

Issues in Individual Tax Cut Proposals

- I. Aggregate size of cut; individual vs. business portion
- II. Income tax cuts
 - A. Issues
 - 1. Distribution of cuts by income class--compare to scheduled increases
 - 2. Tax entry point
 - 3. Marginal tax rates
 - 4. Effective date
 - B. Options
 - 1. Personal exemption increase
 - 2. Zero bracket amount increase
 - 3. Earned income credit increase
 - 4. Rate cuts and changes in tax brackets
- III. Payroll tax cuts vs. income tax cuts
 - A. Issues
 - 1. Progressivity
 - 2. Inflation effects
 - 3. Coverage
 - 4. Capital formation
 - 5. Marginal tax rates
 - 6. Social security financing
 - B. Options
 - 1. General revenue financing
 - 2. Income tax credit
- IV. Marriage tax penalty
 - A. Issues
 - 1. Equity
 - a. marriage neutrality
 - b. equal taxation of couples with equal incomes
 - c. progressive rates
 - 2. Economic effects
 - 3. Complexity
 - B. Options
 - 1. Separate filing
 - a. actual separate filing
 - b. marriage penalty credit
 - 2. Credit or deduction for earnings of second earner
 - 3. Adjustments to rate schedules
- V. Charitable contribution deduction
 - A. Issues
 - 1. Subsidy for charitable contributions
 - 2. Complexity
 - B. Options
 - 1. Allow deduction to all taxpayers
 - 2. Allow deduction, in excess of a floor, to all taxpayers

Scheduled Tax Increases and Selected Tax Cut Proposals
 (Aggregate Change in Revenue by Income Class, 1981 Income Level
 (\$ millions))

Expanded income (000)	Scheduled tax increases					Selected tax cut proposals		
	Inflation increase 1/	Interest and dividend exclusion	Net income tax increase	Employee and self- employed social security increase 2/	Total increase	Roth-Kemp first year	Senate Finance Committee 3/	10% social security credit 4/
Below \$5	168	-25	143	232	375	69	260	269
\$5-10	1,222	-141	1,081	505	1,586	931	2,020	633
10-15	1,352	-208	1,144	720	1,864	1,926	2,558	896
15-20	1,551	-222	1,329	862	2,191	2,635	2,871	1,080
20-30	3,653	-564	3,089	1,997	5,086	6,379	6,897	2,421
30-50	5,186	-862	4,324	2,663	6,987	9,394	9,410	2,632
50-100	2,737	-391	2,346	835	3,181	5,457	3,672	703
100-200	759	-83	676	143	819	2,035	905	113
200 & over	249	-21	228	38	266	1,474	629	29
TOTAL	16,877	-2,517	14,360	7,995	22,355	30,301	29,222	8,776

1/ Revenue gain resulting from not adjusting personal exemptions, earned income credit, zero bracket amount, and rate brackets by 9.2%, which is the Congressional Budget Office December 1980 estimate of the 1981 increase in the GNP deflator.

2/ Revenue gain resulting from ad hoc increase in the base above what would occur under indexing and from increase in rate

3/ Includes above-the-line charitable deduction and two-earner deduction when fully effective, as well as rate cuts, exemption increase, and zero bracket amount increase. Does not include capital gains reduction or induced effects of charitable deductions.

4/ Includes employee and self-employed portion only.

Table 2 PRELIMINARY
Revenue Loss from Selected Tax Cut Proposals,
 1981-1986
 (\$ billion)

	<u>Calendar year</u>					
	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
Indexing--1981 only ^{1/}	17.2	19.4	21.8	24.6	27.7	31.3
Indexing--1981-1983 only ^{1/}	17.2	40.6	69.8	78.7	88.7	100.0
Indexing--permanent ^{1/}	17.2	40.6	69.8	104.0	144.7	219.5
Repeal 1981 social security increase ^{2/}	13.6	16.3	18.3	20.7	23.4	26.1
Roth-Kemp--first year	30.3	36.7	44.0	52.5	62.1	73.0
Roth-Kemp	30.3	64.2	113.8	154.9	203.5	261.3
Finance Committee ^{3/}	24.0	31.7	37.7	44.4	51.0	58.3
10% Social security credit ^{4/}	15.0	18.0	20.2	22.7	26.6	30.2

^{1/} Adjustment of personal exemptions, earned income credit, rate brackets, and zero bracket amount by GNP deflator for years specified. Calculations use Congressional Budget Office December 1980 estimate of GNP deflator.

^{2/} Repeal 1981 ad hoc increase in base above what would occur under indexing and 1981 increase in rate.

^{3/} Does not include capital gains reductions or induced effects of charitable deduction.

^{4/} Includes outlays. Estimates are shown for all years even though the bill provides for a reduction through 1982 only.

Joint Committee on Taxation
 February 6, 1981

Table 3

FEDERAL INDIVIDUAL INCOME TAX LIABILITY UNDER
1981 INCOME LEVEL AND LAW

TAXABLE RETURNS

(Dollar millions)

Expanded Income (\$ Thousand)	By Schedule			By Deduction		
	Single	Joint	Head	Standard	Itemized	Total
Below \$5	495	131	5	455	175	632
\$5 - 10	5,915	836	376	6,394	733	7,128
10 - 15	10,244	4,543	1,753	13,913	2,628	16,542
15 - 20	11,200	9,698	2,282	17,435	5,745	23,181
20 - 30	15,793	39,917	3,672	35,661	23,721	59,381
30 - 50	8,691	76,128	1,864	26,779	59,904	86,681
50 - 100	4,343	46,851	973	4,786	47,382	52,167
100 - 200	2,075	21,231	459	978	22,787	23,765
200 & over	2,581	15,393	546	546	17,974	18,520
TOTAL	61,339	214,732	11,933	106,951	181,053	287,998

NUMBER OF RETURNS FILING

Taxable Returns

(Returns in Thousands)

Expanded Income (\$ Thousand)	By Schedule			By Deduction		
	Single	Joint	Head	Standard	Itemized	Total
Below \$5	4,176	131	35	3,897	445	4,343
\$5 - 10	9,548	2,567	929	11,518	1,527	13,045
10 - 15	6,501	5,258	1,472	10,898	2,333	13,232
15 - 20	3,977	5,719	1,103	7,490	3,310	10,801
20 - 30	3,342	12,607	1,002	9,172	7,779	16,952
30 - 50	1,031	12,199	275	3,620	9,884	13,505
50 - 100	220	3,136	60	262	3,155	3,418
100 - 200	42	489	9	18	523	541
200 & over	12	105	2	2	117	119
TOTAL	28,854	42,216	4,890	46,882	29,078	75,960

Details may not add to totals because of rounding.

Joint Committee on Taxation
February 6, 1981