

Principles and Proposals for Progressive Tax Reform

The primary purpose of the tax code is to raise the revenue needed to fund current national priorities and to prepare for long-term challenges. America deserves a fair, simple, and pro-growth tax system that raises adequate revenue, that rewards hard work, and that encourages opportunity for all. Below are several changes that illustrate how the nation's tax system could be modernized by following these principles.

Opportunity

Allow all Americans the opportunity to succeed and fully participate in the American economy by increasing the rewards for work by low-income taxpayers and creating a simple, progressive savings plan that enhances people's ability to save for retirement.

- Expand and simplify the Earned Income Tax Credit;
- Create a simple savings plan that provides matching contributions, especially for low-income savers;
- Expand eligibility for the child tax credit to lower income groups.

Efficiency

Minimize economic distortions and create an environment for strong economic growth by encouraging growth in human capital, by ensuring a level playing field for business development and expansion, and by raising adequate revenue to fund current needs and prepare for future challenges.

- Contain federal deficits and prepare for future expenses — both foreseen and not;
- Create incentives to invest in human capital — not just physical capital;
- Strive to keep *marginal* tax rates as low as possible while meeting revenue goals;
- Close offshore tax shelters and eliminate tax giveaways to special interests.

Fairness

Establish a progressive tax code that rewards hard work — not just wealth — that taxes those with higher incomes at higher rates, and that applies tax incentives equally to all taxpayers, regardless of income.

- Convert tax deductions into refundable credits, so that all Americans are treated equally;
- Eliminate preferences for income derived from the wealth of high-income taxpayers, which is currently taxed at lower rates than the labor income of average workers. The gap between capital gains and dividend tax rates, and rates paid on wages and salaries, should be eliminated for the wealthiest; and the estate tax should be retained and reformed;
- Rely more on progressive taxes, such as the income tax, and less on regressive taxes, such as the payroll tax.

Simplicity

Build a tax code that is transparent, predictable, and easy to understand. Strive for a “clean” tax base that limits the use of the tax code to enact non-tax policies.

- Simplify tax incentives and supports, including creating a uniform definition of a child, reducing the number of savings plans, consolidating incentives for higher education, and simplifying the Earned Income Tax credit;
- Eliminate the Alternative Minimum Tax while ensuring high-income filers pay their fair share;
- Minimize the costs of filing taxes.