



JOINT COMMITTEE ON TAXATION

February 12, 2013

JCX-5-13

**NEW INCOME AND PAYROLL TAX OFFSETS TO CHANGES
IN EXCISE TAX REVENUES FOR 2013-2023¹**

The table below presents the new income and payroll tax offsets that the staff of the Joint Committee on Taxation (“Joint Committee staff”) will apply in its economic models of proposed changes in Federal excise taxes during the first session of the 113th Congress. The Joint Committee staff explained the methodology underlying these estimates in a prior publication.²

In estimating the revenue effects of changes in excise taxes, the Joint Committee staff generally assumes that the net effect on total Federal tax receipts from an increase in Federal excise taxes is less than the increase in gross excise tax receipts. The difference arises because an increase in excise taxes results in a decrease in income subject to Federal income and payroll taxation. Conversely, a decrease in excise taxes results in an increase in Federal income and payroll tax. This interaction between excise tax receipts and total Federal tax receipts is referred to as the “income and payroll tax offset.”

The new offsets are calculated on a calendar year by calendar year basis. Generally, these offsets will be applied to calendar year excise tax effects and then converted to fiscal year effects. With this publication the Joint Committee staff plans to start using these offsets exclusively.

Income and Payroll Tax Offsets Under Present Law Baseline 2013 Through 2023

<u>Item</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Income and Payroll Excise Tax Offsets	0.243	0.243	0.246	0.249	0.252	0.253	0.254	0.255	0.256	0.257	0.258

¹ This document may be cited as follows: Joint Committee on Taxation, *New Income and Payroll Tax Offsets to Changes in Excise Tax Revenues for 2013-2023* (JCX-5-13), February 12, 2013. This document can be found on our website at www.jct.gov.

² Joint Committee on Taxation, *The Income and Payroll Tax Offset to Changes in Excise Tax Revenues* (JCX-59-11), December 23, 2011.

The estimated income and payroll excise tax offsets are close to the long-time standard offset factor of 25 percent, although lower than those estimated last year (JCX-23-12). This is because many tax reductions enacted in 2001 and 2003 were permanently extended with the American Taxpayer Relief Act of 2012. The gradual increase in the offset is explained by forecasted income growth, which increases the average marginal income tax rate.

The offsets calculated above take into account the changes in tax rates that have been legislated to occur over the budget window, as well as adjustments to the taxable portion of income consistent with the current Congressional Budget Office macroeconomic forecast.³

³ For the calculation of the taxable amount of income factors, other than the corporate calculation, the NIPA forecasts are from CBO, and the taxable portions are from the Joint Committee staff individual income tax model. The corporate taxable portion is held constant at the 2007 level. See *The Budget and Economic Outlook: Fiscal Years 2013 to 2023*, January 2013, Washington DC, <http://www.cbo.gov/publication/43907>.