dollars)
1974	30.2	30.2
1975	30.9	28.2
1976	39.4	33.8
1977	45.3	36.4
1978	50.5	37.6
1979	73.4	50.3
1980	74.1	46.4
1981	80.9	46.1
1982	90.2	48.3
1983	122.8	63.2
1984	139.8	69.0
1985	171.4	81.5
1986	326.3	151.2
1987	144.2	64.7
1988	161.9	70.0
1989	153.5	63.5
1990	123.8	49.1
1991	111.6	42.6
1992	126.7	47.1
1993	152.3	55.4
1994	[1] 139.9	49.8

[1] Preliminary IRS data.

Source: Joint Committee on Taxation.

D–5.—IRA Participation, 1979–1994

Year	Returns claiming IRA deducation (millions)	Percentage of all returns (percent)	Deductions claimed (billions)
1979	2.5	2.6	$3.2
1980	2.6	2.7	3.4
1981	3.4	3.6	4.8
1982	12.0	12.6	28.3
1983	13.6	14.1	32.1
1984	15.2	15.3	35.4
1985	16.2	15.9	38.2
1986	15.5	15.1	37.8
1987	7.3	6.8	14.1
1988	6.4	5.8	11.9
1989	5.8	5.2	10.8
1990	5.2	4.6	9.9
1991	4.7	4.1	9.0
1992	4.5	3.9	8.7
1993	4.4	3.8	8.6
1994	4.3	3.7	8.4

Source: Internal Revenue Service, *Statistics of Income.*

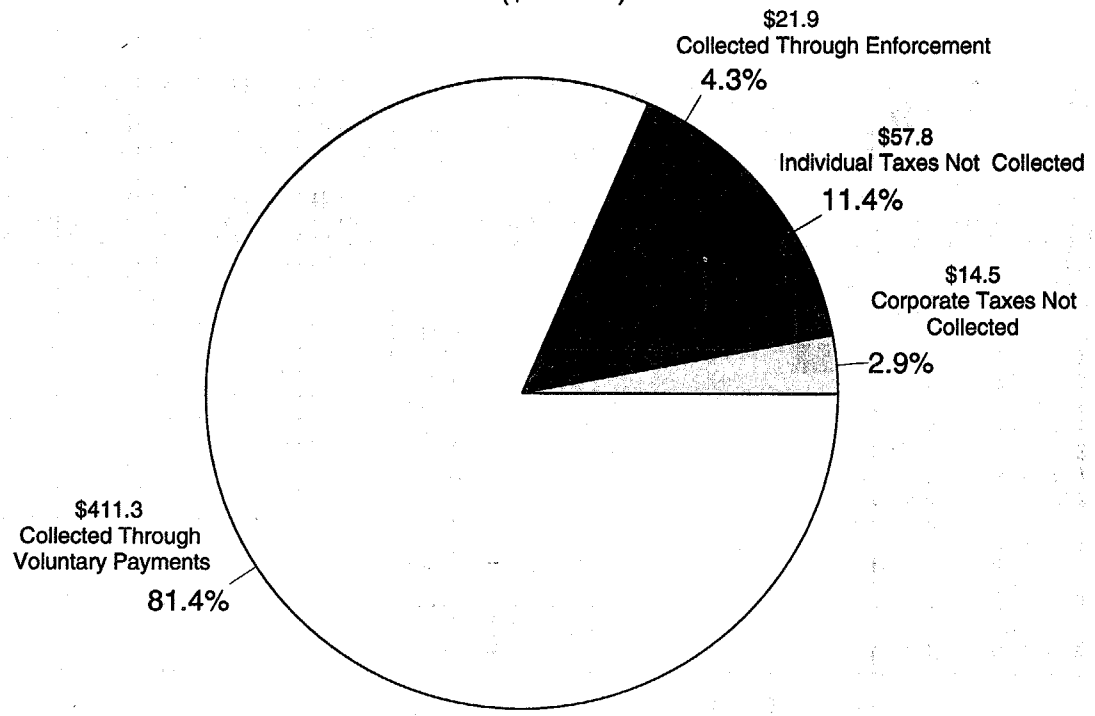
E. Compliance and Administration

Many have argued that compelling arguments can be made for fundamental restructuring of the Federal tax system because of significant noncompliance with present law and because of the real or perceived complexity of the present-law system, which causes widespread taxpayer discontent and frustration.

The materials contained in this section address the estimates of voluntary compliance rates, the so-called compliance gap (i.e., the amount of tax revenues that should be collected under present law, but that are not being collected), and the size of the underground economy under present law. In addition, the materials contained information relating to perceived sources of complexity under the present Federal tax system.

The materials contain information relating to the historic levels of Internal Revenue Service audit coverage, collection, costs, employees, and regulation inventories.

E-1.-- $505 Billion of 1987 Federal Income Tax Liability By Collection Status
($Billions)



Source: IRS Research Division, "Net Tax Gap and Remittance Gap Estimates", Pub. 1415 (April, 1990)

E-2.—Range of Estimates of the Gross Legal-Sector Income Tax Gap [1] Voluntary Compliance Rates (VCR's)[2], Selected Tax years, 1973–1992

Tax Year	Gross income tax gap (billions of dollars)			Voluntary compliance rate (percent)		
	Total	Individual income tax [3]	Corporate income tax [4]	Total	Individual income tax [3]	Corporate income tax [4]
1973	27.9–32.0	22.0–22.7	5.9–9.3	83.9–82.0	83.0–82.6	86.6–80.3
1976	39.7–45.5	32.6–33.7	7.1–11.8	82.7–80.7	81.2–80.7	87.3–80.6
1979	61.0–69.0	51.5–53.2	9.6–15.9	81.9–80.0	80.3–79.8	87.2–80.4
1981	68.9–76.1	60.1–61.9	8.7–14.1	82.8–81.4	82.0–81.6	87.0–80.6
1982	64.6–70.5	57.5–59.1	7.1–11.4	82.9–81.7	82.2–81.8	87.1–80.8
1984	83.0–91.3	73.5–75.7	9.6–15.6	81.6–80.1	80.4–80.0	87.2–80.6
1986	96.1–105.6	86.0–88.8	10.1–16.8	81.0–79.5	79.7–79.2	87.7–81.1
1987	82.5–94.2	69.1–71.4	13.4–22.8	83.6–81.7	82.3–81.8	88.1–81.3
1988	84.5–96.8	70.3–72.6	14.2–24.3	84.0–82.0	82.7–82.3	88.1–81.2
1992	110.1–127.0	91.0–94.0	19.1–33.1	84.6–82.7	83.6–83.1	88.1–81.1

[1] The results of examinations of tax returns are used in estimating several parts of the tax gap. Where these results are used, the higher estimates of the tax gap (and the corresponding lower estimates of the VCR) are based on the amounts of additional tax recommended by IRA examiners and the lower estimates of the gap (and the corresponding higher estimates of the VCR) are based on the amounts of tax ultimately assessed after all appeals and litigation.

[2] The Voluntary Compliance Rate is what taxpayers voluntarily pay as a percentage of their total tax liability.

[3] Includes insufficient remittance by individuals *and* underdeposit of individual income tax withheld by employers.

[4] Includes fiduciaries' income tax and unrelated business income tax of tax-exempt organizations. The VCRs for all corporations combined fluctuates slightly even though constant compliance rates are assumed because of the changing mix of small, mid-size, and large corporations over time.

Source: Internal Revenue Service Publication 1415, April 19, 1990.

E–3.—Estimates of the Size of the Underground Economy

Study author	Estimate (billions)	Percent of GDP	Year of estimate	Country
IRS [1]	$145	8.0	1976	U.S.
Gutmann [2]	176	9.7	1976	U.S.
Feige [3]	600+	23.5+	1979	U.S.
Tanzi [4]	118–159	4.2–5.7	1980	U.S.
BEA [5]	184	5.2	1983	U.S.
Labor [6]	500	8.0	1992	U.S.
Macafee [7]	.....	3.5	1978	U.K.
Contini [8]	.....	14–20	1977	Italy
Isachsen, et al. [9]	.....	6.3	1978	Norway
Hansson [10]	.....	3.8	1978	Sweden

[1] IRS estimates are based upon separate estimates of unreported income from (1) the informal economy consisting of legal transactions that are unreported (for tax purposes) such as baby-sitters earning above the filing threshold, flea-markets, so called moonlighting activities of artisans and professionals, wages of household workers and farm workers that are unreported, goods produced that are not reported on books and; (2) the illegal sector consisting of drugs, prostitution, and gambling (mostly illegal bookmaking). These later estimates were provided by the Justice Department's Drug Enforcement Agency, while estimates of prostitution were compiled from arrest reports. Activities which resulted in the evasion of excise and import duties, such as the smuggling of motor fuels, were not included in their estimates.

[2] Estimated by analyzing the change in the ratio of cash to checking deposits. This is known as the currency/demand deposit ratio. Increases in this ratio signify an increased demand for cash. Peter M. Gutmann, "The Subterranean Economy," *Financial Analysts Journal,* November/December 1977, pp. 26–2, 34. Since the domestic demand for currency holdings has been estimated to be very stable, with an income elasticity of near zero in the short run, Gutmann argues that the increase in holdings of currency reflect an increased demand for "off-the-books" and illegal activities that are heavily cash dependent. This analysis ignores changes in currency holdings by foreign interests. Sprenkle (*Journal of Economic Perspectives,* 1990, pages 175–184) argues that a large percentage, between 80 and 60 percent of currency is held by foreign interests. Therefore, increases in the amount of currency outstanding more likely represent increases in foreign holdings of currency. The article shows that for most foreign countries, the very largest proportion of currency outstanding is in very large denominations. As an example, Sprenkle cites a Netherlands note equal to about $563 (F1.1000) that accounted for 44 percent of the Dutch currency outstanding. The study that produced that estimate is by Boeschoten and Fase, in the *Journal of Money Credit and Banking,* 1992. The article also shows estimates of illegal domestic holdings of Dutch currency at about ⅓ of total domestic holdings. Evidently this is the same proportion that the 1983 IRS study provides of holdings of domestic currency for illegal uses, or about $9 billion of cash for the U.S.

[3] Feige's method is to assume a constant relation between the size of the total money stock and GNP. Since the total money stock is easily observable, the difference between the predicted GNP and the measured GNP (from the National Income and Product Accounts) is a measure of how much is escaping reporting in the NIPA. Feige notes that this measurement technique is not reasonable, mainly because this "transactions method" implies a negative underground economy in certain years. (*"Den dolda sektrons tillvat–70–talets ekononmiska problem i nytt ljus,"* in *Ekonomisk Debatt* 8 (1980): pages 570–589).

[4]Tanzi uses the same transactions approach that Feige uses, but modifies it by allowing income, price, institutional, and tax effects (such as the use of checks and credit cards) to alter the relation between the money stock and GNP. After estimated the demand for money equations, he then predicts the size of GNP commensurate with the estimated demand for money. The residual between this predicted GNP and the actual measured GNP is the basis for the estimate of the underground economy. Vito Tanzi, *The Underground Economy in the United States and Abroad,* edited by Vito Tanzi, Lexington Books, 1982.

[5]The BEA method constructs adjusted gross income from the National Income and Product Accounts estimates of personal income, and then compares that amount with the IRS reported measure. The BEA estimate of AFI is always larger than the IRS reported amount. The main sources of "underreporting" of income on the IRS measure of AGI are farm income, rents and royalties, dividend income, and taxable social security income.

[6]This estimate appears to reflect an attempt to correct BLS survey data for an undercount of the number of persons earning at or below the minimum wage. In a Fortune magazine article (August 24, 1992) John Labate and Lenore Schiff report on the work of Bruce Klein (formerly with BLS) to correct estimates of persons at or below the minimum wage by accounting for payment schemes other than hourly, such as by piece work, or weekly or monthly. Klein estimated as many as 15 million persons paid at or below minimum wage for 1988, while for the same year, official BLS (based on hourly data) estimates show 2.5 million persons.

The following estimates (notes 7 through 10) of the underground economy in foreign countries are from *The Underground Economy in the United States and Abroad,* edited by Vito Tanzi, Lexington Books, 1982.

[7]From Kerrick Macafee, "A Glimpse of the Hidden Economy in the National Accounts of the United Kingdom". The concept used for the underground economy is "economic activity generating factor incomes which cannot be estimated from the regular statistical sources used to compile the income measure of gross domestic product." The method is to calculate the difference between GDP from the income side of the U.K. National Income Product Accounts ("NIPA") and the expenditure side of the NIPA. The idea is that unreported incomes will show up as a discrepancy between the income and expenditure side of the NIPA. This estimate does not include expenditures that are concealed from the NIPA such as income in kind, barter, and illegal sector (drugs, gambling, prostitution).

[8]From Bruno Contini, "The Second Economy of Italy." Estimate is constructed from estimates of the amount of labor supplied outside of the social security system (payroll taxes).

[9]From Isachsen, Klovland, and Strom, "The Hidden Economy in Norway." Estimates made from measurement of labor supply using the relationship between money supply and GNP.

[10]From Ingemar Hansson, "The Underground Economy in a High Tax Country: The Case of Sweden". Determined by calculating total consumption expenditures and net savings. Together, these equal disposable income, which is compared with disposable income reported to tax authorities.

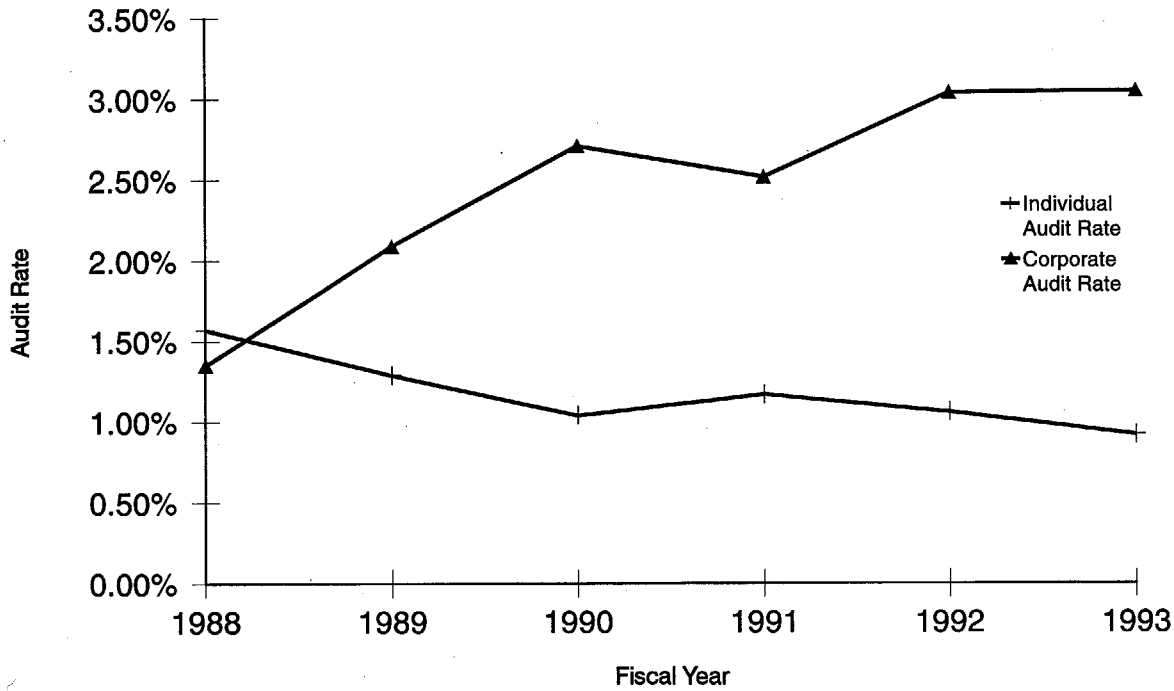
E–4.—Internal Revenue Service Income Tax Returns Filed and Examination Coverage

Fiscal year	Individual returns filed during previous calendar year	Audit rate (percent)	Corporation tax returns filed during previous calendar year	Audit rate (percent)
1988	103,251,000	1.57	2,868,500	1.35
1989	107,029,000	1.29	2,774,940	2.09
1990	109,868,400	1.04	2,752,600	2.71
1991	112,304,900	1.17	2,685,100	2.52
1992	113,829,200	1.06	2,621,900	3.04
1993	114,718,900	0.92	2,620,900	3.05

Source: Internal Revenue Service 1993–94 Data Book.

E-5.--Internal Revenue Service Income Tax Returns Filed and Examination Coverage

Income Tax Audit Rates



E–6.—Internal Revenue Service Income Tax Returns Filed and Examination Coverage

Fiscal year	Individual income, estate and gift returns filed during previous calendar year	Audit rate (percent)	Corporation income tax returns filed during previous calendar year	Audit rate (percent)
1988	111,212,786	1.53	2,868,500	1.35
1989	115,504,040	1.29	2,774,940	2.09
1990	118,439,900	1.07	2,752,600	2.71
1991	121,141,000	1.18	2,685,100	2.52
1992	122,141,000	1.08	2,621,900	3.04
1993	123,882,400	0.96	2,620,900	3.05

Source: Internal Revenue Service 1993–94 Data Book.

E–7.—Internal Revenue Service Collections, Costs, and Employees

Fiscal year	In billions				Cost of collecting $100	Real cost of collecting $100[1]	Average positions realized
	Operating cost	Real operating cost	Collections	Real collections[1]			
1960	$0.4	$1.4	$91.8	$351.8	0.40	1.52	51,047
1965	0.6	2.1	114.4	404.6	.52	1.84	60,360
1970	0.9	2.6	195.7	565.5	.45	1.31	68,683
1975	1.6	3.3	293.8	617.5	.54	1.13	82,339
1980	2.3	3.2	519.4	735.9	.44	.62	87,464
1981	2.5	3.2	606.8	780.3	.41	.52	86,156
1982	2.6	3.1	632.2	756.7	.42	.50	82,857
1983	3.0	3.4	627.2	720.8	.47	.54	83,605
1984	3.3	3.6	680.5	749.0	.48	.53	87,635
1985	3.6	3.8	742.9	787.6	.48	.51	92,254
1986	3.8	4.0	782.3	805.4	.49	.51	95,880
1987	4.4	4.4	886.3	886.3	.49	.49	102,188
1988	5.1	4.9	935.1	902.4	.54	.52	114,873
1989	5.2	4.8	1,013.3	935.7	.51	.47	114,758
1990	5.4	4.8	1,056.4	935.3	.51	.46	111,858
1991	6.1	5.2	1,086.9	923.9	.56	.48	115,628
1992	6.5	5.4	1,120.8	925.4	.58	.48	116,673
1993	7.1	5.7	1,176.7	948.9	.60	.48	111,352
1994	7.4	5.9	1,276.5	1,009.6	.58	.46	110,665

[1] Using Fiscal Year GDP deflator, 1987=100.

Sources: Internal Revenue Service, 1992 Annual Report; Internal Revenue Service, 1993–94 Data Book; Budget of the United States Government, Fiscal Year 1996, Historical Tables.

E-8.—Perceived Sources Of Complexity in the Tax Law

A 1993 survey of business taxpayers [1] requested suggestions to simplify tax compliance. Seventy percent of the respondents (256 total) provided answers. The most frequent suggestions were as follows:

	Number of responses
Suggestion:	
Increase Federal/State uniformity	75
Eliminate/simplify/change AMT	62
More book/tax conformity	42
Uniform formula for apportioning State taxes	31

The survey also asked about which aspects of the current corporate income tax (Federal, State and local) are most responsible for the cost of compliance. The most frequent responses were as follows:

	Number of responses
Federal income tax:	
Depreciation	118
Alternative minimum tax	115
Uniform capitalization	85
International [2]	44
State and local income taxes:	
Lack of uniformity among States [3]	76
State-Federal inconsistency [4]	47
Apportionment	42
Unitary/Water's edge issues	42

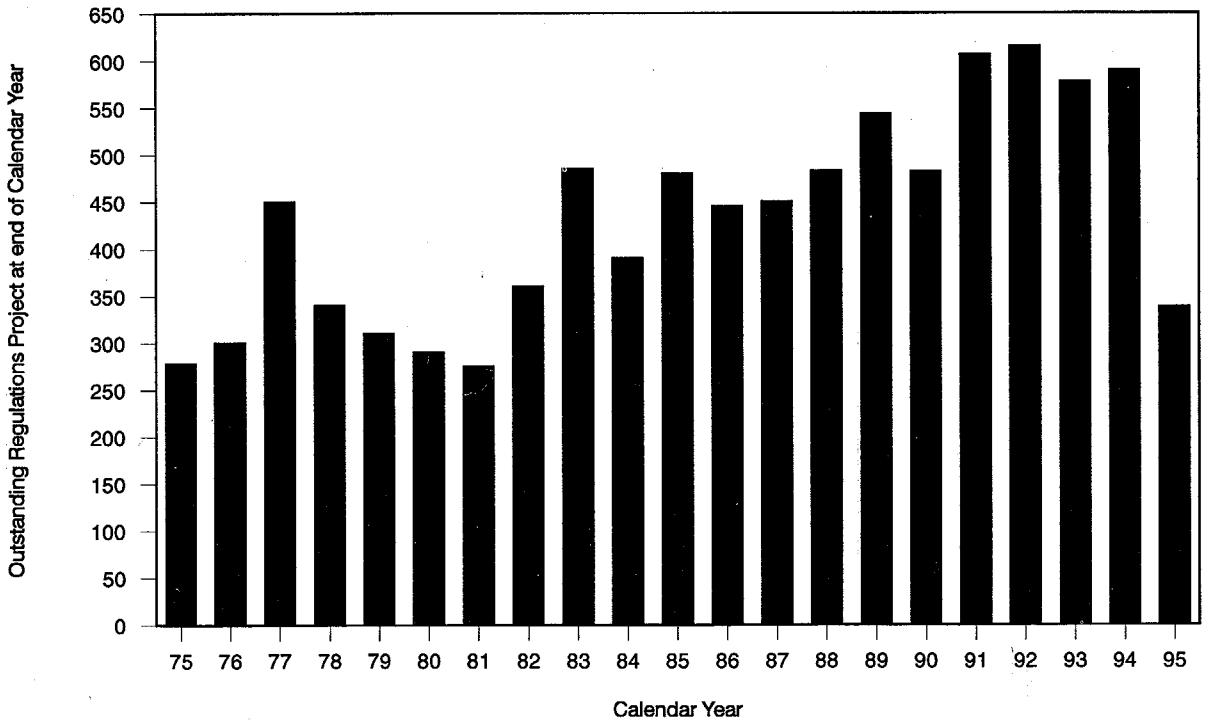
[1] Joel Slemrod and Marsha Blumenthal, "Income Tax Compliance Cost of Big Business" (University of Michigan Working Paper No. 93–11, Ann Arbor, Michigan,1993). This survey was conducted by mail to the 1672 firms in the Internal Revenue Service's Coordinated Examination Program. Responses were received from 365 firms, which represented 27.5 percent of the firms on the mailing list that were still active businesses. The survey asked corporate tax officers about the costs their companies incurred in complying with corporate income taxes.

[2] Besides the responses mentioning international issues overall, some responses cited specified items involving international taxation: foreign tax credit (37 responses), controlled foreign corporation reporting (21), transfer pricing (16) and allocation rules (12).

[3] Among the responses citing the lack of State uniformity, 28 singled out apportionment.

[4] Among the responses citing the inconsistency between State and Federal rules, 34 singled out depreciation.

E-9.--IRS Regulation Inventory 1975-1995



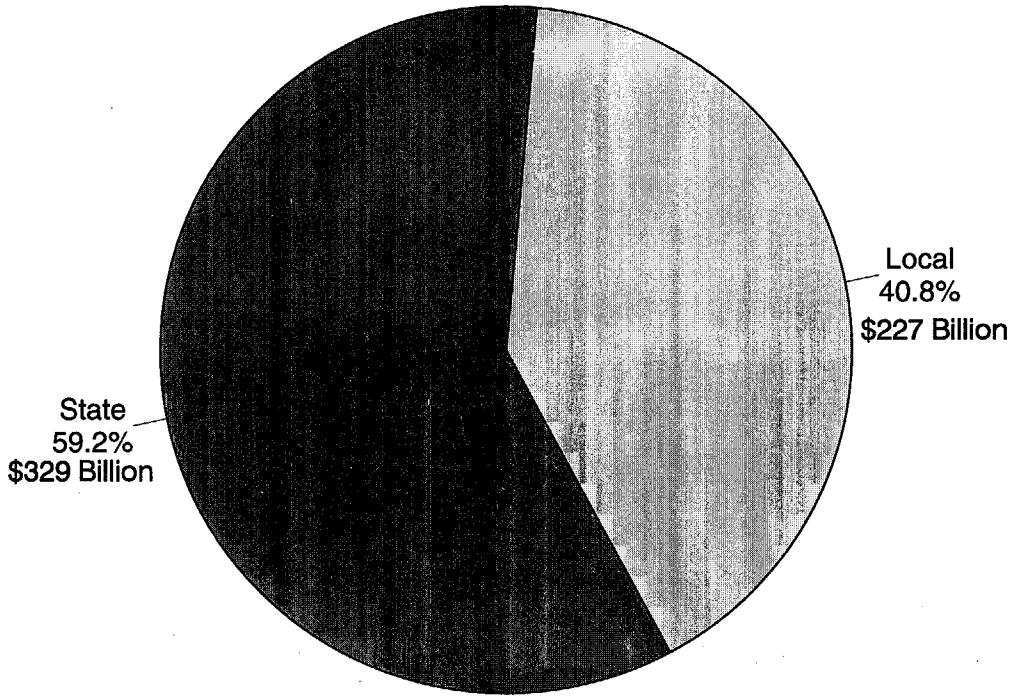
Source: Tax Notes, November 12, 1992 and personal communications with IRS staff.

F. Comparison With State Tax Systems

Under present law, the majority of State and local tax revenues are derived from sources other than individual and corporate income taxes. Generally, income taxes account for no more than 25 percent of State and local tax revenues, whereas sales and property taxes account for nearly 70 percent of all State and local tax receipts.

However, most of the States that collect individual and corporate income taxes model their State tax systems after the Federal income tax system. Thus, if the Federal tax system is restructured (e.g., by eliminating the Federal income tax), there may be immediate implications for State and local government revenues. Similarly, to the extent that State and local governments continued to collect income taxes after a restructuring of the Federal tax system, the purported simplification of any Federal restructuring might not be fully achieved for taxpayers.

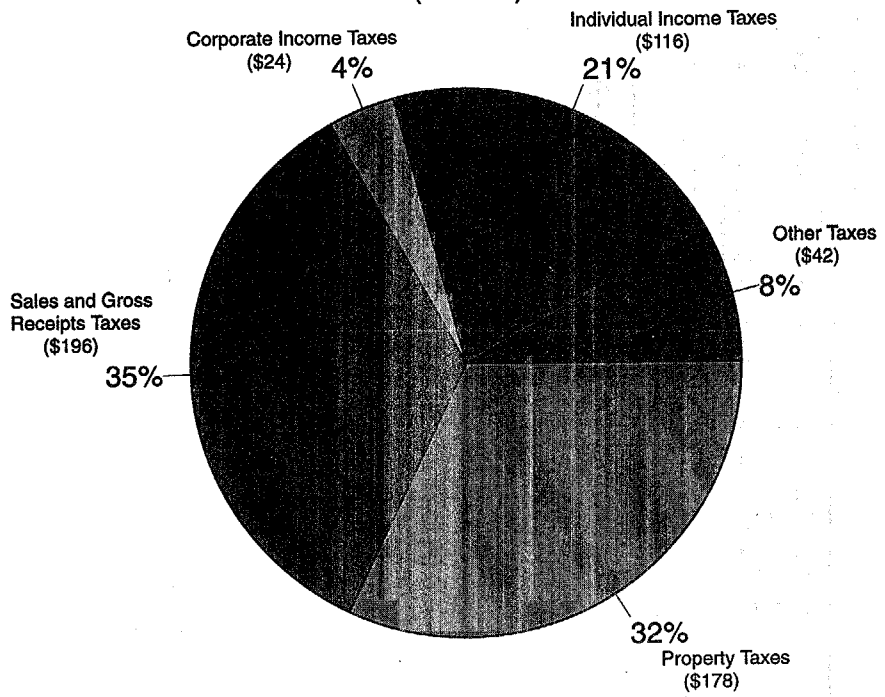
F-1.--State and Local Tax Collections, Fiscal Year 1992
Total = $556 Billion



Source: *Facts and Figures on Government Finance*, 1995, Tax Foundation

F-2.--Composition of Combined State and Local Tax Collections, Fiscal Year 1992

(Billions)



Source: *Facts and Figures on Government Finance*, 1995, Tax Foundation

F–3.—Degree of Conformity Between State and Federal Income Taxes

State income tax uses Federal adjusted gross income: Arizona, California, Connecticut, Delaware, District of Columbia, Georgia, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Missouri, Montana, Nebraska, New Mexico, New York, Ohio, Oklahoma, Oregon, Virginia, West Virginia, and Wisconsin.

State income tax based on Federal taxable income: Colorado, Hawaii, Idaho, Minnesota, North Carolina, South Carolina, and Utah.

State income tax calculated as a percentage of Federal tax liability: North Dakota, Rhode Island, and Vermont.

Only certain interest and dividends are taxed by State: New Hampshire and Tennessee.

No conformity between State and Federal income taxes: Alabama, Arkansas, Mississippi, New Jersey, and Pennsylvania.

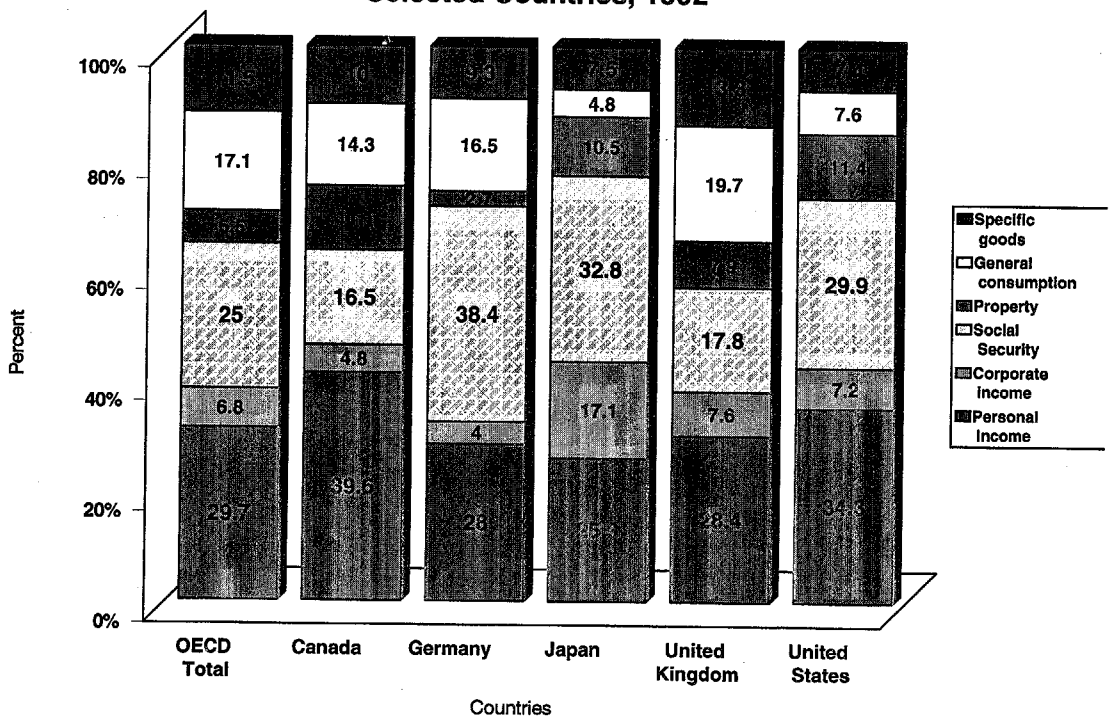
No State income tax: Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming.

Source: U.S. Advisory Commission on Intergovernmental Relations, *Significant Features of Fiscal Federalism,* 1995.

G. Comparison of U.S. Tax System and Savings Rate With Certain Foreign Countries

This section provides a basis of comparison of the U.S. Federal tax system and savings rates with those of selected foreign countries. For the United States, United Kingdom, Japan, Germany, Canada and for all the OECD countries as group, a comparison is provided of the portion of each country's tax receipts for 1992 from individual and corporate income taxes, Social Security taxes, property taxes, general consumption taxes (such as State sales taxes), and taxes on specific goods (for example, the excise taxes on alcoholic beverages or tobacco). Information on savings rates for several countries is also provided, both as a percentage of household income, and as a percentage of gross domestic product, over the past several decades.

G-1.--Percentage Distribution of Tax Receipts by Type of Tax, Selected Countries, 1992



Source: Statistiques des Recettes Publiques des Pays Membres de L'OCDE, 1965-1993, Organisation de Cooperation et de Developpement Economiques, Paris, 1993.

G–2.—Net Household Saving as a Percentage of Disposable Household Income, Selected Years, 1972–1994

Country	1972	1976	1980	1984	1988	1989	1990	1991	1992	1993	1994[1]	Average 1984–93
United States	7.5	7.6	8.1	8.3	4.5	4.1	4.3	4.9	5.0	4.6	4.3	5.3
Japan	18.2	23.2	17.9	15.8	14.3	14.6	14.1	15.1	14.3	14.6	14.8	14.9
Germany	14.4	13.3	12.8	11.4	12.8	12.4	13.9	12.8	12.9	12.1	11.3	12.5
Canada	8.7	11.8	13.6	15.0	9.7	10.4	9.9	10.3	10.8	10.6	10.4	11.0
Australia	11.8	11.1	10.1	9.3	6.5	7.1	8.0	6.5	5.4	4.2	3.6	6.8

Source: Organization for Economic Co-Operation and Development, *OECD Economic Outlook*, 55, June 1994.

[1] Estimated.

G–3.—Net National Saving as a Percentage of GDP in Selected Countries Selected Years, 1962–1989

Country	1962	1967	1972	1975	1978	1981	1982	1983	1984	1985	1986	1987	1988	1989
United States	9.1	9.7	8.8	6.0	8.9	6.4	2.7	2.2	4.4	3.3	2.2	2.1	3.1	3.2
Japan	21.7	22.2	24.4	19.4	20.0	17.9	17.0	16.1	17.0	18.0	18.0	18.3	19.2	20.0
Germany	18.6	15.0	16.0	9.6	11.4	8.0	7.7	8.5	9.2	9.6	11.6	11.3	12.4	14.1
France	17.3	18.4	17.6	13.2	13.0	8.5	7.2	6.4	6.3	6.4	7.6	7.3	8.2	8.8
United Kingdom	8.6	9.4	9.1	3.5	6.9	4.3	4.6	5.3	5.1	5.8	4.4	4.3	4.7	4.5
Italy	19.7	16.3	15.0	10.9	14.1	10.2	9.3	9.5	10.0	9.2	9.1	8.5	8.8	8.5
Canada	8.6	10.8	11.2	11.2	10.0	11.1	7.5	7.1	8.7	7.8	6.0	7.2	8.9	8.6
Belgium	12.1	14.5	15.8	12.4	11.1	4.8	4.4	5.0	6.2	5.6	7.6	8.1	10.0	11.7
Greece	14.3	14.7	22.0	16.3	18.6	16.1	8.3	8.0	6.7	4.4	4.8	4.9	8.0	5.7
Netherlands	17.4	17.9	18.3	14.0	12.0	10.4	10.8	11.2	12.9	13.6	12.7	10.5	12.4	13.4
Sweden	13.6	13.6	12.8	12.7	6.0	3.6	1.9	3.8	5.9	5.7	6.2	6.4	6.8	7.3
Switzerland	18.5	19.5	20.5	17.0	16.2	17.8	17.7	17.7	18.7	19.5	21.1	21.6	22.5	23.3
Australia	10.6	9.5	13.4	8.5	6.6	4.2	0.7	3.0	3.4	2.3	2.4	4.7	7.4	6.3

Source: National Accounts, 1960–1989, volume 1, OECD, 1991.

H. Major Components of Various Alternative Tax Systems

The following materials describe characteristics of, and the treatment of, various items under alternative tax systems. In general, most tax systems that have been the subject of recent discussions may be described as either a consumption-based tax or an income-based tax. Examples of consumption-based taxes include retail sales taxes, value-added taxes (e.g., the Business Activities Tax of S. 2160, introduced by Senators Danforth and Boren in the 103rd Congress and the business tax of S. 722), the flat taxes introduced by Mr. Armey (H.R. 2060; 104th Cong., 1st Sess.) and Senator Shelby (S. 1050; 104th Cong., 1st Sess.), and the USA tax introduced by Senators Nunn and Domenici (S. 722; 104th Cong., 1st Sess.). Examples of income-based taxes include the present-law income tax and a flat tax proposed by Representative Gephardt (see, e.g., statement released January 17, 1996).

The major difference between a consumption-based tax and an income-based tax generally involves the treatment of savings. Under an income-based tax, returns to savings (e.g., dividends, interests, and capital gains) generally are subject to tax. Under a consumption-based tax, returns to savings generally are excluded from the tax base. Such exclusion may be achieved by taxing consumption directly, excluding investment income from the tax base, or providing a deduction for increased savings. Some tax systems may have features that are either income-based or consumption-based. For example, a significant portion of the current U.S. tax system generally is considered to be an income tax, but the exclusion of contributions to, and earnings of, qualified retirement plans under present law is a feature of a consumption-based tax. For a further discussion of the distinctions between consumption-based taxes and income-based taxes, see Joint Committee on Taxation, *Descripton and Analysis of Proposals to Replace the Federal Income Tax* (JCS–18–95), June 5, 1995.

The following materials contain charts that generally describe the treatment of certain common items of income and expense under various alternative tax systems. The charts describe how a taxpayer would treat these items on its own tax return. The description of the treatment of these items under "national retail sales tax" and "income-based flat tax" is based upon theoretical models for such systems. The "value-added tax" is based upon the Business Activities Tax of S. 2160 (103rd Cong.). The "consumption-based flat tax" is based upon H.R. 2060 and S. 1050, as introduced. The "USA tax" is based upon S. 722, as introduced.

H–1.—Characteristics of a Consumption-Based Tax

Individuals:

Not directly subject to tax (e.g., retail sales tax or VAT); or

Subject to tax only on wage income (e.g., Armey-Shelby flat tax); or

Subject to tax on all income, but deduction allowed for savings (e.g., Nunn-Domenici USA tax).

Investment income (e.g., dividends, interest, capital gains) not subject to tax at the individual level.

Businesses (sole proprietorships, partnerships, S and C corporations):

Only retail sales subject to tax; or

Subject to tax on "value added":

Gross proceeds from sales of goods or services

less

Costs of goods and services acquired from other taxpayers (i.e., "expensing" of equipment, inventory, etc.).

No deductions for interest expense or employee wages (unless employees are subject to tax on wages as in Armey-Shelby flat tax).

H–2.—Characteristics of an Income-Based Tax

Individuals:

Subject to tax on all income, including wage and investment income;

Deductions allowed only for expenses incurred in the production of income.

Businesses (sole proprietorships, partnerships, S and C corporations):

Subject to tax on all income as such income is earned or accrued;

Deductions allowed for expenses incurred in the production of income:

Expenditures that benefit future periods are deducted in such periods (i.e., "capitalization" of equipment, inventory, etc.);

Deductions allowed for interest expense and employee wages.

H-3.--Treatment Of Individuals Under Various Tax Systems

	National Retail Sales Tax	Value-Added Tax (VAT)	Consumption-based Flat Tax	Nunn-Domenici USA Tax	Present Law	Income-based Flat Tax
INCOME:						
Wages\Salaries	N/A	N/A	Includible	Includible	Includ.	Includible
Retirement Benefits (incl. inside build-up)	N/A	N/A	Includible when Received	Includible when Received	Includ. when Recvd.	Includible when Earned
Social Security Benefits	N/A	N/A	Not Includible	Partially Includible	Partially Incl.	Includible
Employer-paid Health Care	N/A	N/A	Not Includible	Includible	Not Includ.	Includible
Dividends, Int.	N/A	N/A	Not Includible	Includible	Includ.	Includible
Muni Interest	N/A	N/A	Not Includible	Not Incl.	Not Incl	Includible
Capital Gains	N/A	N/A	Not Includible	Includible	Includ.	Includible
Business, Farm, Partnership, & Sub S Income	N/A	N/A	Subject to Separate Business Tax	Distributions from Busin. Includible	Includ.	Includible
DEDUCTIONS:						
IRA & Savings Contributions	N/A	N/A	Not Deductible	Unlimited Deduct.	Limited Deduct.	Not Deductible
Medical Expenses	N/A	N/A	Not Deductible	Not Deduct.	Limited Deduct.	Not Deductible
State &Local/ Real Est. Taxes	N/A	N/A	Not Deductible	Not Deduct.	Deduct.	Not Deductible
Mortgage Int.	N/A	N/A	Not Deductible	Deductible	Deduct.	Not Deduct.
Charitable Contributions	N/A	N/A	Not Deductible	Deductible	Deduct.	Not Deductible
Education Expenses	N/A	N/A	Not Deductible	Limited Deduction	Gener'ly Not Ded	Not Deductible

H-4.--Treatment Of Businesses Under Various Tax Systems

	National Retail Sales Tax	Value-Added Tax (VAT)	Consumption-based Flat Tax	Nunn-Domenici USA Tax	Present Law	Income-based Flat Tax
INCOME:						
Gross Receipts from Sales of Goods/Services	Retail Sales Only	Includible	Includible	Includible	Includible	Includible
Interest	Not Incl.	Not Incl.	Not Incl.	Not Incl.	Includible	Includible
Dividends	Not Incl.	Not Incl.	Not Incl.	Not Incl.	Partially Includible	Includible
Capital Gains	Not Incl.	Not Incl.	Not Incl.	Not Incl.	Includible	Includible
Proceeds from Sales of Business Assets	Not Incl.	Includible	Includible	Includible	Includible	Includible
Rental & Royalty Income	Not Incl.	Incl. if trade or business	Incl. if trade or business	Incl. if trade or business	Includible	Includible

DEDUCTIONS:						
Inventory	Not Ded.	Ded. when acquired	Ded. when acquired	Ded. when acquired	Ded. when sold	Ded. when sold
Cost Recovery of Property	Not Ded.	Expensed when acquired	Expensed when acquired	Expensed when acquired	Deprec. over time	Depreciate over time
Officers' Compensation	Not Ded.	Not Ded.	Deductible	Not Ded.	Ded. with limits	Deductible
Salaries/Wages	Not Ded.	Not Ded.	Deductible	Not Ded.	Deductible	Deductible
Retire. Benefits	Not Ded.	Not Ded.	Deductible	Not Ded.	Deductible	Deductible
Employee Health	Not Ded.	Not Ded.	Not Ded.	Not Ded.	Deductible	Deductible
Taxes	Not Ded.	Not Ded.	Not Ded.	Not Ded.	Deductible	Deductible
Interest	Not Ded.	Not Ded.	Not Ded.	Not Ded.	Deductible	Deductible
Charitable Contributions	Not Ded.	Not Ded.	Not Ded.	Not Ded.	Ded. with limits	Deductible
Advertising	Not Ded.	Deductible	Deductible	Deductible	Deductible	Deductible