

Joint Committee on Taxation
 August 22, 1980
 JCX-40-80
 Individual Income Tax Cut

Proposal

The tax cut would consist of:

- (1) an increase in the personal exemption from \$1,000 to \$1,100,
- (2) an increase in the zero bracket amount (standard deduction) from \$2,300 to \$2,400 for single persons and heads of households and from \$3,400 to \$3,600 for married couples,
- (3) an increase in the rate of the earned income credit from 10 percent to 11 percent and an increase in the phaseout from \$6,000-\$10,000 to \$7,000 - \$11,000.
- (4) a deduction for married couples equal to 10 percent of the first \$30,000 of the earnings of the lesser-earning spouse (5 percent in 1981), and
- (5) tax rate reductions, including narrowing of most tax brackets.

The specific rate reductions for joint returns are as follows:

<u>Present law rate</u>	<u>Proposed rate</u>
14%	12%
16	14
18	17
21	20
24	23
28	27
32	29
37	35
43	41
49	48
54	53
59	58
64	63
68	67
70	67

There would be corresponding rate reductions for single persons, heads of households and married persons filing separate returns.

Revenue effect

The revenue effects would be as follows:

	<u>Fiscal year (\$ billions)</u>					<u>Calendar year</u>
	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1981</u>
Personal exemption	1.7	4.9	5.1	5.4	5.6	4.8
ZBA	1.0	1.6	1.6	1.7	1.8	1.5
Earned income credit	0.1	0.6	0.6	0.5	0.5	0.6
Marriage penalty	0.3	3.4	6.8	8.3	9.7	2.7
Rate cuts	<u>8.0</u>	<u>14.3</u>	<u>17.3</u>	<u>21.0</u>	<u>25.1</u>	<u>12.8</u>
Total	11.1	24.7	31.4	36.9	42.7	22.4

Distribution of Individual Tax Cut by Income Class
(1979 income levels, \$ Millions)

Tax increases under current law:

<u>Income Class (000)</u>	<u>Social security</u>	<u>Inflation Minus Interest Exclusion</u>	<u>Total</u>	<u>Tax Reduction Proposal including capital Gains Reduction</u>
Under \$5	286	176	462	270
5 - 10	636	1,252	1,888	1,985
10 - 15	852	1,196	2,048	2,237
15 - 20	1,009	1,327	2,336	2,501
20 - 30	1,946	2,615	4,561	4,857
30 - 50	1,664	2,504	4,168	4,466
50 -100	446	1,435	1,881	2,073
100 -200	77	403	480	666
Over 200	20	135	155	1,468
TOTAL	6,936	11,043	17,979	20,523

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