

Legislative Watch—

President Fiscal Commission draft proposal contains dramatic tax options

A draft of the President Fiscal Commission proposal has just been released. The Initial Bowles-Simpson Bipartisan Fiscal Commission Proposal (Co-Chair Draft) proposes a \$3.8 trillion deficit-cutting plan, including comprehensive tax proposals that would (1) lower rates; (2) simplify the Code; (3) broaden the base; (4) cut spending in the tax Code (i.e., tax expenditures); (5) improve compliance (Tax Gap); (6) make America the best place in the world to start and grow a business; and (7) reduce the deficit. It offered three options to achieve these goals:

Option 1: the Zero Plan. This option would:

- Consolidate the tax code into three individual rates and one corporate rate;
- Eliminate the alternative minimum tax (AMT), Pease (the 3%/80% reduction in total itemized deductions), and PEP (personal exemption phaseout);
- Eliminate all \$1.1 trillion of tax expenditures;
- Dedicate a portion of savings to deficit reduction and apply the rest to reduce all marginal tax rates; and
- Add back in any desired tax expenditures, and pay for them by increasing one or all of the rates from their zero-expenditure low.

Option 2: Wyden-Gregg Style Reform. This option would include the following individual tax reforms:

- Repeal the AMT, PEP, and Pease;
- Establish 3 rates 15%, 25% and 35%;
- Triple the standard deduction to \$30,000 (\$15,000 for individuals);
- Repeal the state & local tax deduction, cafeteria plans, and miscellaneous itemized deductions;
- Limit the mortgage deduction to exclude residences, home equity loans, and mortgages over \$500,000;
- Limit the charitable deduction with floor at 2% of adjusted gross income (AGI);
- Cap income tax exclusion for employer-provided healthcare at the amount of the actuarial value of the Federal Employees Health Benefits Plan (FEHBP) standard option;
- Modify and repeal several other tax expenditures; and
- Dedicate a portion of savings to deficit reduction.

It also would include the following corporate tax reforms:

- Reduce the corporate tax rate to 26%;

- Permanently extend the research credit;
- Eliminate and modify several business tax expenditures, including the domestic production deduction, the LIFO accounting method, energy tax preferences for the oil and gas industry, and depreciation rules; and
- International tax reform including a territorial system.

Option 3: Tax Reform Trigger. This option would:

- Call on Finance and Ways & Means Committees and Treasury to develop and enact comprehensive tax reform by end of 2012;
- Put in place an across-the-board “haircut” for itemized deductions, employer health exclusion, and general business credits that would take effect in 2013 if reform is not yet enacted;
- Haircut would limit proportion of deductions and exclusions individuals could take to around 85% (a very rough estimate of the haircut necessary to reduce the deficit by \$80 billion in 2015) in 2015. Similarly, corporations would only take some proportion of their general business credits; and
- Set haircut to increase over time until tax reform is enacted.

Other Revenues. The proposal would also include (1) Gradually increasing gas tax to fund transportation spending (raise gas tax gradually by 15 cents beginning in 2013 and dedicate funds toward fully funding the transportation trust funds and therefore eliminating the need for further general fund bailouts); and (2) Chained CPI (because the current index overstates inflation, technical correction would adopt chained CPI government-wide, including the Code)

The White House issued a statement indicating that the President will wait until the bipartisan fiscal commission finishes its work before commenting. The President noted that these ideas are only a step in the process towards coming up with a set of recommendations.

The text of the Co-Chairs' Proposal can be view at http://www.fiscalcommission.gov/sites/fiscalcommission.gov/files/documents/CoChair_Draft.pdf.

The text of \$200 Billion in Illustrative Savings can be viewed at http://www.fiscalcommission.gov/sites/fiscalcommission.gov/files/documents/Illustrative_List_11.10.2010.pdf.