

97TH CONGRESS, 1ST SESSION

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Congress of the United States

JOINT COMMITTEE ON TAXATION

1015 LONGWORTH HOUSE OFFICE BUILDING

Washington, D.C. 20515

JCX-20-81

MATERIAL DISTRIBUTED DURING WAYS AND MEANS MARKUP ON THE

ECONOMIC RECOVERY TAX ACT OF 1981 ON TUESDAY, JULY 21, 1981.

REVENUE EFFECTS OF TRIGGER PROPOSAL AND SENATE PROPOSAL

(Fiscal years, billions of dollars)

	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
Senate proposal (with indexing) ^{1/}	-26.6	-70.1	-113.6	-146.6	-192.3
Proposal subject to trigger ^{2/}	-27.9	-73.8	-109.1	-136.3	-158.9

1/ Across-the-board marginal rate reductions with a 20-percent alternative tax for certain 1981 capital gains and a maximum rate of 50 percent in 1982 and thereafter, and 5 percent two-earner couples deduction in 1982 and 10 percent in 1983 and thereafter. Rate brackets and the personal exemption would be indexed for inflation in 1985 and after.

2/ Marginal rate reductions with maximum rate of 60 percent in 1982 and 50 percent in 1983 and thereafter, 10-percent two-earner couples deduction (maximum \$5,000), increase in zero bracket (ZBA) of \$200 for singles and \$400 for married couples filing joint returns, increase in earned income credit to 11 percent, phased out between \$8,000 and \$12,000, and increase in child care credit to 25 percent of a maximum of \$2,400 of expenses for one dependent or \$4,800 for two or more dependents. Further reductions in marginal rates and increases in zero bracket amount and earned income credit in 1984 would be contingent on the performance of the economy.

Joint Committee on Taxation
July 21, 1981

AVERAGE TAX CUT UNDER ALTERNATIVE TAX CUT PROPOSALS FOR 1984

Expanded income class (000)	Senate Finance Committee proposal 1/	Proposal subject to trigger 2/
Below \$5	\$25 (*)	\$52 (*)
\$5 - 10	121 (27.1%)	237 (57.0%)
10 - 15	297 (23.9)	418 (33.9)
15 - 20	521 (24.5)	614 (28.8)
20 - 30	883 (25.4)	1,001 (28.8)
30 - 50	1,661 (26.3)	1,759 (27.8)
50 - 100	3,717 (25.7)	3,142 (21.7)
100 - 200	8,788 (22.4)	6,174 (15.7)
200 +	27,236 (20.9)	23,985 (18.4)
Total	\$927 (25.1%)	\$937 (26.4%)

* Tax liability is negative for this income class.

1/ 23-percent across-the-board rate cut, 10-percent two-earner couples deduction, and reduction of top rate to 50 percent. Percentage reduction in average tax liability in parentheses.

2/ Marginal rate reductions with maximum rate of 50%, 10% two-earner couples deduction (maximum \$5,000), increase in zero bracket (ZBA) of \$300 for singles and \$600 for married couples filing joint returns, increase in earned income credit to 11% of first \$6,000 of earnings, phased out between \$9,000 and \$14,000, and increase in child care credit to 25% of a maximum of \$2,400 of expenses for one dependent or \$4,800 for two or more dependents. Percentage reduction in average tax liability in parentheses.

Joint Committee on Taxation
July 21, 1981

AGGREGATE REVENUE LOSS UNDER ALTERNATIVE TAX CUT PROPOSALS FOR 1984
(Millions of dollars, 1981 levels)^{1/}

<u>Expanded income class (000)</u>	<u>Senate Finance Committee proposal 2/</u>	<u>Proposal subject to trigger 3/</u>
Below \$5	-114 (0.2%)	-340 (0.4%)
\$5 - 10	-1,731 (2.4)	-3,658 (4.8)
10 - 15	-3,900 (5.4)	-5,535 (7.3)
15 - 20	-5,625 (7.8)	-6,628 (8.7)
20 - 30	-14,893 (20.7)	-16,884 (22.3)
30 - 50	-22,520 (31.3)	-23,857 (31.5)
50 - 100	-13,255 (18.4)	-11,195 (14.8)
100 - 200	-5,396 (7.5)	-3,780 (5.0)
200 +	-4,413 (6.1)	-3,875 (5.1)
<u>Total</u>	<u>-71,847 (100.0%)</u>	<u>-75,752 (100.0%)</u>

^{1/} Percentage distribution of revenue loss in parentheses.

^{2/} 23-percent across-the-board rate cut, 10-percent two-earner couples deduction, and reduction of top rate to 50 percent.

^{3/} Marginal rate reductions with maximum rate of 50%, 10% two-earner couples deduction (maximum \$5,000), increase in zero bracket (ZBA) of \$300 for singles and \$600 for married couples filing joint returns, increase in earned income credit to 11% of first \$6,000 of earnings, phased out between \$9,000 and \$14,000, and increase in child care credit to 25% of a maximum of \$2,400 of expenses for one dependent or \$4,800 for two or more dependents.

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EXAMPLES OF 1984 TAX REDUCTIONS FOR MARRIED COUPLE WITH TWO DEPENDENTS ^{1/}

Adjusted gross income	Present tax liability	Reductions for one-earner couple		Reductions for two-earner couple ^{3/}	
		Senate Finance Committee proposal	Proposal subject to trigger	Senate Finance Committee proposal	Proposal subject to trigger
<u>Wage and salary income 2/</u>					
\$5,000	\$-500	\$0	\$50	\$0	\$50
10,000	374	83	702	113	727
15,000	1,233	281	379	333	431
20,000	2,013	464	485	544	565
30,000	3,917	914	977	1,079	1,142
40,000	6,312	1,438	1,551	1,697	1,806
50,000	9,323	2,158	2,113	2,570	2,575
60,000	12,634	2,928	2,575	3,423	3,130
100,000	27,878	5,822	3,861	6,872	5,111
<u>Property income 4/</u>					
100,000	28,534	6,478	4,517	--	--
200,000	75,704	17,514	13,187	--	--
500,000	235,804	62,204	57,787	--	--

^{1/} Assumes that deductible expenses are 23 percent of income. Does not include impact of increase in child care credit.

^{2/} Assumes that all income is wage and salary and/or self-employment income.

^{3/} Assumes lesser-earning spouse earns 25 percent of combined income.

^{4/} Assumes that none of the income is wage and salary and/or self-employment income. Income measured after exclusions.

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1984 TAX REDUCTION, NET OF INFLATION AND SOCIAL SECURITY INCREASES, FOR ALTERNATIVE TAX CUT PROPOSALS
(millions of dollars, 1981 income level)

Expanded income class (000)	Inflation and social security increases 1/	Total revenue loss		Net tax reduction (Total revenue loss minus inflation and social security increases) 4/	
		Senate Finance Committee proposal 2/	Proposal subject to trigger 3/	Senate Finance Committee proposal 2/	Proposal subject to trigger 3/
Below \$5	664	114 (*)	340 (*)	-550 (*)	-324 (*)
\$5 - 10	4,330	1,731 (27.1%)	3,658 (57.0%)	-2,599 (-126.7%)	-672 (-32.7%)
10 - 15	5,338	3,900 (23.9)	5,535 (33.9)	-1,438 (-13.1)	197 (1.8)
15 - 20	5,732	5,625 (24.5)	6,628 (28.8)	-107 (-0.6)	896 (5.2)
20 - 30	13,164	14,893 (25.4)	16,884 (28.8)	1,729 (3.8)	3,720 (8.2)
30 - 50	18,101	22,520 (26.3)	23,857 (27.8)	4,419 (6.5)	5,756 (8.5)
50 - 100	9,448	13,255 (25.7)	11,195 (21.7)	3,807 (9.0)	1,747 (4.1)
100 - 200	2,640	5,396 (22.4)	3,780 (15.7)	2,756 (12.8)	1,140 (5.3)
200 +	873	4,413 (20.9)	3,875 (18.4)	3,540 (17.5)	3,002 (14.8)
Total	60,289	71,847 (25.1%)	75,752 (26.4%)	11,558 (5.2%)	15,463 (6.9%)

* Tax liability is negative for this income class.

1/ Revenue gain from (a) not adjusting personal exemption, earned income credit, zero bracket amount, and rate brackets by 31.29 percent (the projected income in the GNP deflator between the third quarter of 1979 and the third quarter of 1982) and from (b) ad hoc 1981 increase in social security wage base (to \$29,700) above what would occur under indexing (\$28,200) and 1981 and 1982 increases in social security tax rate to 6.70 from 6.13 percent for employees and to 9.35 from 8.1 percent for self-employed.

2/ Includes rate reductions and two-earner deduction. Percentage reduction in tax liability in parentheses.

3/ Includes rate reductions, two-earner couples deduction and increases in zero bracket amount, earned income credit and child care credit. Percentage reduction in tax liability in parentheses.

4/ Percentage reduction in net tax liability (tax liability minus inflation and social security increases) in parentheses.

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