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Winners and Losers:
Understanding the Ryan Plan's Potential Tax Implications for America's Workers

The House Republican Fiscal Year 2013 Budget, *The Path to Prosperity: A Blueprint for American Renewal,* proposes large tax cuts to individuals paid for by an unspecified broadening of the tax base. House Budget Committee Chairman Rep. Paul Ryan claims that the policies outlined in his budget will reform the broken tax code and put "hardworking taxpayers ahead of special interests". In reality, the Ryan plan gives the largest tax cuts to the wealthiest Americans and will pay for those tax cuts by raising the tax burden on middle-class workers.

REPORT BY
THE U.S. CONGRESS JOINT ECONOMIC COMMITTEE CHAIRMAN'S STAFF
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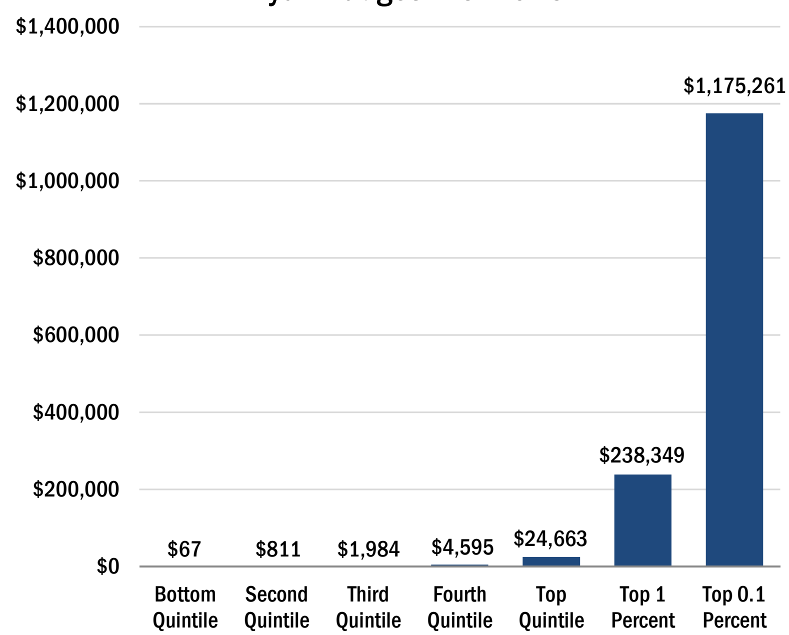
Under the Ryan plan, the current progressive tax code would be replaced with just two tax brackets—10 percent and 25 percent. The higher bracket would be a significant reduction from the 39.6 percent that high-income taxpayers will pay beginning January 1, 2013, under current law. Additionally, the proposal would eliminate the alternative minimum tax (AMT), which adjusts a high-earning taxpayer's deductions and exemptions to trigger additional tax payments when the taxpayer's burden falls below an average 26 percent tax rate.

The richest households would receive the greatest benefit from these changes. The top 0.1 percent, for example, would receive an estimated average federal tax cut of close to $1.18 million per tax-paying household in 2015 (see **Figure 1**), corresponding to an average decline in the federal tax rate of 14.1 percentage points (see **Figure 2**). The middle quintile of earners would receive a tax cut of $1,984 and see their federal tax rate fall by 3.5 percentage points. Lower-income Americans (the bottom quintile) would get a tax cut of $67 and see a minimal decrease in their federal tax rate—just 0.06 percentage point.

Figure 1. Estimated Average Federal Tax Cut From the Ryan Budget in CY2015



Notes: Average federal tax cut is calculated across all tax units in a cash income percentile class, excluding tax units with negative cash income. Income cutoffs are (in 2011 dollars): 20% $19,342; 40% $39,862; 60% $69,074; 80% $119,546; 99% $629,809; and 99.9% $2,868,534.
Source: JEC Chairman's Staff based on data from the Tax Policy Center, Table T12-0125.

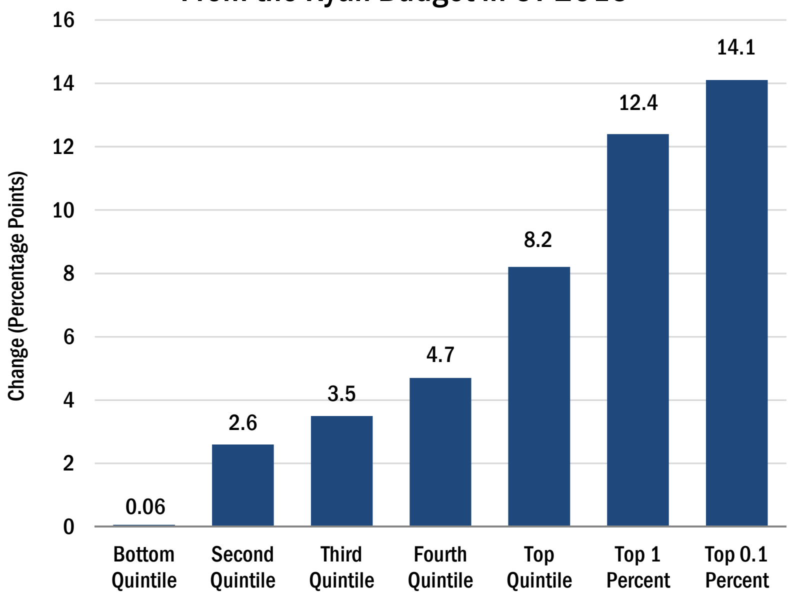
To pay for his tax cuts, Chairman Ryan has proposed reducing several tax expenditures, but has failed to specify which expenditures and by how much. Without providing details, Ryan implies that the wealthiest Americans, those who benefit from the Ryan tax cuts, will shoulder much of the burden. But the reality is much more complicated.

According to the Tax Policy Center, Ryan's tax cuts will result in $4.5 trillion in lost federal revenue over the next ten years; the vast majority of the lost revenue would come from changing to a two-tiered income tax schedule and repealing the AMT. The preferential tax treatment for capital gains and dividends comprise a large portion of tax expenditures and provide the most benefit to those at the top of the income ladder. However, Chairman Ryan indicated that these preferences are to remain untouched. The remaining large tax expenditures – tax deductions for mortgage interest, state and local taxes, and charitable contributions as well as the tax exclusions for employer-sponsored health insurance benefits and contributions to 401 (k) plans—all deliver significant benefits to the middle class, and removing these tax expenditures would hit middle-income taxpayers hard.

The **Table** on page 4 provides an illustration of the potential impact of the Ryan plan. Taxpayers on the upper rungs of the income ladder—those households making $200,000 or more a year[1]—will see their net taxes fall significantly under the Ryan plan, even after accounting for the lost tax benefits that will result if major tax expenditures are eliminated. By contrast, it is likely that most households making less than $200,000 will see their taxes increase under the Ryan plan.[2]

After eliminating the deductions for state and local taxes, mortgage interest and charitable contributions, removing the employer-provided health insurance exclusion, and taxing 401(k) contributions, the typical household making more than $1 million and filing a joint return will still experience a net reduction in taxes of $286,543 under Ryan's budget. The typical household earning between $500,000 and $1 million will see their tax burden decline by $37,887.

Figure 2. Estimated Average Decrease in Federal Tax Rate From the Ryan Budget in CY 2015



Notes: Average decrease in federal tax rate is calculated across all tax units in a cash income percentile class, excluding tax units with negative cash income. Federal taxes include individual and corporate income tax, payroll taxes for Social Security and Medicare, and the estate tax. Income cutoffs are (in 2011 dollars): 20% $19,342; 40% $39,862; 60% $69,074; 80% $119,546; 99% $629,809; and 99.9% $2,868,534.
Source: JEC Chairman's Staff based on data from the Tax Policy Center, Table T12-0125.

For households making less than $200,000, removing the tax deductions, making 401(k) contributions subject to taxes, and eliminating the exclusion for employer-provided health insurance outweighs the benefit of the lower tax rates in the Ryan plan. The net effect is that a typical household earning between $50,000 and $100,000 and filing jointly will face a tax increase under the Ryan plan of $1,358, assuming the additional income is taxed at a 10 percent rate. If those households end up in the 25 percent tax bracket, their additional tax burden would more than double to $2,938. For households with incomes between $100,000 and $200,000, the tax increase is $2,681.

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[1] The estimated reduction in taxes resulting from the compression of tax brackets and removal of the AMT was taken from the Tax Policy Center (TPC). TPC estimated those reductions according to a household's cash income. Cash income is greater than the adjusted gross income (AGI) reported by taxpayers on their tax forms. Specifically, "[c]ash income is AGI minus taxable state and local tax refunds, plus total deductions from AGI (IRA deductions, Student loan interest deduction, alimony paid, one-half of self-employment tax, moving expenses, penalty on early withdrawal of savings, self-employed health insurance deduction and medical savings account deduction, Keogh and self-employed SEP and SIMPLE plans), non-taxable pension income, tax-exempt interest, non-taxable social security benefits, cash transfers, worker's compensation, employee's contribution to tax deferred retirement savings plans, employer's share of payroll taxes and corporate tax liability." TPC, http://www.taxpolicycenter.org/briefing-book/glossary/#c, accessed on June 8, 2012.

[2] The chart and examples use the "current law" scenarios from TPC to calculate reductions in income taxes for different cash income groups due to the Ryan plan, without taking into account any reductions in tax expenditures from broadening the tax base. Because current law assumes that all of the 2001 and 2003 tax cuts expire at the end of the year and AMT is not indexed to inflation, it is likely that individuals in lower income tax brackets would see their taxes rise by more than is specified in this table.

As the table demonstrates, the tax benefits under Ryan's plan are skewed dramatically to those at the top of the income distribution. In fact, despite the lower federal tax rates included in Ryan's plan, the budget results in a tax hike for the majority of households who earn less than $200,000 a year.

Table. Ryan Plan's Potential Tax Implications for American Workers

	Income Categories				
	$50,000 to less than $100,000	$100,000 to less than $200,000	$200,000 to less than $500,000	$500,000 to less than $1,000,000	$1,000,000 and over
Reducing Marginal Tax Rates Under The Ryan Plan					
Estimated change in taxes due to lowering tax rates and eliminating Alternative Minimum Tax[1]					
Married filing jointly	-$3,138	-$7,688	-$19,704	-$67,147	-$393,664
Single	-$3,022	-$7,192	-$29,697	-$85,688	-$440,090
Eliminating Certain Itemized Deductions and Income Exclusions to Pay for Reducing Tax Rates					
Adjusted Gross Income (averages)	$70,938	$133,223	$283,360	$674,095	$3,068,649
Percent of filers who itemized deductions	55.9%	84.7%	95.5%	96.6%	97.2%
Eliminate certain itemized deductions and income exclusions					
Deductions (averages)					
State and local income taxes	$3,510	$7,039	$17,746	$47,099	$240,150
Mortgage interest	$9,976	$13,259	$20,347	$28,303	$32,822
Charitable contributions	$2,775	$3,904	$7,561	$18,498	$132,371
Exclusion for 401(k) contributions (averages)	$5,675	$10,658	$17,000	$17,000	$17,000
Total, itemized deductions and exclusions	$21,937	$34,861	$62,653	$110,900	$422,343
Standard deduction (2009)					
Married filing jointly	$11,400	$11,400	$11,400	$11,400	$11,400
Single	$5,700	$5,700	$5,700	$5,700	$5,700
Additional income subject to tax (total of itemized deductions and exclusions, less standard deduction)					
Married filing jointly	$10,537	$23,461	$51,253	$99,500	$410,943
Single	$16,237	$29,161	$56,953	$105,200	$416,643
Increase in federal income tax[2]					
Married filing jointly	$1,054	$5,865	$12,813	$24,875	$102,736
Single	$4,059	$7,290	$14,238	$26,300	$104,161
Eliminate exclusion for employer-provided health insurance					
Additional tax	$3,442	$4,504	$4,634	$4,385	$4,385
Total change in taxes					
Married filing jointly	$4,496	$10,369	$17,447	$29,260	$107,121
Single	$7,501	$11,794	$18,872	$30,685	$108,546
Net Change in Federal Income Taxes					
Married filing jointly	$1,358	$2,681	-$2,257	-$37,887	-$286,543
Single	$4,479	$4,602	-$10,825	-$55,003	-$331,544

Sources: JEC Chairman's staff based on data from the Internal Revenue Service (Average AGI, Itemized Deductions (except 401(k) contributions), Statistics of Income (SOI) 2009 tax year: Health-care exclusion calculated based on Joint Committee on Taxation, Testimony before the Senate Committee on Finance, July 31, 2008 hearing (2007 data); 401(k) contribution limits calculated based on 8 percent AGI contribution rate up to a maximum of $17,000.

[1]Averages based on Tax Policy Center table T12-0124, "House Republican Budget Plan without Unspecified Base Broadeners." Income categories for tax savings from the Ryan plan are based on cash income while increased taxes due to elimination of exclusions and itemized deductions are based on AGI.

[2]Assumes that married couples filing jointly with income between $50,000 and $100,000 would face a 10 percent tax rate on additional income, while all others would face a tax rate of 25 percent.