

How do we get to tax reform? Lessons from the Bush Panel

The Brookings Institution

November 3, 2015

A Summary of the Tax Reform Panel's Report

Rosanne Altshuler

Senior Economist

President's Advisory Panel on Federal Tax Reform

Brookings Institution

November 3, 2015

A Summary of the Tax Reform Panel's Report

Rosanne Altshuler

Senior Economist

President's Advisory Panel on Federal Tax Reform

Brookings Institution

November 3, 2015

(Brief) History

- President George W. Bush created Panel in January 2005
- Panel Members
 - Connie Mack, III (Chair)
 - John Breaux (Vice-Chair)
 - William E. Frenzel
 - Elizabeth Garrett
 - Edward P. Lazear
 - Timothy J. Muris
 - James M. Poterba
 - Charles O. Rossotti
 - Liz Ann Sonders



(Brief) History

- Report delivered to Treasury Secretary John Snow on November 1, 2005



(Brief) History

- Treasury (still) studying report...

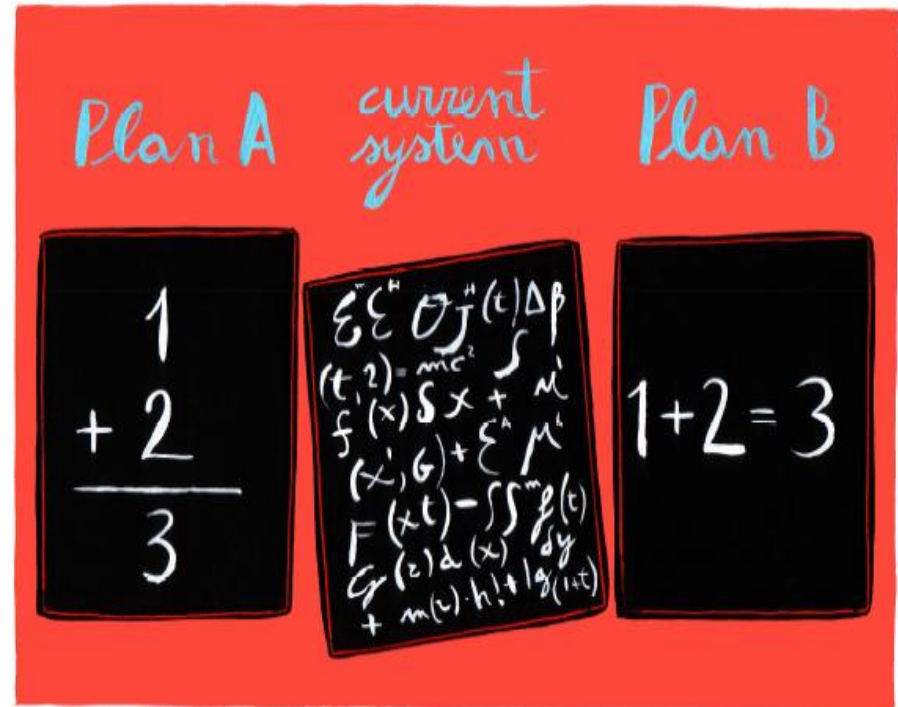


Executive Order

- “Revenue neutral” options that would make the tax code simpler and more conducive to economic growth
 - Assumed 2001 and 2003 tax cuts would be made permanent and AMT “patch” would expire as scheduled
- Additional constraints
 - Share tax burdens and benefits in an “appropriately progressive manner” while recognizing the importance of homeownership and charity in American society
 - At least one option should use Federal income tax as base

Recommendations

- Two plans unanimously recommended
 - Simplified Income Tax Plan (SIT)
 - Growth and Investment Tax Plan (GIT)



The SIT: Household Provisions

- Eliminates the AMT
- Family Credit
 - Replaces standard deduction, personal exemptions, and child tax credit
- Work Credit
 - Replaces EITC and refundable child tax credit
- Reduced marriage penalty, eliminated phase-outs, simplified treatment of Social Security benefits
- Tax rate schedule: 15%, 25%, 30%, 33%

Major Credits and Deductions

- Home credit (available to all taxpayers)
 - Replaces the deduction for mortgage interest and limited to average regional price of housing (FHA limits)
- Charitable deduction (available to all taxpayers)
 - Above-the-line deduction for contributions >1% of income
- Health insurance
 - Equalized treatment of employer-provided and purchased coverage and limited benefit for gold-plated plans
- Eliminated deduction for state and local taxes
- Education
 - Replaced current provisions with simplified saving account and expanded Family Credit

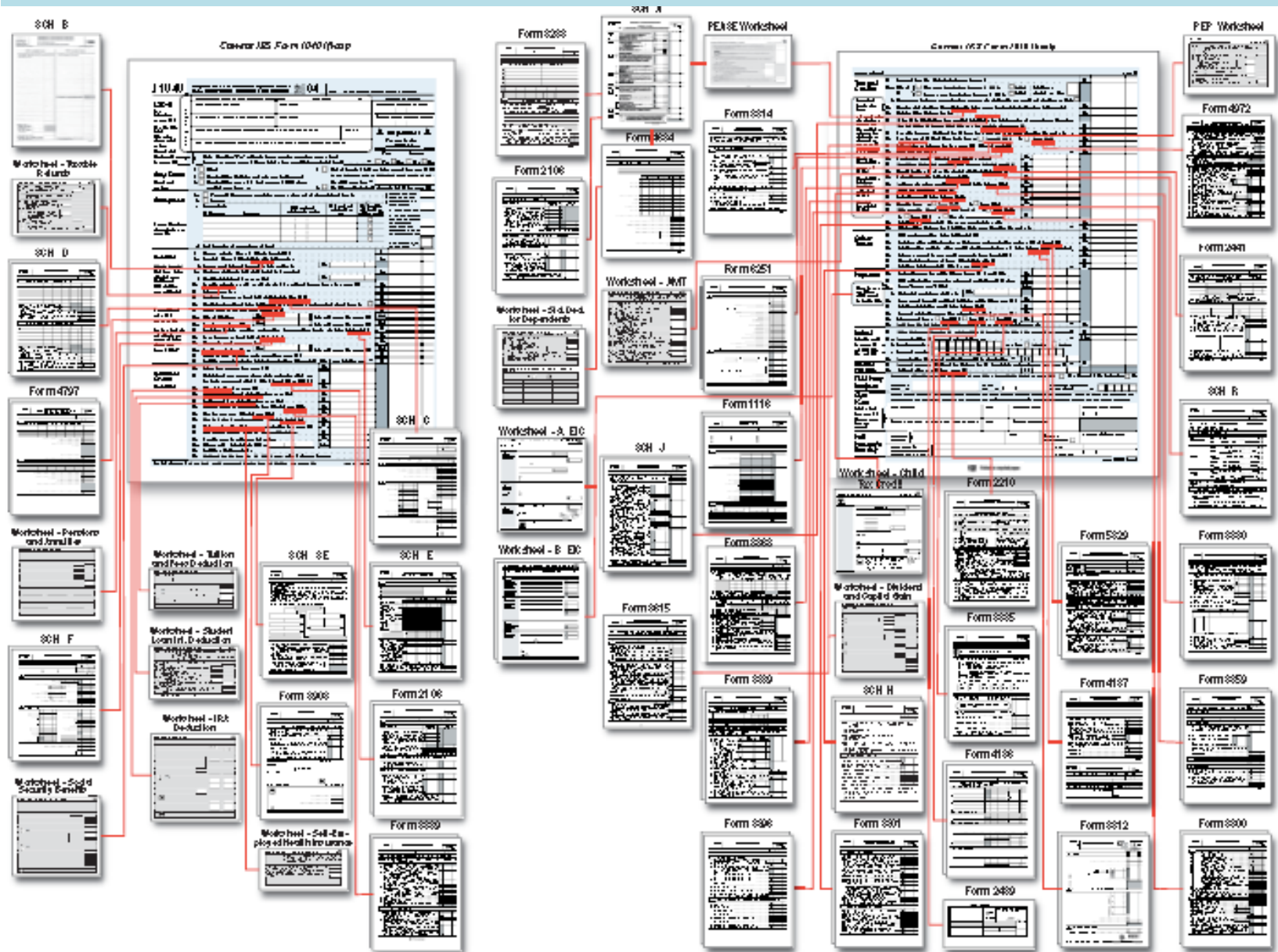
Saving and Retirement

- Defined contribution plans
 - Consolidated into Save at Work plans with simple rules and AutoSave features
- Unified savings accounts
 - Save for Retirement – new account that combines all existing individual retirement savings accounts
 - Save for Family – replaces existing savings incentives with a new account to encourage saving for medical expenses, education, new homes, and retirement

Treatment of Investment Income

- Exclude 100% corporate dividends paid out of income subject to U.S. tax
 - Corporations report to shareholders the proportion of dividends that can be excluded based on amount of income subject to tax in the U.S. relative to worldwide earnings in prior year
 - Also required to disclose domestic and worldwide revenues and income reported for financial accounting purposes
- Excludes 75% of capital gains received by individuals on sales of corporate stock (held for more than 1 year)

Current IRS Form 1040 with Related Schedules, Forms and Worksheets



Proposed SIMPLE Form with Related Schedules, Forms and Worksheets

Proposed 1040 SIMPLE Form.

1040-SIMPLE U.S. Individual Income Tax Return

1 Wages, salaries, tips, etc. Attach Form(s) W-2
2 Business income or loss. Attach Schedule C (or E, if self-employed)
3 Taxable interest and dividends
4 Only if filed on stock. Attach Schedule D
5 Other income or loss. Attach Form(s) 1099
6 Taxable Social Security and railroad retirement benefits
7 Social Security benefits
8 Other income. List type and amount in column 2.

9 Add lines 1 through 8 **Total income = 12**

10 Charitable contributions **10**

11 Multiply line 10 by 30% **11**

12 Subtract line 11 from line 9. Enter net amount **12**

13 Social Security benefits deduction (see page 20) **13**

14 Health insurance deduction **14**

15 Add lines 12 through 14 **15**

16 Subtract line 15 from line 12. If zero or less, enter - **Taxable income = 16**

17 Figure your tax (see page 20) **Tax = 17**

18 Move credit (see page 20) **18**

19 Subtract line 18 from line 17. If zero or less, enter - **19**

20 Priority credit (see Schedule A, line 9, or page 20) **20**

21 Subtract line 20 from line 19. If zero or less, enter - **21**

22 Self-employment tax **22**

23 Other taxes and foreign tax credit. Attach Schedule O **23**

24 Add lines 21 through 23. If zero or less, enter - **Total tax = 24**

25 Federal income tax withheld **25**

26 Working credit **26**

27 Advance credit. Attach Form(s) 1099 **27**

28 Deductions and other payments **28**

29 Add lines 25 through 28 **Total payments = 29**

30 If line 29 is more than line 24, subtract line 24 from line 29. If you used 11, use direct deposit, attach Form 1099 **Amount overpaid = 30**

31 Amount of line 30 you want applied to your 2007 estimated tax **31**

32 If line 29 is more than line 24, subtract line 29 from line 24 **Amount you owe = 32**

Sign Here
 I declare under penalty of perjury that I have prepared this return to the best of my knowledge and belief, and that I am not a partner in a partnership that has prepared this return for me.

Preparer's Use Only
 Preparer's name (print) _____
 Preparer's signature _____
 Preparer's title _____
 Preparer's address _____
 Preparer's phone number _____

SCH C

SCH D

Form 4797

Worksheet - Home Credit

Worksheet - Work Credit

SCH F

SCH E

Social Security Benefits Worksheet

SCH 0

SCH A - Family Credit

Schedule A - Family Credit

Part I Qualified Dependents

Qualifying child	Qualifying relative	Qualifying dependent
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Part II Other Dependents

Qualifying dependent	Qualifying dependent
<input type="checkbox"/>	<input type="checkbox"/>

Part III Family Credit

1. Enter 100% **1**

2. How many qualified dependents from Part I **2**

3. How many other dependents from Part II **3**

4. Add lines 2 through 3 **4**

5. Enter the amount on Form 1040-EZ, line 7 **5**

6. Enter the amount on line 4, either - **6**

Family credit =

TIP You can claim a family credit if you have a 2007 AGI of \$10,000 or less. If you have a 2007 AGI of more than \$10,000, you can claim a family credit if you have a 2007 AGI of \$10,000 or less for each dependent you claim.

5. See instructions for Form 1040-EZ, line 7. **6.** See instructions for Form 1040-EZ, line 7.

7. See instructions for Form 1040-EZ, line 7.

8. See instructions for Form 1040-EZ, line 7.

9. See instructions for Form 1040-EZ, line 7.

10. See instructions for Form 1040-EZ, line 7.

11. See instructions for Form 1040-EZ, line 7.

12. See instructions for Form 1040-EZ, line 7.

13. See instructions for Form 1040-EZ, line 7.

14. See instructions for Form 1040-EZ, line 7.

15. See instructions for Form 1040-EZ, line 7.

16. See instructions for Form 1040-EZ, line 7.

17. See instructions for Form 1040-EZ, line 7.

18. See instructions for Form 1040-EZ, line 7.

19. See instructions for Form 1040-EZ, line 7.

20. See instructions for Form 1040-EZ, line 7.

21. See instructions for Form 1040-EZ, line 7.

22. See instructions for Form 1040-EZ, line 7.

23. See instructions for Form 1040-EZ, line 7.

24. See instructions for Form 1040-EZ, line 7.

25. See instructions for Form 1040-EZ, line 7.

26. See instructions for Form 1040-EZ, line 7.

27. See instructions for Form 1040-EZ, line 7.

28. See instructions for Form 1040-EZ, line 7.

29. See instructions for Form 1040-EZ, line 7.

30. See instructions for Form 1040-EZ, line 7.

31. See instructions for Form 1040-EZ, line 7.

32. See instructions for Form 1040-EZ, line 7.

33. See instructions for Form 1040-EZ, line 7.

34. See instructions for Form 1040-EZ, line 7.

35. See instructions for Form 1040-EZ, line 7.

36. See instructions for Form 1040-EZ, line 7.

37. See instructions for Form 1040-EZ, line 7.

38. See instructions for Form 1040-EZ, line 7.

39. See instructions for Form 1040-EZ, line 7.

40. See instructions for Form 1040-EZ, line 7.

41. See instructions for Form 1040-EZ, line 7.

42. See instructions for Form 1040-EZ, line 7.

43. See instructions for Form 1040-EZ, line 7.

44. See instructions for Form 1040-EZ, line 7.

45. See instructions for Form 1040-EZ, line 7.

46. See instructions for Form 1040-EZ, line 7.

47. See instructions for Form 1040-EZ, line 7.

48. See instructions for Form 1040-EZ, line 7.

49. See instructions for Form 1040-EZ, line 7.

50. See instructions for Form 1040-EZ, line 7.

Business Provisions

- Small business
 - Taxed at individual rates
 - Cash-basis accounting
 - Expensing
- Large business
 - Tax rate of 31.5% applies to all businesses taxed at business level (including LLCs, partnerships, S corporations)
 - Eliminates all tax preferences (except new simplified accelerated depreciation)

International

- Territorial taxation
 - Includes rules for the allocation of interest expense and parent general and administrative expenses

Growth and Investment Tax Plan

- Hybrid approach that moves system towards a consumption tax
 - Progressive tax on labor income (rates of 15%, 25%, 30%)
 - 15% tax on all capital income at the individual level earned outside of savings plans
 - 30% tax on cash-flow at the business level
- Individual provisions similar to SIT

Business System

- Businesses taxed on cash-flow:

Receipts from Sales

Minus: Purchases from Other Businesses

Minus: Wages and Compensation

Equals: Taxable Business Cash Flow

- Expensing of capital investment
- No inclusion for returns on financial assets and no deduction for financial payments (i.e., no interest deductibility)

Cross-Border Transactions

- “Destination-based” tax
 - Tax base = domestic consumption wherever produced
 - “Border adjusted”: Sales to customers abroad (exports) would be exempted from the tax while purchases from abroad (imports) would be included
 - Solves transfer pricing problem since base is domestic consumption: no incentive to over- or under-charge for sales with related parties