Joint Economic Committee
Republicans
Representative Kevin Brady
Vice Chairman

REPUBLICAN STAFF COMMENTARY

Response to "Winners and Losers - Understanding the Ryan Plan's Potential Tax Implications for America's Workers"

June 27, 2012

The "report" by the Democratic staff of the Joint Economic Committee (JEC) on June 20, 2012, purports to show that taxpayers with income less than $200,000 would be harmed by tax policies developed by the House Ways and Means Committee and outlined by House Budget Committee Chairman Paul Ryan in the Fiscal Year 2013 Budget, *The Path to Prosperity: A Blueprint for American Renewal* (Ryan budget).

Under the tax policies outlined in Ryan budget, individual taxpayers would be subject to two federal individual income tax rates – 10% and 25%; the Alternative Minimum Tax (AMT) would be eliminated; the federal corporate income tax rate would be reduced to 25%; and the 3.8% health care surcharge enacted as part of Obamacare would be repealed. The resulting revenue loss would be offset by the elimination of unspecified tax preferences.

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In the "report," JEC Democratic staff utilizes a series of inconsistent data sources and analytical techniques. Consequently, the "report's" conclusions are either misleading or incorrect.

The "report" uses data from the Tax Policy Center. The Tax Policy Center employs a concept, "Cash Income Level," which imputes additional types of income that are not included on individual tax returns.[1] The Tax Policy Center imputes all taxes – including corporate taxes – to individuals. Thus, the Tax Policy Center's definitions of both income and taxes are significantly different than the IRS data used elsewhere in the "report."

The "report" uses the Tax Policy Center's definitions of income and taxes that are significantly different than the IRS's and compares the lower rates in the Ryan budget to Current Law rather than Current Policy to exaggerate the size of the average tax savings for higher-income taxpayers.

Then the "report" compares the lower rates in the Ryan budget to Current Law, rather than Current Policy, to exaggerate the size of the average tax savings for higher-income taxpayers from individual and corporate income tax rate reductions before any offsets from eliminating deductions and

Ryan Budget Tax Cuts without Offsets Relative to Alternative Baselines (FY 2015)		
"Cash Income Level"	Ryan Budget versus:	
	Current Policy	Current Law
$100,000 to $200,000	($2,818)	($7,519)
$200,000 to $500,000	($11,089)	($21,115)
$500,000 to $1,000,000	($47,040)	($69,811)
$1,000,000 and Over	($264,970)	($406,327)
Source: Tax Policy Center, Tables T12-0124 and T12-0126 http://www.taxpolicycenter.org/numbers/recentestimates.cfm?year=2		

exclusions.

In FY 2015, compared to Current Policy, the tax reductions proposed in the Ryan budget before any offsets would reduce revenue by $398 billion; compared to Current Law, the reduction would be $882 billion.

Total Federal Revenue in FY 2015		
	Billions	%GDP
Current Policy	$3,084	17.5
Current Law	$3,568	20.3
Ryan Budget w/o offsets	$2,686	15.2
Source: Tax Policy Center, Table T12-0123		
http://www.taxpolicycenter.org/numbers/recentestimates.cfm?year=2012		

JEC Democratic staff arbitrarily assumes the elimination of the deductions for state and local taxes, the mortgage interest payments, and charitable contributions; and the exclusions for 401(k) contributions and employer-provided health care.

The "report" illustrates how hypothetical taxpayers would be affected assuming various deductions and exclusions were eliminated in order to offset the lower tax rates in the Ryan Budget. Specifically, JEC Democratic staff arbitrarily assumes the elimination of the deductions for state and local taxes, the mortgage interest payments, and charitable contributions; and the exclusions for 401(k) contributions and employer-provided health care. However, JEC Democratic staff does not provide a revenue estimate for these provisions. Our calculations suggest they would offset the revenue loss under Current Policy, but not under Current Law.

- Eliminating the specified itemized deductions would generate $192 billion.[2]
- Taxing employer-provided health plans would generate between $148 billion and $196 billion.[3]
- Taxing 401(k) contributions would generate $54 billion.[4]

Despite the lack of adequate offsets under Current Law, the "report" proceeds to compare how various hypothetical taxpayers would fare under the tax policies described in the Ryan budget assuming the JEC Democratic staff's specified offsets. These hypothetical examples are misleading or incorrect in several respects:

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JEC Democratic staff assumes that everyone in each income range benefits from all of specified deductions and exemptions when in fact not everyone does.

- JEC Democratic staff computes tax changes based on the assumption that everyone in each income range benefits from all of specified deductions and exemptions when in fact not everyone does. For taxpayers between $50,000 and $200,000 adjusted gross income, only 65% have itemized deductions, only 84% have employer-provided health insurance; and only 55% have a defined contribution retirement plan.
- JEC Democratic staff computes tax changes for employer-provided health care based on the average tax exclusion in 2007.[5] JEC Democratic staff does not adjust for the differences in premiums

between individuals and families, or for the lower individual income tax rates under the tax policies outlined in the Ryan budget.[6]

In conclusion, the JEC Democratic staff "report" exaggerates the size of the tax savings from individual income tax rate reductions described in the Ryan budget; arbitrarily chooses which deductions and exclusions to keep and which to eliminate; mixes-and-matches incompatible data sets; and overstates the effects of eliminating deductions and exclusions on middle income taxpayers by ignoring taxpayers who do not receive them.

TABLE 1			
Itemized Deductions in Billions of Dollars by AGI Category (2009)			
AGI	Under $200,000	Over $200,000	TOTAL
Interest Deduction	$363	$79	$442
Contribution Deduction	$99	$59	$158
State & Local Tax Deduction	$281	$151	$432
Other Deductions	$156	$28	$184
TOTAL	$899	$317	$1,216
Source: IRS SOI, Table 2.1 Returns with Itemized Deductions http://www.irs.gov/taxstats/indtaxstats/article/0,,id=96981,00.html			

TABLE 2		
Employee and Employer Health Insurance Premiums		
	Enrollment in Millions	Premiums in Billions
All Employers (including Civilian Government)	165.9	$755
Military (Active Duty and Dependents)	3.4	$14
Source: CMS, DoD, OMB, JEC Republican Staff Calculations		
http://www.cms.gov/NationalHealthExpendData/downloads/tables.pdf		
http://comptroller.defense.gov/defbudget/fy2011/FY2011_Budget_Request_Overview_Book.pdf		
http://www.militaryhomefront.dod.mil/12038/Project%20Documents/MilitaryHOMEFRONT/Reports/2010_Demographics_Report.pdf		
http://www.whitehouse.gov/omb/budget/Historicals		

TABLE 3					
Defined Contribution Retirement Plans (Percent of Workers)					
Wage Level	Bottom Quartile	Second Quartile	Third Quartile	Top Quartile	Top 10%
Access to Plan	36%	58%	61%	65%	69%
Participate in Plan	17%	38%	45%	51%	55%
Source: BLS, Employee Benefits Survey					
http://www.bls.gov/ncs/ebs/benefits/2011/ownership/civilian/table02a.htm					

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[1] The most notable additions include: employer contributions to tax-deferred retirement plans, the employer's share of payroll taxes, and corporate tax liabilities. See the definition of "Cash Income" in the TPC's Glossary, http://www.taxpolicycenter.org/briefing-book/glossary/

[2] Estimate assumes deductions for taxpayers under $100,000 are taxed at 10% and deductions for taxpayers over $100,000 are taxed at 25%.

[3] Estimate assumes a combined (weighted average) 25.5% income and payroll tax rate (10%+15.3% under $100,000 AGI and 25%+2.9% over $100,000 AGI). The range depends on how many employees receive exclusion through premium conversion.

[4] Estimates assume annual 401(k) contributions equal to the lesser 8% of wages or $17,000 with 40% participation rate. For background on these assumptions, see

Investment Company Institute, Perspective, Vol. 11 / No. 2, July 2005, http://www.ici.org/pdf/per11-02.pdf; and Bureau of Labor Statistics, Employee Benefits Survey, 2011 http://www.bls.gov/ncs/ebs/benefits/2011/ownership/civilian/table02a.htm

[5] Tax Expenditures for Health Care, July 31, 2008, JCX-66-08, https://www.jct.gov/publications.html?func=startdown&id=1273

[6] BLS, Employee Benefits Survey. Civilian medical care benefits, employer and employee premiums by employee contribution requirement, single coverage (Table 12) and family coverage (Table 14), http://www.bls.gov/ncs/ebs/benefits/2011/ownership_civilian.htm#health