



JOINT COMMITTEE ON TAXATION

March 6, 2012

JCX-23-12

**NEW INCOME AND PAYROLL TAX OFFSETS  
TO CHANGES IN EXCISE TAX REVENUES FOR 2012-2022<sup>1</sup>**

Table 1, 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 second session of the 112<sup>th</sup> Congress. The Joint Committee staff explained the methodology underlying these estimates in a prior publication.<sup>2</sup>

The new offsets are calculated on a calendar year by year basis. The new income and payroll tax offsets will be applied to excise tax estimates instead of the previous 25 percent offset that the Joint Committee staff has historically used. Generally, these offsets will be applied to calendar year excise tax effects and then fiscalized. With this publication the Joint Committee staff plans to start using these offsets exclusively. The calculated offsets include the effects of the extension of the payroll tax reduction through the end of calendar year 2012.<sup>3</sup>

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**Table 1. Income and Payroll Tax Offsets Under Present Law Baseline 2012 Through 2022**

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<u>Item</u>	<u>2012</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>
Income and Payroll Excise Tax Offsets .....	0.244	0.269	0.273	0.277	0.284	0.286	0.290	0.292	0.295	0.296	0.298

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<sup>1</sup> This document may be cited as follows: Joint Committee on Taxation, *New Income and Payroll Tax Offsets to Changes in Excise Tax Revenues for 2012-2022* (JCX-23-12), March 6, 2012. This document can be found on our website at [www.jct.gov](http://www.jct.gov).

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

<sup>3</sup> At publication legislation related to funding the Highway Trust Fund is before the House of Representatives and the Senate. Development of that legislation has relied upon estimates using the older methodology of a constant 25-percent offset throughout the 2012 - 2022 budget period. The Joint Committee staff will continue to apply the older methodology in analysis of provisions related to Congress’s deliberation of this legislation.

The estimated income and payroll excise tax offset for 2012 is indeed very close to the standard offset factor of 25 percent. However, many tax reductions enacted in 2001 and 2003 are set to expire at the end of 2012. With the expiration of these tax cuts, the marginal rates applicable for different factors of production will increase and 25 percent will be an underestimate of the appropriate income and payroll tax offset.

The offsets calculated above take into account both 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.<sup>4</sup> As can be seen from the table, adjusting the income and payroll tax offset for the changes in the tax rates raises the offset from 24.4 percent in 2012 to 29.8 percent in 2022.<sup>5</sup>

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<sup>4</sup> 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 2012 to 2022*, January 2012, Washington DC, <http://www.cbo.gov/publication/42905>.

<sup>5</sup> The lower rate in 2012 reflects the effects of the temporary two percentage point payroll tax reduction.