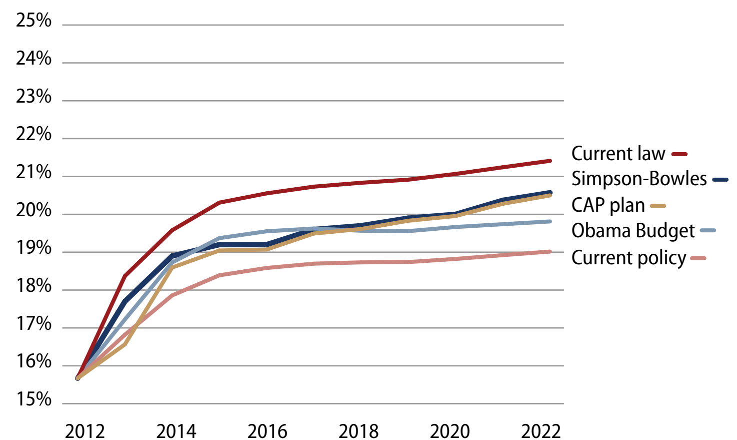
A Synopsis of CAP's Comprehensive Tax Reform and Deficit Reduction Plan

Earlier this year, with the fiscal showdown on the horizon, the Center for American Progress convened a group of leading economic experts—including former White House chiefs of staff, former U.S. Treasury Department secretaries, and former directors of the National Economic Council—to develop a plan that would address some of the most serious flaws in the federal tax code and achieve meaningful deficit reduction.

The plan addresses some of the most serious flaws in the federal tax code while raising additional revenue to be used for deficit reduction, and at the same time offering changes to government spending. Chief among our tax system's problems is the fundamental failure to raise revenues adequate to fund the necessary operations, services, public investments, and protections of government. In addition to this most basic of shortcomings, the current tax code is also weighed down with far too many special provisions, loopholes, targeted tax subsidies, and sheltering opportunities. These aspects serve to not only complicate the code and the process of tax filing, but some of them introduce economic distortions and undermine the confidence of the American public that their tax system is treating everyone fairly.



Source: CBO, Moment of Truth Project, Center for American Progress calculations.

Amending our tax system to raise more revenue progressively, simply, and efficiently, coupled with targeted spending reductions, are the keys to addressing our long-term fiscal challenges. These are challenges we must address or face a future in which critical public investments such as education and infrastructure will go underfunded; key national priorities such as strengthening the middle class, reducing poverty, and building a world-class infrastructure will remain unaddressed; income inequality will continue to rise; and confidence in America's ability to govern its fiscal affairs will continue to fall. The report being released today outlines a plan that reduces the federal budget deficit by $4.1 trillion over the next 10 years while offering measures to boost the economy in the short run as we recover from the recession.

Our plan accomplishes its deficit reduction primarily through a wide-ranging reform of the personal income tax system that raises adequate revenues progressively while making the tax system more efficient, simple, fair, and comprehensible. The key features of our plan are:

- A top marginal rate for the personal income tax of 39.6 percent as it was under President Bill Clinton
- Converting tax deductions that tend to favor those in top tax brackets into uniform credits that bestow equal benefits on taxpayers in all brackets
- A top marginal rate of 28 percent on capital gains as it was under President Ronald Reagan and throughout much of the 1990s
- Closing tax loopholes
- Simplifying tax filing

In addition our plan includes targeted spending cuts, most significantly $385 billion in federal health care savings.

The Center for American Progress plan will set the federal budget on a sustainable course, beginning with a comprehensive reform of the tax code. First and foremost, this plan will raise approximately $1.8 trillion more than we would under current tax policies. By the end of the decade, our tax system would match the revenue proposed by the bipartisan chairs of the president's 2010 fiscal commission, Alan Simpson and Erskine Bowles. Furthermore, our reforms ensure that the additional revenue is raised in a progressive way. The vast majority of the new revenue will come from households making more than $500,000 a year, and households earning less than $100,000 a year will, on average, pay a little less.

Second, our tax plan will simplify the filing process and streamline the code so that everyone can trust that each taxpayer is being treated fairly. Our plan would tax different sources of income much more equally than the current code does. It would remove the alternative minimum tax, repeal other provisions that add complexity, reduce the number of people who have to itemize, and eliminate unjustified tax loopholes. It would also turn certain deductions that currently favor those in higher tax brackets into credits that will bestow equal benefits. A large "standard credit" protects middle-income filers and relieves even more taxpayers of the need to itemize expenses than under the current tax code.

Our plan restores the top rate to the same rate that existed during the 1990s' economic expansion: 39.6 percent for those in the top bracket (people earning more than $400,000). Most taxpayers would be in the 15 percent tax bracket under our plan. The plan also treats investment income and wage income more equally. It restores the capital gains rate to 28 percent—where it was after President Reagan signed the 1986 tax reform act and where it was for most of the 1990s. And it treats dividends as ordinary income—as they were for decades until 2003. The vast preponderance of the economic evidence shows that tax rates at these levels are no obstacle to economic growth. In fact, the cuts in top tax rates has only led to deficits and increased after-tax inequality.

This tax reform, combined with reasonable spending reforms, will place our federal budget onto far stronger foundations. We identify hundreds of billions of dollars in new spending savings that come on top of the $1.5 trillion in spending cuts already enacted into law. These include nearly $385 billion in mostly Medicare savings, $100 billion in further defense savings, and $100 billion from other programs. And by putting these measures into place, which will reduce budget deficits over the next decade, we make room for critical investments in job creation today.

All together, our combined plan will reduce the projected federal budget deficits by approximately $4.1 trillion over 10 years. Enactment of our plan would reduce the publicly held debt from currently projected levels of near 90 percent in 2022, to below 72 percent and falling.

Our plan's distributional effects, tax year 2017

Income group	Average income	Average tax change from current policy		Average tax change from current law	
		$	Percent of pretax income	$	Percent of pretax income
$0-$25,000	$15,800	–131	–0.8%	–450	–2.8%
$25,000-$50,000	$36,500	–279	–0.8%	–1,035	–2.8%
$50,000-$75,000	$61,500	–304	–0.5%	–1,538	–2.5%
$75,000 -$100,000	$86,900	–164	–0.2%	–2,233	–2.6%
$100,000-$250,000	$145,700	+468	+0.3%	–4,287	–2.9%
$250,000-$500,000	$334,400	+5,509	+1.6%	–4,941	–1.5%
$500,000-$1,000,000	$677,000	+18,078	+2.7%	+608	+0.1%
$1,000,000 or more	$3,137,300	+155,700	+5%	+35,658	+1.1%

Notes: Tables reflect plan's income and excise tax changes, fully phased-in, except for retirement savings, carried interest, and Internet gambling proposals. Current policy baseline assumes the extension of the income tax cuts enacted in 2001, 2003, and 2009 and extended through 2012, and an AMT "patch," but does not include the current payroll tax holiday. Current law is the tax law that would take effect in 2013 (with no AMT patch). Source: Institute for Taxation and Economic Policy tax model and CAP calculations (2017 tax year).

Elements of CAP deficit plan

Revenue changes	
Tax reform	+ $1.9 trillion
Temporary job creation tax cuts	- $100 billion
Net new revenue	**+$1.8 trillion**
Spending changes	
Disc. spending cuts already enacted	- $1.5 trillion
Additional defense cuts	- $100 billion
Health savings	- $385 billion
Other mandatory cuts	- $100 billion
Job creation	+ $300 billion
Programmatic spending cuts	**- $1.8 trillion**
Interest savings	- $500 billion
Net spending cuts	**- $2.3 trillion**
Total deficit reduction	**$4.1 trillion**

Our proposed tax reform at a glance

Personal exemptions, standard deduction, itemized deductions: Replaced with a "standard credit" ($5,000 for couples and $2,500 for singles) and 18 percent "itemized credits," except charitable contributions would generally receive an itemized credit of up to 28 percent. Taxpayers would have the choice of claiming the standard credit or itemized credits. The impact of the effective reduction of the mortgage interest tax preference for those in higher tax brackets is phased in over time.

Dependent exemption: Replaced with an expanded child tax credit of $1,600. Child credit is refundable under today's rules and the phaseout point is lifted to $200,000. A $600 nonrefundable credit is available for nonchild dependents.

Capital gains and dividends: Tax capital gains at a maximum 28 percent rate (including the Medicare tax that goes into effect in 2013) and dividends as ordinary income.

Health care exclusion: The value of the exclusion is limited for those with earnings in excess of $250,000 per year to 28 percent.

Marginal tax rates:

Couples	Singles
$0–$100,000: 15%	$0–$50,000: 15%
$100,000–$150,000: 21%	$50,000–$75,000: 21%
$150,000–$200,000: 25%	$75,000–$150,000: 25%
$200,000–$422,000: 35%	$150,000–$422,000: 35%
$422,000 and above: 39.6%	$422,000 and above: 39.6%

Earned income tax credit: Recent EITC enhancements are permanently extended.

Personal exemption phaseout, or "PEP," and itemized deduction limitation, or "Pease": Eliminated.

Alternative minimum tax: Eliminated.

Estate tax: Exemption of $2 million per individual—$4 million per couple and 48 percent top rate—indexed for inflation. Close loopholes in the estate and gift tax as proposed by President Obama.

Other elements:

- 50-cent increase in cigarette tax
- Tax on alcoholic beverages at a uniform $16 per proof gallon
- Regulating and imposing small fees on Internet gambling
- Permanent extension of the research and experimentation, or R&E, tax credit and clean energy incentives
- Corporate tax reform that increases corporate tax revenues by 4 percent and results in a lower statuatory rate
- $12 billion in savings from reforms to tax-preferred retirement and savings plans.
- Elimination of "carried interest" loophole and "S corporation" Medicare tax loophole

Note: Numbers and amounts are for the 2017 tax year. All parameters would be indexed for inflation according to the chained consumer price index.