

[COMMITTEE PRINT]

DESCRIPTION OF S. 1860 AND H.R. 8333

RELATING TO

**INCOME TAX RATE REDUCTION FOR
INDIVIDUALS AND CORPORATIONS**

LISTED FOR A HEARING

BY THE

SUBCOMMITTEE ON TAXATION AND
DEBT MANAGEMENT

OF THE

COMMITTEE ON FINANCE

ON JULY 14, 1978

PREPARED FOR THE USE OF THE
COMMITTEE ON FINANCE
BY THE STAFF OF THE
JOINT COMMITTEE ON TAXATION



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I. INTRODUCTION

The bills discussed in this pamphlet, S. 1860 and H.R. 8333 (identical bills introduced by Senator William V. Roth, Jr., and Congressman Jack F. Kemp, respectively), have been scheduled for a hearing on July 14, 1978, by the Subcommittee on Taxation and Debt Management of the Committee on Finance. The bills relate to permanent income tax rate reduction for individuals and corporations.

In connection with this hearing, the staff of the Joint Committee on Taxation has prepared a description of the bills. The description indicates the present law treatment, an explanation of what changes the bills would make, their effective dates, and their possible revenue effect.

II. SUMMARY

S. 1860 and H.R. 8333 would provide for permanent income tax rate reductions for individuals of approximately 33 percent over the next three years and for a permanent reduction in corporate income tax rates. The corporate rate cut reduces the top corporate rate from 48 percent to 45 percent over three years and raises the corporate surtax exemption from \$50,000 to \$100,000. The tax rates below the top rate would be reduced from the present rates of 20 percent on the first \$25,000 and 22 percent on the second \$25,000 to 17 percent on the first \$25,000 and 19 percent on the next \$75,000.¹

III. DESCRIPTION OF BILLS

A. Tax Rate Reduction for Individuals

Present law

Under present law individual income tax rates range from 14 percent on taxable income between \$3,200 and \$4,200 to 70 percent on taxable income in excess of \$203,200 on joint returns. For single persons, the 14-percent bracket applies to taxable income between \$2,200 and \$2,700, and the 70-percent bracket applies to taxable income above \$102,200.

In addition, present law provides a general tax credit equal to the greater of \$35 per exemption or 6 percent of taxable income in excess of the zero bracket amount with a maximum of \$180. The credit is scheduled to expire at the end of 1978.

Description of S. 1860 and H.R. 8333

These bills would provide permanent income tax rate reductions for individuals. In 1978, the individual income tax rates would be reduced from the current range of 14 to 70 percent to a range of 12 to 63 percent; in 1979, the rates would be reduced to a range of 10 to 56 percent; and in 1980 and thereafter the rates would be reduced to a range of 8 to 50 percent. The new rate schedule to be effective in 1980 for joint returns is shown in table 1 in the Appendix. The bills do not extend the general tax credit or earned income credit which are scheduled to expire at the end of 1978.²

The comparison of the new tax rates to be effective in 1980 with present law rates and the percentage tax reduction is shown below.

¹ In 1979 the rates under present law are to revert to 22 percent on the first \$25,000 of taxable income and 48 percent on the excess over \$25,000.

² A technical change would be necessary to conform the rate changes to the new tax schedules provided by the Tax Reduction and Simplification Act of 1977 (P.L. 95-30).

*Comparison of Present Law Individual Income Tax Rates and 1980
Rates Under S. 1860 and H.R. 8333*

Present rates for joint returns	Proposed rates (1980)	Percent reduction
14	8	42.9
15	9	40.0
16	10	37.5
17	11	35.2
19	13	31.5
22	15	31.8
25	17	32.0
28	19	32.1
32	21	34.3
36	24	33.3
39	27	30.7
42	29	30.9
45	31	31.1
48	33	31.2
50	35	30.0
53	36	32.0
55	37	32.7
58	40	31.0
60	42	30.0
62	44	29.0
64	46	28.0
66	47	28.7
68	48	29.4
69	49	28.9
70	50	28.5

The tax reduction resulting from the proposal when fully effective for illustrative taxpayers at various income levels and of various family sizes is shown in table 2 in the Appendix.

Effective date

The first stage rate reduction would apply to taxable years beginning after December 31, 1977; the second after December 31, 1978; and the third after December 31, 1979. (Technical changes would be required to implement these dates and to provide changes in withholding.)

Revenue effect

The proposed permanent individual income tax cut to be fully effective in 1980 and thereafter would reduce revenue by \$78 billion on a calendar year basis at 1979 levels of income. This estimate is in comparison to present law which contains the (temporary) general tax credit and earned income credit. The revenue estimate of these and other extensions is shown in table 5 in the Appendix. On a fiscal year basis, the reduction for individuals (assuming a January 1, 1979 effective date and change in withholding) would be about \$19 billion in fiscal year 1979, \$53 billion in 1980, and \$98 billion in 1981. These estimates reflect growth as well as the phase-in of the tax cut. They are shown in detail in table 3 in the Appendix. Also shown, in table 4 of the Appendix, is the distribution by income class of the fully effec-

tive tax reduction. Note that the difference between the \$78 billion cited above and the \$65 billion shown in table 4 reflects the difference in years; the former refers to 1979 levels and the latter to 1978.

These revenue estimates do not reflect any feedback effect from the stimulus they would provide to the economy from either the demand or the supply side. Some estimators have suggested that the stimulus to the economy might be so substantial that the amount of the net tax reduction would be significantly reduced or that tax receipts might actually increase. It should be noted that, over the three-year period during which the tax cut is to be phased in, inflation will raise individual income taxes, probably by about \$25-\$30 billion.

B. Tax Rate Reduction for Corporations

Present law

Present law provides a normal tax plus a surtax for corporations. The normal tax is 20 percent of the first \$25,000 of taxable income, and 22 percent of income in excess of \$25,000. In addition, a surtax of 26 percent applies to taxable income in excess of the \$50,000 surtax exemption.

Beginning in 1979, the surtax exemption returns to \$25,000, and the applicable rate returns to 22 percent.³

Description of S. 1860 and H.R. 8333

These bills would provide an immediate increase in the surtax exemption to \$100,000 and a three-stage reduction in the normal tax rate. The permanent corporate rate schedule (applying to 1980 and subsequent years) would be 17 percent on the first \$25,000 of taxable income, 19 percent on the next \$75,000 of taxable income and 45 percent on taxable income in excess of \$100,000. For 1978, the rates in these brackets would be 19, 21 and 47 percent, respectively, and in 1979 they would be 18, 20 and 46 percent (as shown below).

Comparison of Corporate Income Tax Rates Under Present Law and S. 1860 and H.R. 8333

Year	Present law	S. 1860 and H.R. 8333
1978	20% on the first \$25,000.....	19% on the first \$25,000.
	22% on the second \$25,000.....	21% on the next \$75,000.
	48% on the excess over \$50,000....	47% on the excess over \$100,000.
1979	-----do-----	18% on the first \$25,000.
		20% on the next \$75,000.
		46% on the excess over \$100,000.
1980	-----do-----	17% on the first \$25,000.
		19% on the next \$75,000.
		45% on the excess over \$100,000.

Effective date

The increase in the surtax exemption would be effective for taxable years beginning after December 31, 1977. The first stage rate reduction would be effective for taxable years beginning after the same date; the second stage would be effective for taxable years beginning after December 31, 1978; and the third stage would be effective for taxable years beginning after December 31, 1979.

Revenue effect

The proposed corporate rate reduction at calendar year 1979 income levels would result in a revenue reduction of about \$8 billion when fully effective. Assuming a January 1, 1979, effective date, the estimated revenue reduction on a fiscal year basis would be \$1.8 billion

³ The \$50,000 surtax exemption and the 20-percent normal tax rate on the first \$25,000 of taxable income were originally provided for 1975 by the Tax Reduction Act of 1975 and have been extended several times by subsequent legislation.

in 1979, \$5 billion in 1980, and \$8 billion in 1981. (The fiscal year revenue decreases and the combined individual and corporate cuts by calendar and fiscal years are shown in table 3 in the Appendix.)

These estimates reflect growth as well as the phase-in of the tax reduction. The same caveat with respect to assumptions regarding feedback or stimulus from the corporate tax cut that applied to the individual tax cuts also applies here.



APPENDIX

Table 1.—Individual Income Tax Schedule For Married Taxpayers Filing Joint Returns Under S. 1860 and H.R. 8333 for 1980

If the amount of taxable income is		Then the tax before credit is	
Over—	But not over—	Enter	Of excess over—
\$3,200	\$4,200	0 plus 8%	\$3,200
\$4,200	5,200	\$80 plus 9%	4,200
\$5,200	6,200	170 plus 10%	5,200
\$6,200	7,200	270 plus 11%	6,200
\$7,200	11,200	380 plus 13%	7,200
\$11,200	15,200	900 plus 15%	11,200
\$15,200	19,200	1,500 plus 17%	15,200
\$19,200	23,200	2,180 plus 19%	19,200
\$23,200	27,200	2,940 plus 21%	23,200
\$27,200	31,200	3,780 plus 24%	27,200
\$31,200	35,200	4,740 plus 27%	31,200
\$35,200	39,200	5,820 plus 29%	35,200
\$39,200	43,200	6,980 plus 31%	39,200
\$43,200	47,200	8,220 plus 33%	43,200
\$47,200	55,200	9,540 plus 35%	47,200
\$55,200	67,200	12,340 plus 36%	55,200
\$67,200	79,200	16,660 plus 37%	67,200
\$79,200	91,200	21,100 plus 40%	79,200
\$91,200	103,200	25,900 plus 42%	91,200
\$103,200	123,200	30,940 plus 44%	103,200
\$123,200	143,200	39,740 plus 46%	123,200
\$143,200	163,200	48,940 plus 47%	143,200
\$163,200	183,200	58,340 plus 48%	163,200
\$183,200	203,200	67,940 plus 49%	183,200
\$203,200		77,740 plus 50%	203,200

Table 2.—Tax Under Present Law and Under S. 1860 and H.R. 8333 for a Single Person and a Married Couple With No, 1, 2, and 4 Dependents ¹

[Assuming deductible personal expenses of 23 percent of income]

Adjusted gross income ²	Tax liability														
	Single person			Married couple with no dependents			Married couple with 1 dependent			Married couple with 2 dependents			Married couple with 4 dependents		
	Under present law	Under the proposal	Reduction	Under present law	Under the proposal	Reduction	Under present law	Under the proposal	Reduction	Under present law	Under the proposal	Reduction	Under present law	Under the proposal	Reduction
3,000	0	0	0	0	0	0	-300 ³	-300	0	-300	-300	0	-300	-300	0
5,000	279	150	129	0	0	0	-300	-300	0	-300	-300	0	-300	-300	0
6,000	449	250	199	115	37	78	-200	-200	0	-200	-200	0	-200	-200	0
8,000	810	461	349	431	233	198	273	120	153	120	12	108	0	0	0
10,000	1,199	698	501	761	443	318	620	347	273	446	218	228	128	0	128
12,500	1,631	976	655	1,186	718	468	1,059	636	423	917	539	378	562	274	288
15,000	2,126	1,309	817	1,651	1,028	624	1,486	915	571	1,330	812	519	990	567	423
17,500	2,660	1,670	990	2,075	1,316	758	1,910	1,204	706	1,745	1,091	653	1,385	836	548
20,000	3,232	2,062	1,170	2,555	1,643	912	2,368	1,516	852	2,180	1,388	792	1,808	1,125	683
25,000	4,510	2,925	1,585	3,570	2,333	1,238	3,360	2,190	1,170	3,150	2,048	1,103	2,738	1,758	980
30,000	5,950	3,900	2,051	4,712	3,096	1,616	4,472	2,939	1,534	4,232	2,781	1,451	3,778	2,464	1,314
35,000	7,500	4,947	2,553	6,002	3,948	2,054	5,732	3,768	1,964	5,464	3,590	1,875	4,954	3,245	1,710
40,000	9,233	6,141	3,092	7,427	4,911	2,516	7,135	4,709	2,426	6,848	4,512	2,336	6,278	4,122	2,156

¹ Assumes extension of existing, temporary tax reductions—the general tax credit and the earned income credit.

² Wage or salary and/or self-employment income.

³ Negative tax liability represents the refundable portion of the earned income credit.

Table 3.—Individual and Corporate Tax Reduction Under S. 1860 and H.R. 8333¹

[In billions of dollars]

	1979	1980	1981	1982	1983
Calendar year:					
Individual.....	27.4	63.8	112.3	134.7	161.7
Corporate.....	4.0	6.6	9.6	10.5	11.5
Total.....	31.4	70.4	121.9	145.2	173.2
Fiscal year:					
Individual.....	19.2	52.8	97.7	128.0	153.6
Corporate.....	1.8	5.2	8.0	10.1	11.0
Total.....	21.0	58.0	105.7	138.1	164.6

¹ Assuming a Jan. 1, 1979 effective date and change in withholding. Compared to present law with extension of expiring tax cuts.

**Table 4.—Individual Income Tax Reduction Under S. 1860 and
H.R. 8333 by Income Class¹**
1978 Income Levels

Expanded income class ²	Tax decrease			Returns with tax decrease (thousands)
	Amount (millions)	Percent of tax	Percent- age dis- tribution	
0 to \$5,000.....	\$312	54	(³)	4,654
\$5,000 to \$10,000.....	3,902	46	6	16,293
\$10,000 to \$15,000.....	6,946	41	11	13,801
\$15,000 to \$20,000.....	9,019	37	14	11,563
\$20,000 to \$30,000.....	15,944	36	25	12,933
\$30,000 to \$50,000.....	13,638	35	21	5,829
\$50,000 to \$100,000.....	8,034	33	12	1,423
\$100,000 and over.....	7,182	27	11	374
Total.....	64,977	35	100	66,870

¹ Compared to present law which contains the temporary general tax credit and earned income credit.

² Expanded income equals adjusted gross income plus minimum tax preferences less investment interest to the extent of investment income.

³ Less than ½ of 1 percent.

Table 5.—Estimated Revenue Effect on Budget Receipts From Extending Existing Temporary Tax Reduction Provisions

[In millions of dollars]

Provisions	Fiscal year—				
	1979	1980	1981	1982	1983
Individual income taxes					
Per capita credit.....	-4,514	-6,583	-6,780	-6,984	-7,194
Optional taxable income credit.....	-2,764	-4,226	-4,648	-5,113	-5,624
Earned income credit.....		-1,061	-1,019	-978	-938
Investment tax credit at 10 percent rate.....			-271	-741	-794
Total, individual income taxes.....	-7,278	-11,869	-12,718	-13,816	-14,550
Jobs tax credit.....	-125	-983	-983	-983	-983
Total, including jobs tax credit.....	-7,403	-12,852	-13,701	-14,799	-15,533
Corporation income taxes					
Rate reductions.....	-927	-2,148	-2,352	-2,575	-2,819
Investment tax credit at 10 percent rate.....			-1,800	-4,460	-5,489
Total, corporation income taxes.....	-927	-2,148	-4,152	-7,035	-8,308
Jobs tax credit.....	-564	-1,475	-1,475	-1,475	-1,475
Total, including jobs tax credit.....	-1,491	-3,623	-5,627	-8,510	-9,783
Grand total, individuals and corporations..	-8,894	-16,475	-19,328	-23,309	-25,316

