TAX POLICY CENTER
URBAN INSTITUTE & BROOKINGS INSTITUTION

THE TAX REFORM TRADEOFF: ELIMINATING TAX EXPENDITURES, REDUCING RATES

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ABSTRACT

In this exercise, TPC estimates the revenue and distributional effects of proposals that would eliminate income tax expenditures to finance lower individual and corporate tax rates and reduce the federal budget deficit.

This paper provides results for three proposals: (1) eliminate almost all individual and corporate expenditures and reduce income tax rates across the board to maintain long-run revenue neutrality; (2) eliminate almost all tax expenditures but retain those that primarily benefit low-income households, while reducing income tax rates to maintain long-run revenue neutrality (as in the first proposal); and (3) eliminate the same tax expenditures as in the second proposal and adjust individual income tax rates and brackets to maintain both long-run revenue neutrality and the current distribution of tax burdens.

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OVERVIEW

The Urban-Brookings Tax Policy Center (TPC) undertook analysis of a series of proposals to help illustrate the extent to which eliminating income tax expenditures could finance lower tax rates and potentially reduce the federal budget deficit. The proposals are broadly based on those presented in the December 2010 report by the *National Commission on Fiscal Responsibility and Reform* (the Bowles-Simpson report). That report showed the potential for substantial deficit reduction through a combination of spending restraints and tax reform. The tax reform component calculated income tax rates consistent with eliminating most tax expenditures and raising a given amount of additional revenue. The TPC analysis in this paper updates this prior work using the current tax system as the starting point and incorporating the most recent projections of growth in population and income.

This paper describes three proposals: (1) eliminate virtually all tax expenditures and calculate income tax rates to maintain long-run revenue neutrality; (2) eliminate most tax expenditures (except those that primarily benefit low-income households) and calculate income tax rates to maintain long-run revenue neutrality (as in the first proposal); and (3) eliminate most tax expenditures (as in the second proposal) and calculate income tax rates to maintain both long-run revenue neutrality and the current distribution of tax burdens. All proposals are assumed to go into effect on January 1, 2018.

This paper explains the details of the various proposals and then presents TPC's estimates in tables with accompanying narrative.

After eliminating virtually all tax expenditures, individual income tax rates could be as low as 6.1, 11, and 28 percent, and the corporate income tax rate could be as low as 26 percent while raising about the same amount of revenue in the long run as under current law. Modifying this basic proposal by adding back individual income tax expenditures that primarily benefit low-income households would require individual income tax rates to increase slightly to 6.4, 11.5, and 29.3 percent to maintain revenue neutraility (the corporate income tax rate would remain at 26 percent). When the proposal is further altered to achieve distributional neutrality, the individual income tax schedule would include a zero bracket and positive individual income tax rates of 5, 16, and 29.9 percent (while the corporate income tax remains at 26 percent).

ELIMINATE TAX EXPENDITURES WITH A REVENUE TARGET

The analysis starts by eliminating virtually all individual and corporate income tax expenditures. Specifically, the proposal:

a) Repeals the individual alternative minimum tax (AMT), the net investment income tax, the personal exemption phase-out, and the limitation on itemized deductions;
b) Lowers individual income rates;
c) Collapses the number of individual income tax brackets from 7 to 3;
d) Eliminates all individual income tax expenditures;
e) Repeals the corporate AMT;
f) Lowers the corporate income tax rate;
g) Eliminates virtually all corporate and business tax expenditures; and
h) Adopts a territorial system (with a provision to prevent income shifting) for the corporate income tax.

TPC started by calculating a set of individual income tax rates (item b above) that made the individual income tax provisions (items a through d) revenue neutral over the FY2018-27 budget period. TPC also calculated the (single) corporate income tax rate that made the corporate provisions (items e though h above) revenue neutral over the FY2018-27 budget period.

To determine individual income tax rates, TPC collapsed the seven current-law brackets into three brackets—while maintaining the taxable income thresholds—in the same manner as the December 2010 report by the *National Commission on Fiscal Responsibility and Reform*: the 10 and 15 percent brackets were combined, the 25 percent and 28 percent brackets were combined, and the remaining three brackets were combined. The initial rates in the two lowest of the new income tax brackets were taken from the December 2010 Fiscal Commission report for the revenue neutral proposal (these rates are 8 percent and 14 percent), but the top rate from the report (23 percent) was adjusted upward (to 26 percent) because the top individual income rate under current law is now 39.6 percent rather than 35 percent. These initial rates were adjusted proportionately until the individual income tax provisions over the FY2018-27 budget period were as close as possible to revenue neutral.

The corporate tax rate was determined by adjusting the rate until the corporate income tax provisions were as close as possible to revenue neutral over the FY2018-27 budget period. The territorial system component (item h) in this task would retain current-law taxation of passive foreign-source income and include provisions to prevent an increase in income shifting. To implement this requirement, TPC estimated the revenue effect of territoriality and then proportionately adjusted the estimated revenue from the FY2017 Budget proposal for a flat-rate minimum tax on foreign-source income[1] so that it raised the same amount of revenue that territoriality lost over the budget period.

TPC used its microsimulation tax model to produce revenue and distributional estimates for nearly all of the individual income tax provisions.[2] TPC also used several supplemental models to produce revenue estimates for the corporate income tax provisions and certain individual income tax provisions that are not part of the individual model.[3]

TPC's revenue estimates are based on conventional procedures, which take into account behavioral adjustments by individual and corporate taxpayers but not "dynamic" (macroeconomic feedback) effects. The baseline for all estimates is current law. All estimates include outlay effects due to changes in refundable credits. The repeal of tax expenditures is assumed to only apply prospectively (effective January 1, 2018), with current law applying to pre-2018 activities, such as depreciation rules for investments made prior to 2018. TPC followed the Joint Committee on Taxation's list and definition of tax expenditures. [4]

Revenue Effects

TPC undertook a round of iterations to determine the best methodology for eliminating all tax expenditures. Below is a brief description of the original methodology TPC envisioned, and the adjustments TPC made to ensure long-run revenue neutrality.

Initial Estimates: Revenue Neutrality over the FY2018-27 Period

TPC's initial revenue estimates were based on individual and corporate rates designed to achieve revenue neutrality (as closely as possible) over the FY2018-2027 period. These calculated initial individual income tax rates were 7.1 percent, 12.5 percent, and 23.2 percent, and the revenue neutral corporate income tax rate was 23.1 percent. While these rates would leave aggregate individual and corporate income tax revenues virtually unchanged over the FY2018-2027 period, they would produce a combined loss in corporate and individual income tax revenues of $1.4 trillion over the second 10-year budget period, FY2028-2037, compared to current law.

The increasing annual losses in individual income tax revenues under these rates is largely the result of differentially higher rates of growth for projected income of high earners that was not matched by the projected growth in tax expenditures. This results in a reduction in the growth rate in individual income tax revenues, relative to current law. Overall, individual income tax revenues were $700 billion smaller over the second decade, relative to the current law baseline.

The increasing annual losses in corporate tax revenues (again, compared to current law) using a 23.1 percent rate largely result from repealing the tax expenditures for expensing and accelerated depreciation for equipment and structures, which replaces these patterns of cost recovery with the slower patterns under the alternative depreciation system (ADS). The slower ADS pattern initially raises revenue relative to current law, but eventually loses revenue in the latter years for each vintage of investment, because under both patterns 100 percent of investment costs are eventually recovered. As long as the economy (and investment) are growing at positive rates, the slower pattern of depreciation deductions will raise aggregate income tax revenues from all investment vintages combined in every year, but the revenue increase will be much larger in earlier than in later years. This same pattern applies to the repeal of other tax expenditures that accelerate the timing of deductions (such as expensing of research and experimentation expenses, and the last-in, first-out method of inventory accounting). In contrast, revenues grow uniformly over time for repeal of preferences that reduce taxes permanently instead of changing their timing. Overall, combining the effects of eliminating tax expenditures and reducing the top corporate rate, corporate income tax revenues decline by about $700 billion, compared to the current law baseline, over the second decade.

Final Estimates: Revenue Neutrality in FY2037

TPC's analysis of the pattern of revenues indicates that three modifications would better align the proposal to a goal of raising about the same amount of revenue as under current law in the long run. One change uses FY2037 as the target year for revenue neutrality to better address long-run effects on the Federal budget deficit. The second change raises the top individual income tax rate to 28 percent, which helps keep individual income tax revenues as compared to the current law baseline from falling over time. The third change provides a transition between the current law expensing and accelerated depreciation (MACRS) rules for equipment and structures and the slower cost recovery pattern under ADS (used under the current-law Alternative Minimum Tax and sometimes called economic depreciation). This transition smooths corporate income tax revenues between the first and second decades, and prevents an abrupt change that might encourage a large acceleration of investment prior to the proposal's effective date. Specifically, the transition would take place over ten years starting in 2018, when 90 percent of current law section 179 expensing would be allowed and the depreciation schedule for other investment (apart from bonus depreciation property[5]) would be under a schedule that is 90 percent of the MACRS[6] schedule and 10 percent of the ADS schedule. The percentages for section 179 and MACRS would then phase down by 10 percentage points per year and the percentages for ADS would phase up by 10 percentage points per year, so that ADS would fully apply for all new investment starting in 2027.

TPC produced a set of estimates with individual and corporate rates designed to achieve revenue neutrality compared to current law (as closely as possible) in FY2037. These new individual income tax rates are 6.1 percent, 11 percent, and 28 percent, and the new revenue neutral (single) corporate income tax rate is 26 percent. These rates leave individual and corporate income tax revenues virtually unchanged in FY2037, while producing a revenue gain of $439 billion over FY2018-2027 and $457 billion over FY2028-2037 (table 1). The revenue gain would be approximately one percent of revenues over each decade.

Debt Effects

TPC also estimated the effect of the revenue changes on the federal debt (table 2). This proposal would reduce the federal debt by over $1.2 trillion by FY2037, of which a little less than $0.9

trillion is due to the revenue gains over the entire FY2018-37 period, and over $0.3 trillion to interest savings ($44 billion in FY2018-27 and another $297 billion in FY2018-37). Although revenues under the proposal are declining slowly relative to current law and turn slightly negative in FY2037, continuing interest savings would be larger so the proposal would continue reduce the federal debt relative to current law for several additional years and a cumulative reduction in the debt for decades.

Distributional Effects

TPC also produced distributional analysis for the proposal that achieved long-run revenue neutrality (defined as revenues being roughly the same as under current law for FY 2037). This distributional analysis is for calendar year 2027 (table 3).

This exercise to eliminate all tax expenditures in a long-run revenue neutral manner would be quite regressive, increasing average tax burdens for households in the bottom 60 percent of the income distribution. The effects would be especially large for those in the bottom 20 percent of the income distribution whose after-tax income would decline on average by 6.8 percent. Households in the top quintile (top 20 percent) would receive average tax cuts of 2.2 percent of after-tax income, with the largest increase in after-tax income (3.3 percent) going to households in the top 1 percent of the income distribution.

TABLE 1

Estimated Effect on Revenues of Revenue Neutral Proposal

$ billions, FY2018-2027 and FY2028-2037

Provision	Fiscal Years 2018–2027										
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2018–27
Individual income tax											
Repeal the individual AMT, NIIT, PEP, and "Pease"	-49.7	-69.3	-82.1	-89.7	-95.0	-100.3	-106.4	-113.2	-120.1	-127.0	-952.9
Reduce individual rates to 6.1, 11, and 28 percent	-494.1	-679.1	-706.8	-737.7	-770.1	-804.6	-840.8	-877.6	-914.9	-953.3	-7,779.1
Repeal individual tax expenditures	521.0	758.0	808.3	852.2	890.7	932.5	975.6	1,019.1	1,065.1	1,111.1	8,933.6
Total for individual income tax revenues	**-22.9**	**9.6**	**19.4**	**24.7**	**25.6**	**27.6**	**28.4**	**28.3**	**30.1**	**30.8**	**201.7**
Corporate income tax											
Repeal the corporate AMT	-6.4	-10.6	-9.9	-8.3	-7.8	-8.0	-8.1	-8.3	-8.7	-9.0	-85.2
Reduce corporate rate to flat 26.0 percent	-48.7	-97.4	-116.6	-116.7	-118.6	-120.7	-124.3	-128.3	-132.9	-138.3	-1,142.5
Territorial system plus minimum tax on foreign-source income earned after 12-31-17	2.1	4.0	4.3	4.1	3.9	3.7	3.4	3.1	2.8	2.5	34.0
Repeal corporate tax expenditures	52.7	108.7	126.5	136.2	139.9	143.8	157.5	173.3	188.6	203.6	1,430.8
Total for corporate income tax revenues	**-0.4**	**4.7**	**4.3**	**15.3**	**17.5**	**18.8**	**28.6**	**39.8**	**49.8**	**58.8**	**237.1**
Total revenue effect of all provisions											
Total revenue change	**-23.3**	**14.3**	**23.7**	**40.0**	**43.1**	**46.4**	**57.0**	**68.1**	**79.9**	**89.6**	**438.8**

Provision	Fiscal Years 2028–2037										
	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2028–37
Individual income tax											
Repeal the individual AMT, NIIT, PEP, and "Pease"	-134.2	-142.9	-152.5	-160.6	-168.4	-176.5	-185.1	-194.0	-203.4	-213.2	-1,730.8
Reduce individual rates to 6.1, 11, and 28 percent	-992.8	-1,034.2	-1,077.4	-1,124.0	-1,173.0	-1,224.1	-1,277.5	-1,333.2	-1,391.4	-1,452.1	-12,079.7
Repeal individual tax expenditures	1,158.1	1,206.7	1,257.2	1,309.0	1,361.9	1,416.7	1,473.5	1,532.6	1,594.3	1,658.4	13,968.4
Total for individual income tax revenues	**31.1**	**29.7**	**27.2**	**24.4**	**20.6**	**16.0**	**10.9**	**5.3**	**-0.5**	**-6.9**	**157.9**
Corporate income tax											
Repeal the corporate AMT	-9.4	-9.7	-10.1	-10.5	-11.0	-11.4	-11.9	-12.3	-12.8	-13.3	-112.5
Reduce corporate rate to flat 26.0 percent	-143.8	-149.6	-155.6	-161.8	-168.3	-175.0	-182.0	-189.3	-196.8	-204.7	-1,726.9
Territorial system plus minimum tax on foreign-source income earned after 12-31-17	2.1	1.7	1.3	0.9	0.4	-0.1	-0.7	-1.2	-1.9	-2.5	0.0
Repeal corporate tax expenditures	213.5	216.9	216.4	214.5	212.2	210.1	209.3	210.7	214.5	219.8	2,138.1
Total for corporate income tax revenues	**62.4**	**59.3**	**52.0**	**43.0**	**33.4**	**23.6**	**14.8**	**7.9**	**3.0**	**-0.8**	**298.7**
Total revenue effect of all provisions											
Total revenue change	**93.6**	**89.0**	**79.2**	**67.4**	**54.0**	**39.7**	**25.7**	**13.2**	**2.5**	**-7.6**	**456.7**

Sources: Urban-Brookings Tax Policy Center (TPC) Microsimulation Model (version 0217-1) and TPC off-model estimates.
Notes: AMT = alternative minimum tax; NIIT = net investment income tax; PEP = personal exemption phaseout; "Pease" = limitation on itemized deductions.

TABLE 2

Effect of Revenue Neutral Proposal on Federal Revenues, Deficits, and the Debt

$ billions, FY 2018–37

	Fiscal Years 2018-2027										
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2018–27
Revenue loss (gain)[a]	23.3	-14.3	-23.7	-40.0	-43.1	-46.4	-57.0	-68.1	-79.9	-89.6	-438.8
Change in interest	0.2	0.3	-0.1	-1.0	-2.3	-3.8	-5.6	-7.8	-10.4	-13.5	-44.0
Change in deficit	23.5	-14.1	-23.8	-41.0	-45.4	-50.2	-62.6	-75.8	-90.3	-103.1	-482.8
Change in debt (surplus)[b]	23.5	9.4	-14.4	-55.4	-100.8	-150.9	-213.5	-289.4	-379.7	-482.8	-482.8
Change in debt (surplus) relative to GDP (%)	**0.1**	**0.0**	**-0.1**	**-0.2**	**-0.4**	**-0.6**	**-0.9**	**-1.1**	**-1.4**	**-1.7**	**-1.7**
Addendum: GDP (end of period)	19,925.8	20,661.1	21,378.2	22,168.4	23,037.4	23,947.8	24,899.3	25,889.1	26,917.0	27,985.2	27,985.2
	Fiscal Years 2028-2037										
	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2028–37
Revenue loss (gain)[a]	-93.6	-89.0	-79.2	-67.4	-54.0	-39.7	-25.7	-13.2	-2.5	7.6	-456.7
Change in interest	-16.9	-20.4	-23.8	-26.9	-29.8	-32.3	-34.4	-36.1	-37.5	-38.7	-296.8
Change in deficit	-110.5	-109.4	-103.0	-94.4	-83.8	-72.0	-60.1	-49.3	-40.0	-31.0	-753.5
Change in debt (surplus)[b]	-593.2	-702.6	-805.6	-900.0	-983.8	-1,055.7	-1,115.8	-1,165.2	-1,205.2	-1,236.2	-1,236.2
Change in debt (surplus) relative to GDP (%)	**-2.0**	**-2.3**	**-2.6**	**-2.7**	**-2.9**	**-3.0**	**-3.0**	**-3.0**	**-3.0**	**-3.0**	**-3.0**
Addendum: GDP (end of period)	29,104.2	30,267.9	31,478.1	32,736.7	34,045.6	35,406.9	36,822.6	38,294.9	39,826.1	41,418.5	41,418.5

Sources: Urban-Brookings Tax Policy Center (TPC) Microsimulation Model (version 0217-1) and TPC off-model estimates.

[a] Revenue loss or gain is expressed as the effect on the deficit.

[b] Change in debt equals the cumulative change in the deficit including interest costs (savings) starting in FY2018.

TABLE 3

Distribution of Federal Tax Change, Revenue Neutral Proposal

By expanded cash income percentile, 2027[a]

Expanded cash income percentile[b,c]	Percent change in after-tax income (%)[d]	Share of total federal tax change (%)	Average federal tax change ($)	Average Federal Tax Rate[e]	
				Change (% points)	Under the proposal (%)
Lowest quintile	-6.8	-186.0	1,330	6.5	10.8
Second quintile	-3.9	-214.1	1,810	3.6	12.4
Middle quintile	-1.1	-88.9	860	1.0	14.8
Fourth quintile	0.4	44.6	-530	-0.4	16.6
Top quintile	2.2	546.6	-7,590	-1.6	24.7
All	0.2	100.0	-190	-0.2	20.0
Addendum					
80–90	1.7	118.3	-3,170	-1.4	18.4
90–95	2.3	103.5	-5,900	-1.8	20.1
95–99	1.0	56.2	-4,080	-0.7	24.8
Top 1 percent	3.3	268.6	-79,170	-2.2	31.2
Top 0.1 percent	2.8	99.8	-291,990	-1.8	32.0

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0217-1).

Note: Number of AMT taxpayers (millions): Baseline: 5.6; Proposal: 0.

[a] Calendar year. Baseline is current law. Proposal would: repeal the Net Investment Income Tax (NIIT), individual and corporate alternative minimum tax (AMT), phase-out of personal exemptions, and Pease limitation on itemized deductions; set individual tax rates of 6.1, 11, and 28; repeal individual income tax expenditures; set corporate tax rate of 26 percent; implement territorial system plus minimum tax on foreign-source income; and repeal corporate tax expenditures (with transition rule for depreciation). http://www.taxpolicycenter.org/taxtopics/Baseline-Definitions.cfm

[b] Includes both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. For a description of expanded cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm

[c] The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2017 dollars): 20% $28,100; 40% $54,700; 60% $93,200; 80% $154,900; 90% $225,400; 95% $304,600; 99% $912,100; 99.9% $5,088,900.

[d] After-tax income is expanded cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate tax; and excise taxes.

[e] Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

Note that although table 1 shows a revenue increase of about $90 billion in FY2027, table 3 shows an average reduction in federal taxes of $190 per household in CY2027, which (with nearly 187 million households in CY2027) represents a total decline in tax burdens of about $36 billion. The difference between the revenue and distributional amounts is largely due to three main factors.

1. The repeal of retirement savings tax expenditures raises revenues in each year as all tax preferences for retirement savings are repealed. This means there would be no deductions (or exclusions) for contributions or earnings made in years after 2017 and no income tax

paid on withdrawals made from this post-2017 retirement savings in the year the withdrawal is made. In contrast, for distributional purposes TPC measures the change in tax burdens from a change in retirement provisions as the present value of the change in all future tax liabilities due to contributions made in that year. (Because a large share of withdrawals from any year's contribution would occur many years in the future, the annual revenue gain in the budget period is much larger than the present value of the revenue gain in any year.)

2. The change in deductions due to the repeal of tax expenditures that affect the timing of cost recovery for business investments, such as the change in depreciation allowances from the (phased) repeal of expensing and accelerated depreciation, are reflected in revenues each year, whereas for distributional purposes TPC measures the change in tax burdens as the present value of the change in cost recovery allowances for investment made in that year; and

3. Microdynamic responses to changes in tax rates can affect revenues as taxpayers shift behavior in response, but these shifts do not affect the changes in tax burdens.

These same three factors explain the difference between revenue and distributional amounts that will be seen in subsequent results.

RESTORE TAX EXPENDITURES THAT BENEFIT LOW-INCOME HOUSEHOLDS

TPC modified the basic proposal to eliminate all tax expenditures by restoring certain tax expenditures that primarily benefit low-income households. TPC identified three tax expenditures that met this test: the child tax credit (CTC), the earned income tax credit (EITC), and the partial exclusion of Social Security benefits from income taxation.[7] This modified proposal then was used as the basis for an exercise to calculate income tax rates so the overall proposal would raise about the same amount of revenue as under current law in the long run (defined again as FY 2037).

Revenue Effects

The individual income tax rates for this step increased to 6.4 percent, 11.5 percent, and 29.3 percent, and the corporate income tax rate remained unchanged at 26 percent. Although the individual rates are higher than for the basic proposal that eliminated all tax expenditures, the amount of revenue raised over the first decade (2018-2027) is $17 billion. This is considerably less than the amount raised over the same period by the basic proposal that also targeted revenue neutrality in FY2037. In restoring the low-income tax expenditures, TPC reduces the revenue pickup over the first decade from elimination of individual tax expenditures and the slightly larger individual income tax rates do not completely offset this effect.

TABLE 4

Estimated Effect on Revenues of Revenue Neutral Proposal with Low-Income Expenditures

$ billions, FY2018-2027 and FY2028-2037

Provision	Fiscal Years 2018-2027										
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2018–27
Individual income tax											
Repeal the individual AMT, NIIT, PEP, and "Pease"	-49.7	-69.3	-82.1	-89.7	-95.0	-100.3	-106.4	-113.2	-120.1	-127.0	-952.9
Reduce individual rates to 6.4, 11.5, and 29.3 percent	-465.2	-639.0	-664.9	-693.7	-723.7	-755.8	-789.3	-823.2	-857.5	-892.7	-7,305.0
Repeal individual tax expenditures (except the CTC, EITC, and partial exclusion of SSB)	450.8	666.2	716.8	760.5	798.8	840.4	883.7	927.4	973.7	1,019.9	8,038.0
Total for individual income tax revenues	**-64.2**	**-42.1**	**-30.2**	**-22.9**	**-20.0**	**-15.7**	**-12.0**	**-9.1**	**-3.9**	**0.2**	**-219.9**
Corporate income tax											
Repeal the corporate AMT	-6.4	-10.6	-9.9	-8.3	-7.8	-8.0	-8.1	-8.3	-8.7	-9.0	-85.2
Reduce corporate rate to flat 26.0 percent	-48.7	-97.4	-116.6	-116.7	-118.6	-120.7	-124.3	-128.3	-132.9	-138.3	-1,142.5
Territorial system plus minimum tax on foreign-source income earned after 12-31-17	2.1	4.0	4.3	4.1	3.9	3.7	3.4	3.1	2.8	2.5	34.0
Repeal corporate tax expenditures	52.7	108.7	126.5	136.2	139.9	143.8	157.5	173.3	188.6	203.6	1,430.8
Total for corporate income tax revenues	**-0.4**	**4.7**	**4.3**	**15.3**	**17.5**	**18.8**	**28.6**	**39.8**	**49.8**	**58.8**	**237.1**
Total revenue effect of all provisions											
Total revenue change	**-64.6**	**-37.4**	**-25.9**	**-7.6**	**-2.5**	**3.1**	**16.6**	**30.7**	**45.9**	**59.0**	**17.2**

Provision	Fiscal Years 2028-2037										
	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2028–37
Individual income tax											
Repeal the individual AMT, NIIT, PEP, and "Pease"	-134.2	-142.9	-152.5	-160.6	-168.4	-176.5	-185.1	-194.0	-203.4	-213.2	-1,730.8
Reduce individual rates to 6.4, 11.5, and 29.3 percent	-928.9	-967.1	-1,006.9	-1,050.3	-1,096.2	-1,144.0	-1,193.9	-1,246.1	-1,300.5	-1,357.2	-11,291.1
Repeal individual tax expenditures (except the CTC, EITC, and partial exclusion of SSB)	1,067.6	1,115.8	1,165.5	1,216.6	1,269.0	1,323.3	1,379.9	1,438.8	1,500.6	1,565.0	13,042.1
Total for individual income tax revenues	**4.5**	**5.9**	**6.0**	**5.7**	**4.5**	**2.8**	**0.9**	**-1.3**	**-3.2**	**-5.4**	**20.3**
Corporate income tax											
Repeal the corporate AMT	-9.4	-9.7	-10.1	-10.5	-11.0	-11.4	-11.9	-12.3	-12.8	-13.3	-112.5
Reduce corporate rate to flat 26.0 percent	-143.8	-149.6	-155.6	-161.8	-168.3	-175.0	-182.0	-189.3	-196.8	-204.7	-1,726.9
Territorial system plus minimum tax on foreign-source income earned after 12-31-17	2.1	1.7	1.3	0.9	0.4	-0.1	-0.7	-1.2	-1.9	-2.5	0.0
Repeal corporate tax expenditures	213.5	216.9	216.4	214.5	212.2	210.1	209.3	210.7	214.5	219.8	2,138.1
Total for corporate income tax revenues	**62.4**	**59.3**	**52.0**	**43.0**	**33.4**	**23.6**	**14.8**	**7.9**	**3.0**	**-0.8**	**298.7**
Total revenue effect of all provisions											
Total revenue change	**66.9**	**65.2**	**58.0**	**48.7**	**37.9**	**26.4**	**15.7**	**6.6**	**-0.2**	**-6.2**	**319.0**

Sources: Urban-Brookings Tax Policy Center (TPC) Microsimulation Model (version 0217-1) and TPC off-model estimates.

Notes: AMT = alternative minimum tax; CTC = child tax credit; EITC = earned income tax credit; NIIT = net investment income tax; PEP = personal exemption phaseout; "Pease" = limitation on itemized deductions; SSB = Social Security benefits.

TABLE 5

Effect of Revenue Neutral Proposal with Low-Income Expenditures on Federal Revenues, Deficits, and the Debt

$ billions, FY 2018–37

	Fiscal Years 2018-2027										
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2018–27
Revenue loss (gain)[a]	64.6	37.4	25.9	7.6	2.5	-3.1	-16.6	-30.7	-45.9	-59.0	-17.2
Change in interest	0.5	1.6	2.5	3.4	3.9	4.2	4.1	3.6	2.6	1.1	27.5
Change in deficit	65.1	39.0	28.4	11.1	6.4	1.1	-12.5	-27.1	-43.2	-57.9	10.3
Change in debt (surplus)[b]	65.1	104.1	132.5	143.5	149.9	151.0	138.5	111.4	68.2	10.3	10.3
Change in debt (surplus) relative to GDP (%)	**0.3**	**0.5**	**0.6**	**0.6**	**0.7**	**0.6**	**0.6**	**0.4**	**0.3**	**0.0**	**0.0**
Addendum: GDP (end of period)	19,925.8	20,661.1	21,378.2	22,168.4	23,037.4	23,947.8	24,899.3	25,889.1	26,917.0	27,985.2	27,985.2
	Fiscal Years 2028-2037										
	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2028–37
Revenue loss (gain)[a]	-66.9	-65.2	-58.0	-48.7	-37.9	-26.4	-15.7	-6.6	0.2	6.2	-319.0
Change in interest	-0.7	-2.7	-4.7	-6.7	-8.4	-9.7	-10.7	-11.4	-11.9	-12.2	-79.2
Change in deficit	-67.6	-67.9	-62.7	-55.4	-46.3	-36.2	-26.4	-18.1	-11.7	-6.0	-398.2
Change in debt (surplus)[b]	-57.3	-125.2	-187.9	-243.3	-289.6	-325.8	-352.2	-370.2	-381.9	-387.9	-387.9
Change in debt (surplus) relative to GDP (%)	**-0.2**	**-0.4**	**-0.6**	**-0.7**	**-0.9**	**-0.9**	**-1.0**	**-1.0**	**-1.0**	**-0.9**	**-0.9**
Addendum: GDP (end of period)	29,104.2	30,267.9	31,478.1	32,736.7	34,045.6	35,406.9	36,822.6	38,294.9	39,826.1	41,418.5	41,418.5

Sources: Urban-Brookings Tax Policy Center (TPC) Microsimulation Model (version 0217-1) and TPC off-model estimates.

[a] Revenue loss or gain is expressed as the effect on the deficit.

[b] Change in debt equals the cumulative change in the deficit including interest costs (savings) starting in FY2018.

Debt Effects

Under this modified proposal, by FY2037, the debt would be reduced by about $0.4 trillion (including less than $0.1 trillion in interest savings). As shown in table 5, revenue losses at the end of the second decade would be more than offset by continuing interest savings, so the proposal would continue to reduce the Federal budget deficit after FY2037, but probably only for a year or two.

TABLE 6

Distribution of Federal Tax Change, Revenue Neutral Proposal with Low-Income Expenditures

By expanded cash income percentile, 2027[a]

Expanded cash income percentile[b,c]	Percent change in after-tax income (%)[d]	Share of total federal tax change (%)	Average federal tax change ($)	Average Federal Tax Rate[e]	
				Change (% points)	Under the proposal (%)
Lowest quintile	-1.1	-19.2	220	1.1	5.4
Second quintile	-1.3	-44.5	610	1.2	10.1
Middle quintile	-0.6	-31.1	490	0.5	14.4
Fourth quintile	0.2	11.5	-220	-0.2	16.8
Top quintile	1.2	183.9	-4,150	-0.9	25.4
All	0.3	100.0	-310	-0.3	19.9
Addendum					
80–90	1.3	54.3	-2,370	-1.0	18.8
90–95	1.8	49.4	-4,580	-1.4	20.5
95–99	0.0	1.5	-180	0.0	25.5
Top 1 percent	1.6	78.6	-37,700	-1.1	32.4
Top 0.1 percent	0.9	20.2	-96,110	-0.6	33.2

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0217-1).

Note: Number of AMT taxpayers (millions): Baseline: 5.6; Proposal: 0.

[a] Calendar year. Baseline is current law. Proposal would: repeal the Net Investment Income Tax (NIIT), individual and corporate alternative minimum tax (AMT), phase-out of personal exemptions, and Pease limitation on itemized deductions; set individual tax rates of 6.4, 11.5, and 29.3; repeal individual income tax expenditures except the CTC, EITC, and partial exclusion of Social Security benefits; set corporate tax rate of 26 percent; implement territorial system plus minimum tax on foreign-source income; and repeal corporate tax expenditures. http://www.taxpolicycenter.org/taxtopics/Baseline-Definitions.cfm

[b] Includes both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. For a description of expanded cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm

[c] The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2017 dollars): 20% $28,100; 40% $54,700; 60% $93,200; 80% $154,900; 90% $225,400; 95% $304,600; 99% $912,100; 99.9% $5,088,900.

[d] After-tax income is expanded cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate tax; and excise taxes.

[e] Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

Distributional Effects

The restoration of low-income tax expenditures significantly reduces the regressivity of the proposal, but overall, the modified proposal still remains regressive (table 6). Average tax burdens would increase for households in the bottom 60 percent of the income distribution, but those increases generally would be smaller than 2 percent of after-tax income. Households in the top quintile would receive smaller average tax cuts, of 1.2 percent of after-tax income (compared to 2.2 percent under the basic proposal), with households in the 95th to 99th percentile receiving no tax cut, on average, and households in the top 1 percent receiving a smaller cut than under the basic proposal.

ADJUST INDIVIDUAL INCOME TAX RATES AND BRACKETS TO ACHIEVE DISTRIBUTIONAL NEUTRALITY

TPC further modified the proposal by adjusting individual income tax rates and brackets to maintain, as closely as possible, the distribution of federal tax burdens under current law while also achieving long-run revenue neutrality. Distributional neutrality is measured by the percentage changes in after-tax income across expanded cash income percentiles. The goal was to minimize those percentage changes while achieving rough revenue neutrality in FY2037. In this analysis, all tax expenditures are repealed except the child tax credit (CTC), the earned income tax credit (EITC), and the partial exclusion of Social Security benefits from income taxation; and the corporate income tax rate remains 26 percent.

Initially, TPC modeled rate structures with only three individual income tax rates but distributional neutrality could not be achieved with a three-rate structure. TPC then adopted a four-rate structure, and was able to find a set of income tax rates that achieved distributional neutrality fairly well, while also achieving revenue neutrality in FY2037.

Revenue Effects

Revenue estimates are shown in table 7 for this distributionally-neutral proposal using individual income tax rates of 0 percent, 5 percent, 16 percent, and 29.9 percent. This rate structure results in a very small revenue gain from individual income taxes in FY2037. Under this rate structure, however, the proposal would reduce individual income tax revenues by$434 billion over the FY2018-27 period and by a much smaller $20 billion over the FY2028-37 period. Revenue gains from the corporate income tax provisions would result in a small overall revenue gain for this distributionally-neutral proposal over the entire FY2018-37 period. The change in individual income tax revenues is positive and slowly trending upward by FY2037, while the change in corporate income tax revenues is negative and slowly trending downward, compared with projected current law revenues.

TABLE 7

Estimated Effect on Revenue of Distributional and Revenue Neutral Proposal

$ billions, FY2018-2027 and FY2028-2037

Provision	Fiscal Years 2018-2027										
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2018–27
Individual income tax											
Repeal the individual AMT, NIIT, PEP, and "Pease"	-49.7	-69.3	-82.1	-89.7	-95.0	-100.3	-106.4	-113.2	-120.1	-127.0	-952.9
Reduce individual rates to 0, 5, 16, and 29.9 percent	-508.6	-698.1	-725.4	-756.0	-788.3	-822.4	-858.0	-894.8	-932.8	-971.3	-7,955.7
Repeal individual tax expenditures (except the CTC, EITC, and partial exclusion of SSB)	473.5	699.2	751.5	797.7	839.6	884.7	931.9	980.8	1,032.1	1,083.5	8,474.4
Total for individual income tax revenues	**-84.9**	**-68.2**	**-56.1**	**-48.1**	**-43.7**	**-38.0**	**-32.4**	**-27.3**	**-20.8**	**-14.8**	**-434.2**
Corporate income tax											
Repeal the corporate AMT	-6.4	-10.6	-9.9	-8.3	-7.8	-8.0	-8.1	-8.3	-8.7	-9.0	-85.2
Reduce corporate rate to flat 26.0 percent	-48.7	-97.4	-116.6	-116.7	-118.6	-120.7	-124.3	-128.3	-132.9	-138.3	-1,142.5
Territorial system plus minimum tax on foreign-source income earned after 12-31-17	2.1	4.0	4.3	4.1	3.9	3.7	3.4	3.1	2.8	2.5	34.0
Repeal corporate tax expenditures	52.7	108.7	126.5	136.2	139.9	143.8	157.5	173.3	188.6	203.6	1,430.8
Total for corporate income tax revenues	**-0.4**	**4.7**	**4.3**	**15.3**	**17.5**	**18.8**	**28.6**	**39.8**	**49.8**	**58.8**	**237.1**
Total revenue effect of all provisions											
Total revenue change	**-85.3**	**-63.5**	**-51.8**	**-32.8**	**-26.3**	**-19.2**	**-3.8**	**12.5**	**29.0**	**44.0**	**-197.1**

Provision	Fiscal Years 2028-2037										
	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2028–37
Individual income tax											
Repeal the individual AMT, NIIT, PEP, and "Pease"	-134.2	-142.9	-152.5	-160.6	-168.4	-176.5	-185.1	-194.0	-203.4	-213.2	-1,730.8
Reduce individual rates to 0, 5, 16, and 29.9 percent	-1,011.9	-1,055.3	-1,100.8	-1,146.7	-1,194.0	-1,243.2	-1,294.5	-1,347.8	-1,403.4	-1,461.3	-12,259.0
Repeal individual tax expenditures (except the CTC, EITC, and partial exclusion of SSB)	1,136.8	1,192.0	1,249.7	1,305.5	1,361.4	1,419.2	1,479.3	1,542.0	1,607.6	1,675.9	13,969.5
Total for individual income tax revenues	**-9.3**	**-6.1**	**-3.7**	**-1.8**	**-1.0**	**-0.5**	**-0.2**	**0.1**	**0.8**	**1.5**	**-20.3**
Corporate income tax											
Repeal the corporate AMT	-9.4	-9.7	-10.1	-10.5	-11.0	-11.4	-11.9	-12.3	-12.8	-13.3	-112.5
Reduce corporate rate to flat 26.0 percent	-143.8	-149.6	-155.6	-161.8	-168.3	-175.0	-182.0	-189.3	-196.8	-204.7	-1,726.9
Territorial system plus minimum tax on foreign-source income earned after 12-31-17	2.1	1.7	1.3	0.9	0.4	-0.1	-0.7	-1.2	-1.9	-2.5	0.0
Repeal corporate tax expenditures	213.5	216.9	216.4	214.5	212.2	210.1	209.3	210.7	214.5	219.8	2,138.1
Total for corporate income tax revenues	**62.4**	**59.3**	**52.0**	**43.0**	**33.4**	**23.6**	**14.8**	**7.9**	**3.0**	**-0.8**	**298.7**
Total revenue effect of all provisions											
Total revenue change	**53.2**	**53.2**	**48.3**	**41.2**	**32.4**	**23.1**	**14.6**	**8.0**	**3.8**	**0.7**	**278.4**

Sources: Urban-Brookings Tax Policy Center (TPC) Microsimulation Model (version 0217-1) and TPC off-model estimates.

Notes: AMT = alternative minimum tax; CTC = child tax credit; EITC = earned income tax credit; NIIT = net investment income tax; PEP = personal exemption phaseout; "Pease" = limitation on itemized deductions; SSB = Social Security benefits.

Distributional Effects

The percentage change in after-tax income is 1 percent or less in all income percentiles (table 8) under the proposal to maintain distribuional neutrality, roughly maintaining the distribution of tax burdens experienced under current law. The largest change is for households in the top 1 percent of the income distribution, whose after-tax income would increase on average by 1 percent (for the top 0.1 percent the increase would be only 0.1 percent). The lowest quintile of the income distribution would have the largest projected reduction in after-tax income, but that would be only -0.2 percent.

TABLE 8

Distribution of Federal Tax Change, Distribution and Revenue Neutral Proposal

By expanded cash income percentile, 2027[a]

Expanded cash income percentile[b,c]	Percent change in after-tax income (%)[d]	Share of total federal tax change (%)	Average federal tax change ($)	Average Federal Tax Rate[e]	
				Change (% points)	Under the proposal (%)
Lowest quintile	-0.2	-2.7	40	0.2	4.5
Second quintile	0.4	10.5	-180	-0.4	8.5
Middle quintile	0.6	23.5	-470	-0.5	13.3
Fourth quintile	0.4	19.0	-460	-0.3	16.6
Top quintile	0.4	50.1	-1,420	-0.3	26.0
All	0.4	100.0	-390	-0.3	19.9
Addendum					
80–90	-0.1	-3.4	190	0.1	19.9
90–95	0.2	4.7	-550	-0.2	21.7
95–99	0.4	10.7	-1,590	-0.3	25.3
Top 1 percent	1.0	38.1	-22,940	-0.6	32.8
Top 0.1 percent	0.1	1.9	-11,350	-0.1	33.8

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0217-1).

Note: Number of AMT taxpayers (millions): Baseline: 5.6; Proposal: 0.

[a] Calendar year. Baseline is current law. Proposal would: repeal the Net Investment Income Tax (NIIT), individual and corporate alternative minimum tax (AMT), phase-out of personal exemptions, and Pease limitation on itemized deductions; set individual tax rates of 0, 5, 16, and 29.9; repeal individual income tax expenditures except the CTC, EITC, and partial exclusion of Social Security benefits; set corporate tax rate of 26 percent; implement territorial system plus minimum tax on foreign-source income; and repeal corporate tax expenditures. http://www.taxpolicycenter.org/taxtopics/Baseline-Definitions.cfm

[b] Includes both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. For a description of expanded cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm

[c] The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2017 dollars): 20% $28,100; 40% $54,700; 60% $93,200; 80% $154,900; 90% $225,400; 95% $304,600; 99% $912,100; 99.9% $5,088,900.

[d] After-tax income is expanded cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate tax; and excise taxes.

[e] Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

CONCLUSION

This series of exercises indicates that a reform of the US income tax system which repeals virtually all tax expenditures is technically achievable in a way that maintains both the revenue levels and the distributional consequences associated with the current tax system. Maintaining approximate long-run revenue neutrality for the corporate income tax would require a statutory income tax rate of around 26 percent. Maintaining approximate distributional neutrality as well as overall long-run revenue neutrality would require a zero-percent income tax bracket for many low-income households and a top rate of almost 30 percent for high income households.

NOTES

[1] See Department of the Treasury, "General Explanations of the Administration's Fiscal Year 2017 Revenue Proposals," January 2016, pp 9-12. The Budget proposal was for a 19 percent minimum tax, so implicitly the rate in TPC's adjusted proposal is lower (but not specified because the implied rate is very difficult to estimate).

[2] A brief description of TPC's microsimulation model is available at http://www.taxpolicycenter.org/resources/brief-description-tax-model.

[3] A brief description of TPC's methodology for making "off-model" revenue estimates is available at http://www.taxpolicycenter.org/resources/tpcs-methodology-model-revenue-estimates.

[4] "Estimates of Federal Tax Expenditures for Fiscal Years 2016-2020," JCX-3-17, January 30, 2017. TPC did not include the JCT tax expenditure for "deferral of active income of controlled foreign corporations" because of the provision for territoriality plus a minimum tax on foreign-source income). TPC did not include the JCT tax expenditure for "subsidies for insurance purchased through health benefit exchanges" because TPC's baseline does not include these credits in income tax revenues or refundable credits.

[5] Bonus depreciation would be retained as under current law for 2018 and 2019 (when it expires).

[6] MACRS (modified accelerated cost recovery system) is the depreciation system generally used under current law for equipment and structures.

[7] The exclusion of Social Security benefits ranges from 100 percent for taxpayers below a threshold (that varies with filing status) of "modified adjusted gross income" to 15 percent for taxpayers with income sufficiently above a second threshold. Annuities from private pensions are taxable to the extent they exceed the amount attributable to taxable pension contributions made by the recipient while working. Correspondingly, the tax expenditure for the exclusion of Social Security benefits is the excess of the exclusion allowed under current law over the amount of benefits attributable to the Social Security payroll tax payments made by the recipient (which are subject to income tax when made). These contributions are assumed to fund 15 percent of benefits for the purpose of this calculation, so including 85 percent of benefits in income for all taxpayers eliminates the tax expenditure.

JCT TAX EXPENDITURES

Exclusion of benefits and allowances to armed forces personnel
Exclusion of military disability benefits
Deduction for overnight-travel expenses of national guard and reserve members
Exclusion of combat pay
Exclusion of certain allowances for Federal employees abroad
Exclusion of foreign earned income: Housing
Exclusion of foreign earned income: Salary
Inventory property sales source rule exception
Deduction for foreign taxes instead of a credit
Interest expense allocation: Unavailability of symmetric worldwide method
Interest expense allocation: Separate grouping of affiliated financial companies
Apportionment of research and development expenses for determination of foreign tax credits
Special rules for interest-charge domestic international sales corporations
Tonnage tax
Deferral of active income of controlled foreign corporations
Deferral of active financing income
Credit for increasing research activities (Code section 41)
Expensing of research and experimental expenditures
Therapeutic research credit
Credit for energy-efficient improvements to existing homes
Credit for holders of clean renewable energy bonds (Code sections 54 and 54C)
Exclusion of energy conservation subsidies provided by public utilities
Credit for holders of qualified energy conservation bonds
Energy credit (section 48): Solar
Energy credit (section 48): Geothermal
Energy credit (section 48): Fuel Cells
Energy credit (section 48): Microturbines
Energy credit (section 48): Combined heat and power
Energy credit (section 48): Small wind
Energy credit (section 48): Geothermal heat pump systems
Credits for electricity production from renewable resources (section 45): Wind
Credits for electricity production from renewable resources (section 45): Closed-loop biomass
Credits for electricity production from renewable resources (section 45): Geothermal
Credits for electricity production from renewable resources (section 45): Qualified hydropower
Credits for electricity production from renewable resources (section 45): Small irrigation power
Credits for electricity production from renewable resources (section 45): Municipal solid waste
Credits for electricity production from renewable resources (section 45): Open-loop biomass
Special rule to implement electric transmission restructuring
Credits for investments in clean coal facilities
Coal production credits: Refined coal

Coal production credits: Indian coal
Credits for alternative technology vehicles: Other alternative fuel vehicles
Residential energy-efficient property credit
Credit for plug-in electric vehicles
Credit for investment in advanced energy property
Exclusion of interest on State and local government qualified private activity bonds for energy production facilities
Expensing of exploration and development costs, fuels: Oil and gas
Expensing of exploration and development costs, fuels: Other Fuels
Excess of percentage over cost depletion, fuels: Oil and gas
Excess of percentage over cost depletion, fuels: Other Fuels
Amortization of geological and geophysical expenditures associated with oil and gas exploration
Amortization of air pollution control facilities
Depreciation recovery periods for energy-specific items: Five-year MACRS for certain energy property (solar, wind, etc.)
Depreciation recovery periods for energy-specific items: 10-year MACRS for smart electric distribution property
Depreciation recovery periods for energy-specific items: 15-year MACRS for certain electric transmission property
Depreciation recovery periods for energy-specific items: 15-year MACRS for natural gas distribution line
Exceptions for publicly traded partnership with qualified income derived from certain energy-related activities
Special depreciation allowance for certain reuse and recycling property
Expensing of exploration and development costs, nonfuel minerals
Excess of percentage over cost depletion, nonfuel minerals
Expensing of timber-growing costs
Special rules for mining reclamation reserves
Special tax rate for nuclear decommissioning reserve funds
Exclusion of contributions in aid of construction for water and sewer utilities
Exclusion of earnings of certain environmental settlement funds
Amortization and expensing of reforestation expenditures
Capital gains treatment for qualified timber income (including coal and iron ore)
Treatment of income from exploration and mining of natural resources as qualifying income under the publicly-traded partnership rules
Expensing of soil and water conservation expenditures
Expensing of the costs of raising dairy and breeding cattle
Exclusion of cost-sharing payments
Exclusion of cancellation of indebtedness income of farmers
Income averaging for farmers and fishermen
Five-year carryback period for net operating losses attributable to farming
Expensing by farmers for fertilizer and soil conditioner costs
Cash accounting for agriculture
Deduction for mortgage interest on owner-occupied residences
Exclusion of income attributable to the discharge of principal residence acquisition indebtedness
Deduction for premiums for qualified mortgage insurance

Deduction for property taxes on real property
Exclusion of capital gains on sales of principal residences
Exclusion of interest on State and local government qualified private activity bonds for owner-occupied housing
Credit for low-income housing
Credit for rehabilitation of historic structures
Credit for rehabilitation of structures, other than historic structures
Exclusion of interest on State and local government qualified private activity bonds for rental housing
Depreciation of rental housing in excess of alternative depreciation system
Exclusion of interest on State and local government small-issue qualified private activity bonds
Carryover basis of capital gains on gifts
Deferral of gain on non-dealer installment sales
Deferral of gain on like-kind exchanges
Expensing under section 179 of depreciable business property
Amortization of business startup costs
Reduced rates on first $10,000,000 of corporate taxable income
Exemptions from imputed interest rules
Expensing of magazine circulation expenditures
Special rules for magazine, paperback book, and record returns
Completed contract rules
Cash accounting, other than agriculture
Credit for employer-paid FICA taxes on tips
Deduction for income attributable to domestic production activities
Credit for the cost of carrying tax-paid distilled spirits in wholesale inventories
Reduced rates of tax on dividends and long-term capital gains
Surtax on net investment income
Exclusion of capital gains at death
Expensing of costs to remove architectural and transportation barriers to the handicapped and elderly
Exclusion for gain from certain small business stock
Distributions in redemption of stock to pay various taxes imposed at death
Exclusion from UBTI of certain payments to controlling exempt organizations
Inventory methods and valuation: Last in first out
Inventory methods and valuation: Lower of cost or market
Inventory methods and valuation: Specific identification for homogeneous products
Exclusion of gain or loss on sale or exchange of brownfield property
Income recognition rule for gain or loss from section 1256 contracts
Net alternative minimum tax attributable to net operating loss limitation
Exclusion of interest on State and local qualified private activity bonds for green buildings and sustainable design projects
Depreciation of buildings other than rental housing in excess of alternative depreciation system
Depreciation of equipment in excess of the alternative depreciation system
Exemption of credit union income
Small life insurance company taxable income adjustment
Special treatment of life insurance company reserves

Special deduction for Blue Cross and Blue Shield companies
Tax-exempt status and election to be taxed only on investment income for certain small property and casualty insurance companies
Interest rate and discounting period assumptions for reserves of property and casualty insurance companies
Proration for property and casualty insurance companies
Exclusion of employer-paid transportation benefits (parking, van pools, and transit passes)
Deferral of tax on capital construction funds of shipping companies
Exclusion of interest on State and local government qualified private activity bonds for highway projects and rail-truck transfer facilities
Exclusion of interest on State and local government qualified private activity bonds for high-speed intercity rail facilities
Exclusion of interest on State and local government qualified private activity bonds for private airports, docks, and mass-commuting facilities
Provide a 50 percent tax credit for certain expenditures for maintaining railroad tracks
Empowerment zone tax incentives
New markets tax credit
District of Columbia tax incentives
Credit for Indian reservation employment
Exclusion of interest on State and local government qualified private activity bonds for sewage, water, and hazardous waste facilities
Recovery zone economic development bonds
Eliminate requirement that financial institutions allocate interest expense attributable to tax-exempt interest
National disaster relief
Deduction for interest on student loans
Exclusion of earnings of Coverdell education savings accounts
Exclusion of scholarship and fellowship income
Exclusion of income attributable to the discharge of certain student loan debt and NHSC and certain State educational loan repayments
Exclusion of employer-provided education assistance benefits
Exclusion of employer-provided tuition reduction benefits
Parental personal exemption for students aged 19 to 23
Exclusion of interest on State and local government qualified private activity bonds for student loans
Exclusion of interest on State and local government qualified private activity bonds for private nonprofit and qualified public educational facilities
Credit for holders of qualified zone academy bonds
Deduction for higher education expenses
Deduction for teacher classroom expenses
Deduction for charitable contributions to educational institutions
Credits for tuition for post-secondary education
Exclusion of tax on earnings of qualified tuition programs: Prepaid tuition programs
Exclusion of tax on earnings of qualified tuition programs: Savings account programs
Qualified school construction bonds
Exclusion of employee meals and lodging (other than military)

Exclusion of benefits provided under cafeteria plans
Exclusion of housing allowances for ministers
Exclusion of miscellaneous fringe benefits
Exclusion of employee awards
Exclusion of income earned by voluntary employees' beneficiary associations
Special tax provisions for employee stock ownership plans (ESOPs)
Deferral of taxation on spread on acquisition of stock under incentive stock option plans
Deferral of taxation on spread on employee stock purchase plans
Disallowance of deduction for excess parachute payments (applicable if payments to a disqualified individual are contingent on a change of control of a corporation and are equal to or greater than three times the individual's annualized includible compensation)
Limits on deductible compensation
Work opportunity tax credit
Credit for children under age 17
Credit for child and dependent care and exclusion of employer-provided child care
Credit for employer-provided dependent care
Exclusion of certain foster care payments
Adoption credit and employee adoption benefits exclusion
Deduction for charitable contributions, other than for education and health
Credit for disabled access expenditures
Exclusion of employer contributions for health care, health insurance premiums, and long-term care insurance premiums
Exclusion of medical care and TRICARE medical insurance for military dependents, retirees, and retiree dependents not enrolled in Medicare
Exclusion of health insurance benefits for military retirees and retiree dependents enrolled in Medicare
Deduction for health insurance premiums and long-term care insurance premiums by the self-employed
Deduction for medical expenses and long-term care expenses
Exclusion of workers' compensation benefits (medical benefits)
Health savings accounts
Exclusion of interest on State and local government qualified private activity bonds for private nonprofit hospital facilities
Deduction for charitable contributions to health organizations
Credit for purchase of health insurance by certain displaced persons
Credit for orphan drug research
Tax credit for small businesses purchasing employer insurance
Subsidies for insurance purchased through health benefit exchanges
Exclusion of amounts received under life insurance contracts
Exclusion of workers' compensation benefits (disability and survivors payments)
Exclusion of damages on account of personal physical injuries or physical sickness
Exclusion of special benefits for disabled coal miners
Net exclusion of pension contributions and earnings: Plans covering partners and sole proprietors (sometimes referred to as "Keogh" plans)
Net exclusion of pension contributions and earnings: Defined benefit plans
Net exclusion of pension contributions and earnings: Defined contribution plans

Individual retirement arrangements: Traditional IRAs
Individual retirement arrangements: Roth IRAs
Credit for certain individuals for elective deferrals and IRA contributions
Exclusion of other employee benefits: Premiums on group term life insurance
Exclusion of other employee benefits: Premiums on accident and disability insurance
Additional standard deduction for the blind and the elderly
Deduction for casualty and theft losses
Earned income credit
Phase out of the personal exemption for the regular income tax, and disallowance of the personal exemption and the standard deduction against the alternative minimum tax
Exclusion of survivor annuities paid to families of public safety officers killed in the line of duty
Exclusion of disaster mitigation payments
ABLE accounts
Exclusion of untaxed Social Security and railroad retirement benefits
Exclusion of veterans' disability compensation
Exclusion of veterans' pensions
Exclusion of veterans' readjustment benefits
Exclusion of interest on State and local government qualified private activity bonds for veterans' housing
Exclusion of interest on public purpose State and local government bonds
Deduction of nonbusiness State and local government income taxes, sales taxes, and personal property taxes
Build America bonds
Deferral of interest on savings bonds

OTHER CORPORATE PROVISIONS (FROM FY17 BUDGET)

Impose a 19-percent minimum tax on foreign income

The Tax Policy Center is a joint venture of the
Urban Institute and Brookings Institution.

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