

97TH CONGRESS, 1ST SESSION

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Congress of the United States

JOINT COMMITTEE ON TAXATION
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JCX-19-81

MATERIAL DISTRIBUTED DURING WAYS AND MEANS MARKUP ON THE
ECONOMIC RECOVERY TAX ACT OF 1981 ON MONDAY, JULY 13, 1981.

Joint Committee on Taxation
July 13, 1981

HOLLAND TAX CUT PROPOSAL

1. Rate cuts: See attached rate schedules for 1981, 1982, and 1983, in comparison with Senate Finance Committee proposal. Withholding changes would take place on October 1, 1981, and July 1, 1982.
2. Top rate: The maximum marginal tax rate would be reduced from 70 percent under present law to 60 percent in 1982 and 50 percent in 1983.
3. Zero bracket amount: The zero bracket amount (ZBA) would be increased by \$200 for single returns (to \$2,500) and \$400 for joint returns (to \$3,800) effective October 1, 1981. (For calendar year 1981, the increases would be \$50 and \$100, respectively.)
4. Earned income credit: The rate of the earned income credit would be increased from 10 percent to 11 percent (of the first \$5,000 of earned income), and the phaseout range of the credit would be increased to \$8,000--\$12,000 of income from the present law range of \$6,000 - \$10,000, effective in 1982.
5. Two-earner couples deduction: Two-earner couples would be allowed a deduction of 10 percent of the lesser earner's earned income, up to a maximum deduction of \$5,000, effective in 1982.
6. Child care credit: The child and dependent care credit would be increased from 20 percent to 25 percent of a maximum of \$2,400 of expenses for one dependent and \$4,800 for two or more dependents (versus \$2,000/\$4,000 presently). Thus, the maximum credit will increase from \$400/\$800 to \$600/\$1,200. This change would be effective in 1982.

Attachments

AVERAGE TAX CUT UNDER ALTERNATIVE TAX CUT PROPOSALS FOR 1983

Expanded income class (000)	Senate Finance Committee proposal 1/	Holland proposal 2/
Below \$5	\$24 (*)	\$41 (*)
\$5 - 10	104 (23.2%)	172 (41.5%)
10 - 15	250 (20.1)	313 (25.3)
15 - 20	433 (20.3)	494 (23.2)
20 - 30	732 (21.0)	781 (22.5)
30 - 50	1,396 (22.1)	1,387 (21.9)
50 - 100	3,086 (21.3)	2,070 (14.3)
100 - 200	7,226 (18.4)	4,330 (11.0)
200 +	25,180 (19.3)	22,239 (17.0)
Total	\$779 (21.0%)	\$718 (20.2%)

* Tax liability is negative for this income class.

1/ 19-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 \$200 for singles and \$400 for married couples filing joint returns, increase in earned income credit to 11%, phased out between \$8,000 and \$12,000, 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 13, 1981

AGGREGATE REVENUE LOSS UNDER ALTERNATIVE TAX CUT PROPOSALS FOR 1983
(Millions of dollars, 1981 levels)^{1/}

<u>Expanded income class (000)</u>	<u>Senate Finance Committee proposal</u> ^{2/}	<u>Holland proposal</u> ^{3/}
Below \$5	-109 (0.2%)	-268 (0.5%)
\$5 - 10	-1,479 (2.5)	-2,651 (4.6)
10 - 15	-3,287 (5.4)	-4,134 (7.1)
15 - 20	-4,675 (7.7)	-5,336 (9.2)
20 - 30	-12,349 (20.5)	-13,178 (22.7)
30 - 50	-18,923 (31.4)	-18,803 (32.4)
50 - 100	-11,002 (18.2)	-7,372 (12.7)
100 - 200	-4,437 (7.4)	-2,655 (4.6)
200 +	-4,080 (6.8)	-3,595 (6.2)
Total	-60,341 (100.0%)	-57,993 (100.0%)

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

^{2/} 19-percent across-the-board rate cut, 10% 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 \$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% of a maximum of \$2,400 of expenses for one dependent or \$4,800 for two or more dependents.

Joint Committee on Taxation
July 13, 1981

EXAMPLES OF 1983 TAX REDUCTIONS FOR MARRIED COUPLE WITH TWO DEPENDENTS ^{1/}

Adjusted gross income	Present tax law liability	Reductions for one-earner couple		Reductions for two-earner couple ^{3/}	
		Senate Finance Committee proposal	Holland proposal	Senate Finance Committee proposal	Holland proposal
<u>Wage and salary income ^{2/}</u>					
\$5,000	\$-500	\$0	\$50	\$0	\$50
10,000	374	78	405	110	434
15,000	1,233	226	309	283	361
20,000	2,013	371	385	456	475
30,000	3,917	744	769	916	934
40,000	6,312	1,188	1,275	1,460	1,552
50,000	9,323	1,754	1,479	2,191	1,991
60,000	12,634	2,370	1,633	2,895	2,248
100,000	27,878	4,648	1,779	5,748	3,029
<u>Property income ^{4/}</u>					
100,000	28,534	5,304	2,435	--	--
200,000	75,704	15,002	11,105	--	--
500,000	235,804	59,602	55,705	--	--

^{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.

Joint Committee on Taxation
July 13, 1981

REVENUE EFFECTS OF HOLLAND PROPOSAL AND
SENATE FINANCE COMMITTEE PROPOSAL
(Fiscal years, billions of dollars)

	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
Senate Finance Committee proposal <u>1/</u>	-26.6	-70.1	-113.6	-133.6	-156.5
Holland proposal <u>2/</u>	-27.9	-73.8	-89.4	-105.3	-123.0

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.

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.

Joint Committee on Taxation
July 13, 1981

AGGREGATE REVENUE LOSS UNDER ALTERNATIVE TAX CUT PROPOSALS FOR 1982
(Millions of dollars, 1981 levels)^{1/}

<u>Expanded income class (000)</u>	<u>Senate Finance Committee proposal</u> ^{2/}	<u>Holland Proposal</u> ^{3/}
Below \$5	-69 (0.2%)	-211 (0.5%)
\$5 - 10	-937 (2.7)	-2,075 (5.2)
10 - 15	-1,925 (5.6)	-2,796 (7.0)
15 - 20	-2,651 (7.7)	-3,641 (9.1)
20 - 30	-6,715 (19.4)	-9,263 (23.1)
30 - 50	-10,183 (29.4)	-13,808 (34.4)
50 - 100	-5,900 (17.1)	-5,367 (13.4)
100 - 200	-2,639 (7.6)	-1,372 (3.4)
200 +	-3,583 (10.4)	-1,645 (4.1)
Total	-34,603 (100.0%)	-40,177 (100.0%)

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

^{2/} 10-percent across-the-board rate cut, 5% two-earner couples deduction, and reduction of top rate to 50 percent.

^{3/} Marginal rate reductions with maximum rate of 60%, 10% 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% of a maximum of \$2,400 of expenses for one dependent or \$4,800 for two or more dependents.

Joint Committee on Taxation
July 13, 1981

AVERAGE TAX CUT UNDER ALTERNATIVE TAX CUT PROPOSALS FOR 1982

<u>Expanded income class (000)</u>	<u>Senate Finance Committee proposal 1/</u>	<u>Holland Proposal 2/</u>
Below \$5	\$16 (*)	\$33 (*)
\$5 - 10	66 (14.7%)	135 (32.5%)
10 - 15	147 (11.8)	212 (17.1)
15 - 20	246 (11.5)	337 (15.8)
20 - 30	398 (11.5)	550 (15.8)
30 - 50	751 (11.9)	1,019 (16.1)
50 - 100	1,656 (11.4)	1,507 (10.4)
100 - 200	4,299 (10.9)	2,246 (5.7)
200 +	22,129 (17.0)	10,198 (7.8)
Total	\$448 (12.1%)	\$499 (14.0%)

* Tax liability is negative for this income class.

1/ 10-percent across-the-board rate cut, 5-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 60%, 10% 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%, phased out between \$8,000 and \$12,000, 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 13, 1981

EXAMPLES OF 1982 TAX REDUCTIONS FOR MARRIED COUPLE WITH TWO DEPENDENTS ^{1/}

Adjusted gross income	Present tax law liability	Reductions for one-earner couple		Reductions for two-earner couple ^{3/}	
		Senate Finance Committee proposal	Holland Proposal	Senate Finance Committee proposal	Holland proposal
<u>Wage and salary income</u> ^{2/}					
\$5,000	\$-500	\$0	\$50	\$0	\$50
10,000	374	52	362	69	395
15,000	1,233	151	216	181	272
20,000	2,013	228	250	275	345
30,000	3,917	405	515	499	687
40,000	6,312	639	841	796	1,139
50,000	9,323	947	1,045	1,191	1,557
60,000	12,634	1,255	1,199	1,547	1,814
100,000	27,878	2,137	1,203	2,749	2,453
<u>Property income</u> ^{4/}					
100,000	28,534	2,793	1,367	--	--
200,000	75,704	11,555	3,457	--	--
500,000	235,804	56,155	24,957	--	--

^{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.

Joint Committee on Taxation
July 13, 1981

1982 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/	Holland Proposal 3/	Senate Finance Committee proposal 2/	Holland Proposal 3/
Below \$5	371	69 (*)	211 (*)	-302 (*)	-160 (*)
\$5 - 10	1,621	937 (14.7%)	2,075 (32.5%)	-684 (-14.4%)	454 (9.5%)
10 - 15	1,899	1,925 (11.8)	2,796 (17.1)	26 (0.2)	897 (6.2)
15 - 20	2,228	2,651 (11.5)	3,641 (15.8)	423 (2.0)	1,413 (6.8)
20 - 30	5,150	6,715 (11.5)	9,263 (15.8)	1,565 (2.9)	4,113 (7.7)
30 - 50	7,098	10,183 (11.9)	13,808 (16.1)	3,085 (3.9)	6,710 (8.5)
50 - 100	3,316	5,900 (11.4)	5,367 (10.4)	2,584 (5.3)	2,051 (4.2)
100 - 200	863	2,639 (10.9)	1,372 (5.7)	1,776 (7.6)	509 (2.2)
200 +	276	3,583 (17.0)	1,645 (7.8)	3,307 (15.9)	1,369 (6.6)
Total	22,820	34,603 (12.1%)	40,177 (14.0%)	11,783 (4.9%)	17,204 (6.5%)

* 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 9.14 percent (the increase in the GNP deflator between the third quarter of 1979 and the third quarter of 1980) 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 increase in social security tax rate to 6.65 from 6.13 percent for employees and to 9.3 from 8.1 percent for self employed, net of (c) revenue loss from expanding the \$100 dividend exclusion to the \$200 interest and dividend exclusion.

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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July 13, 1981