

Center for American Progress



# **Testimony to the President's Tax Reform Panel**

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Progressive Ideas for a Strong, Just and Free America

## Overview

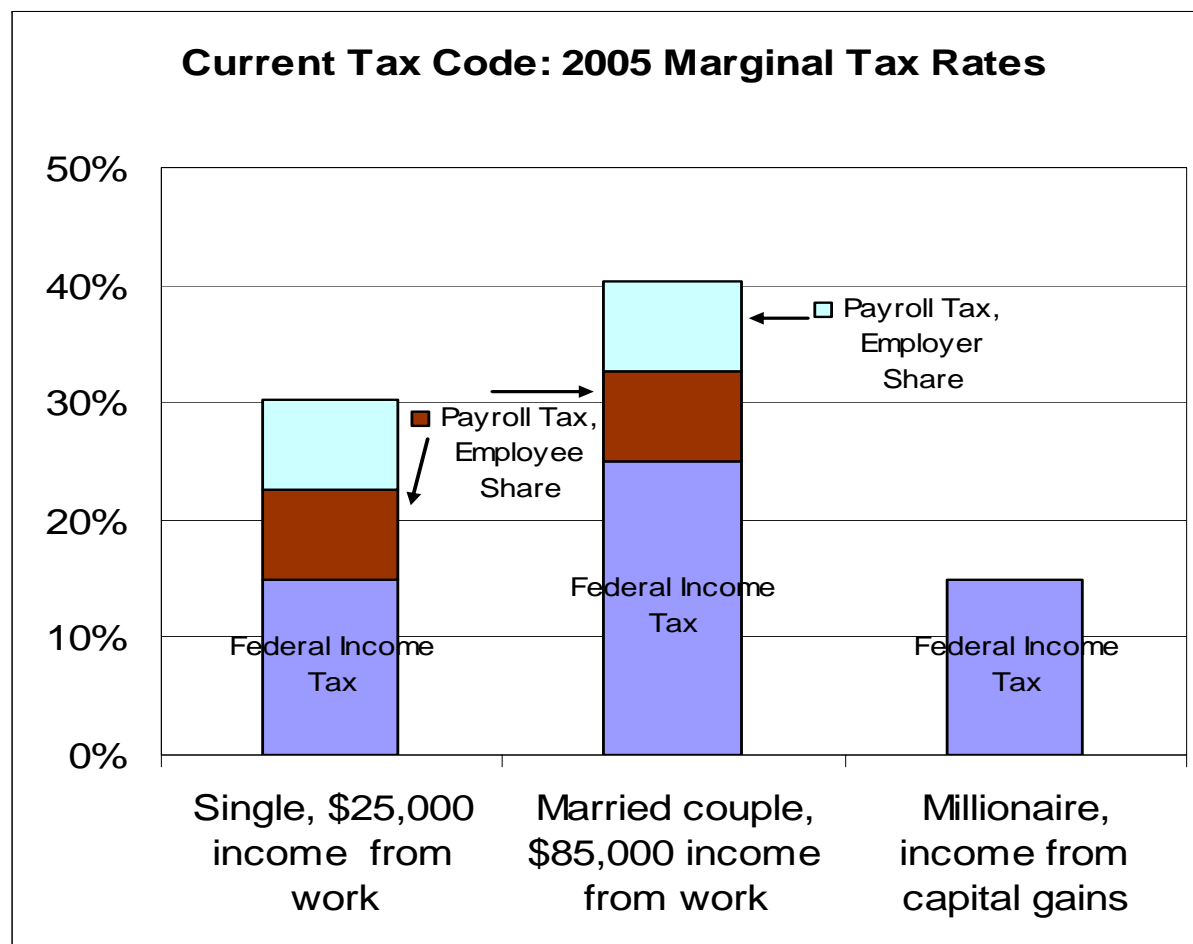
- **The Center for American Progress Tax Reform Plan**
  - **Fair and Responsible Reform**

## The Center for American Progress Plan: Principles

- Fairness
  - Treat income from wealth and work equally
  - We should rely on progressive forms of taxation
- Simplicity
- Opportunity and Economic Growth

## The Current Tax Code: Preferential Treatment for Wealth

- Under the current system, middle-income taxpayers can easily pay twice the tax rate on income from work than millionaires pay on income from wealth.





# Fairness

- **Each Source of Income Will be Taxed the Same**
  - in other words, we will tax income from wealth—capital gains and dividends—according to the same rate schedule as ordinary income.
- **We Will Reduce the Dependence on Regressive Payroll Taxes**
  - the Center's plan will remove the employee side of the Social Security Payroll Tax, and remove the cap on the employer side.
- **We Will Enhance the Take-Home Pay of Lower-Income Taxpayers**
  - by reducing the marriage disincentive of the EITC while expanding eligibility for the child tax credit.
- **We Will Reform the Estate Tax**
  - our plan increases the exemption to \$2.5 million to further ensure that virtually all small business owners, farmers and ranchers could pass on their assets without being subject to the estate tax, while still asking the very wealthy to paid their fair share.



## Simplicity

- Reduce the Number of Income Tax Brackets
  - At 15%, 25%, and 39.6%,
  - Brackets set at \$0, \$25,000 and \$120,000 of taxable income, with a \$10,000 standard deduction (all indexed to inflation).
- Our Plan Will Eliminate Corporate and Individual Tax Loopholes
  - that now allow corporations and wealthy individuals to avoid paying their fair share of taxes.
- Eliminate the Alternative Minimum Tax in a responsible manner by undertaking comprehensive reform



## Increasing Economic Opportunity and Growth

- **Reduce the Deficit**
  - Increases national savings by raising \$500 billion over 10 years relative to the president's policy.\*
- Offer Tens of Millions of Americans **New Opportunities to Save and Create Wealth for Retirement**
  - Replace retirement savings deductibility with 25% refundable matching credit
  - Additional revenue could be used to increase savings incentives for low- and middle-income savers
- **Encourage long-term savings**
  - For those earning less than \$1 million annually, assets held at least 1 year would be able to exempt 10% of their capital gains. The exemption would increase by 10 percentage points annually, and for assets held for more than 5 years, they would receive a 50% exemption.

\*Distributional and revenue estimates derived from Urban/Brookings Tax Policy Center's micro-simulation model, see <http://www.americanprogress.org/tax> for more details.



## Distributional Implications

The tax plan will:\*

- increase the take-home pay of most people earning under \$200,000 a year, and will provide an average tax cut of over \$600 for this group.
- Most of those making more than \$200,000 a year will likely see a tax increase relative to current policy.

Cash Income Class (thousands of 2003 dollars) <sup>2</sup>	Percent with Tax Cut	Percent with No Change	Average Tax Change (\$)
Less than 10	59.9	29.4	-220
10-20	63.6	19.3	-524
20-30	73.1	6.6	-620
30-40	73.0	3.8	-496
40-50	72.8	2.0	-519
50-75	76.7	0.4	-687
75-100	76.1	0.1	-950
100-200	73.7	0.0	-1,138
200-500	24.1	0.0	12,722
500-1,000	6.8	0.0	64,752
More than 1,000	3.9	0.0	360,646
All	68.4	9.1	793.1

\*Distributional and revenue estimates derived from Urban/Brookings Tax Policy Center's micro-simulation model, see <http://www.americanprogress.org/tax> for more details.





## Enhancing Retirement Security

- **New savings incentives** for over 30 million Americans by enacting refundable credits for retirement savings\*\*
- Enhance our full **commitment to financing Social Security**
  - Eliminate the cap on the income limit for the employer payroll tax (currently set at \$90,000)
  - Dedicate a portion of general revenues—2.25% of GDP—to the Social Security trust fund
    - Enact safeguards to prevent Congress from reducing this dedicated stream. Any reduction can be made only after a three-fifths majority vote in the Congress
  - The additional revenue raised by our plan would be sufficient to cover these dedicated funds
  - This would cut in half the long-run, 75-year difference between dedicated revenues and outlays\*\*
- **Reduce the deficit** – make sure that revenues are available to meet the challenge of an aging population

\*\*For full details on the implications of the plan, see <http://www.americanprogress.org/tax>.