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READ: The House GOP's plan to reform the tax code

By Wonkblog staff, Updated: February 26 at 1:46 pm

House Ways and Means Committee Chairman Dave Camp released his long-awaited tax reform plan just now. You can read the draft legislation, the section-by-section summary, the executive summary and more on the committee's Web site. The following comes directly from Camp's press release announcing the tax reform plan.

Highlights of the Tax Reform Act of 2014 include:

- **New Individual and Corporate Rate Structure:** Flattens the code by reducing rates and collapsing today's brackets into two brackets of 10 and 25 percent for virtually all taxable income, ensuring that over 99 percent of all taxpayers face maximum rates of 25 percent or less. The plan also reduces the corporate rate to 25 percent.
- **Larger Standard Deduction:** Makes the code simpler and fairer by providing a significantly more generous, inflation-adjusted standard deduction of $11,000 for individuals and $22,000 for married couples.
- **Larger Child Tax Credit:** Increases the child tax credit to $1,500 per child, adjusts it for inflation going forward and expands the number of families that can claim the credit.
- **Simpler, Improved Taxation of Investment Income:** Taxes long-term capital gains and dividends as ordinary income, but exempts 40 percent of such income from tax – resulting in a three percentage point decrease from the maximum rates individuals pay today on such income while also achieving the lowest level of double taxation on investment income in modern history.
- **No AMT:** In addition to lowering tax rates for families and all job creators, the plan repeals the Alternative Minimum Tax (AMT) for individuals, pass-through businesses and corporations.
- **Easier Education Benefits:** Adopts recommendations stemming from the bipartisan working groups to consolidate education tax benefits so, along with the additional money from stronger economic growth, families can more easily afford the costs of a college education.
- **Modernized International System:** Modernizes the international tax code for the first time in more than 50 years while protecting jobs, wages and profits from being shipped overseas.
- **Permanent R&D Incentive:** Invests in innovation by making permanent an improved Research & Development Tax Credit.
- **More Affordable Healthcare**: While the plan generally leaves ObamaCare policies untouched and for a later debate on healthcare, there are two main exceptions given strong bipartisan support for: (1) repeal of the medical device tax and (2) repeal of the medicine cabinet tax, which prohibits use of funds from tax-free accounts to purchase over-the-counter medication without first obtaining a prescription.
- **IRS Accountability:** Cracks down on IRS abuses and reduces massive waste, fraud and abuse. The plan also contains provisions prohibiting implementation of recently proposed rules affecting 501(c)(4) organizations and provides victims with information regarding the status of investigations into violations of their taxpayer rights.

- **Infrastructure Investment:** Dedicates $126.5 billion to the Highway Trust Fund (HTF) to fully fund highway and infrastructure investment through the HTF for eight years.
- **Simplification for Seniors:** Reflecting a proposal supported by AARP and ATR, the plan requires the IRS to develop a simple tax return to be known as Form 1040SR, for individuals over the age of 65 who receive common kinds of retirement income like annuity and Social Security payments, interest, dividends and capital gains.
- **Charitable Giving:** Expands opportunities to make tax-deductible contributions past the end of the tax year, makes permanent conservation easement incentives, simplifies exempt organization taxes and sets a floor instead of a cap to the amount of donations that can be deducted. The economic growth in this plan will increase charitable giving by $2.2 billion annually.
- **Shrinks and Simplifies the Income Tax Code:** In addition to easing complexity and compliance burdens by adopting a larger standard deduction, an enhanced child tax credit and lower rates, the plan repeals over 220 sections of the tax code; cutting the size of the income tax code by 25 percent.

In keeping with previously released drafts, the Committee seeks input and feedback on technical and policy issues raised by the draft released today. The Committee also invites input on the accompanying technical explanation prepared by the JCT staff, a document that could serve as the basis for similar legislative history on any future tax reform legislation that may be considered by the Committee. Additionally, as it further examines options arising from the budgetary and economic analysis, the Committee is especially interested in receiving constructive feedback on areas listed below.

1. **Extenders Policy ($1 Trillion):** The proposal has been scored by JCT as deficit neutral; it does not increase the budget deficit relative to the projected deficits for the FY2014-23 budget window. CBO's revenue baseline for this period assumes that a number of tax policies expire and are not renewed. However, CBO has noted that "[n]early all of those provisions have been extended previously; some, such as the research and experimentation tax credit, have been extended multiple times." Including a permanent extension of these policies would result in the revenue baseline being almost $1 trillion lower over the FY2014-23 budget window than projected. In such a scenario, the proposal would therefore reduce the deficit – mostly through revenue increases – potentially by as much as $1 trillion (without considering all potential interactions among those policies and the proposal). CBO annually presents an "alternative fiscal scenario" that assumes these tax provisions are made permanent – the same assumption generally used for spending programs in CBO's traditional baseline. The Committee is interested in feedback on which (including none or all) of these expiring tax provisions should be included in the revenue baseline for purposes of determining whether the proposal is deficit neutral.

2. **Dynamic Revenue ($700 Billion):** JCT's analysis shows that the additional economic growth that would result from the enactment of tax reform would generate up to an additional $700 billion in tax receipts over the FY 2014-2023 budget window as a result of increased employment and higher wages. This additional revenue, however, is not taken into account as part of JCT's determination that the proposal is deficit neutral. As a result, under the proposal as currently structured, this additional revenue would be available to the Federal government for a variety of purposes. The Committee is interested in feedback on how this additional revenue should be treated (e.g., should it be used to further lower tax rates or to provide other tax benefits, should it be dedicated to deficit reduction, or should it be dedicated to some combination of the two).

3. **Household Impact:** The proposal has been scored by JCT as being distributionally neutral; it does not significantly change the share of taxes paid by or the average tax rate for each income cohort reported by JCT. However, each income cohort reported by JCT

includes a heterogeneous mix of taxpayers. For example, the combination of lower rates, the increase in the size of the standard deduction, and the reforms to the child tax credit and EITC will affect households differently depending on the number of children in the household and whether the taxpayer files jointly. The Committee is interested in feedback as to whether and how these more detailed circumstances should be analyzed and whether there are certain distributional outcomes that are more preferable than others (e.g., effects on households with multiple children versus households without children within the same income cohort).

4. **Economic Modeling:** JCT's analysis of the proposal includes an analysis of the macroeconomic effects of tax reform on the U.S. economy, which is sometimes referred to as a dynamic score. This dynamic score shows that the proposal would result in substantial additional economic growth and job creation as compared to the status quo. JCT used two different economic models and a variety of assumptions to calculate the dynamic score. The two models take different approaches to modeling the impact of the proposal on the U.S. economy. For example, one model, the MEG model, cannot fully account for the breadth of the changes to international tax policy made by the proposal and therefore understates the extent of additional investment in the U.S economy, particularly for investment in high-technology, IP-intensive sectors. The OLG model, on the other hand, contains a fiscal constraint that requires the debt to GDP ratio to be held constant between the pre- and post-reform economy, thus failing to capture the full benefits of reduced budget deficits on the economy. The Committee is interested in feedback on the methodology and parameter estimates used by JCT in performing the macroeconomic analysis and recommendations on how this analysis can be improved.

5. **Greater Compliance:** The current complexity of the tax code makes compliance difficult and facilitates billions of dollars in improper payments and fraud. The most recent estimate shows that the tax gap amounts to $450 billion annually. The proposal includes a number of reforms that would substantially simplify the tax code and improve reporting and compliance. This improved compliance is partially – but not fully – incorporated into JCT's analysis of the proposal. The Committee is interested in feedback on how to analyze the impact of the proposal on improving compliance, closing the tax gap, and reducing improper payments and fraud. The Committee is interested in receiving analysis that would quantify the extent of the improved compliance and recommendations for how measurements of improved compliance should be factored into any analysis in determining whether the proposal is deficit neutral.

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