History and Context: “Tax Reform” efforts of the past 50 Years

May 10, 2018
US Top Marginal Tax Rates 1913-2013

1913: 77.00%
1917: 77.00%
1921: 63.00%
1925: 24.00%
1929: 94.00%
1933: 94.00%
1937: 94.00%
1941: 94.00%
1945: 94.00%
1949: 94.00%
1953: 94.00%
1957: 94.00%
1961: 94.00%
1965: 39.60%
1969: 39.60%
1973: 39.60%
1977: 39.60%
1981: 39.60%
1985: 39.60%
1989: 39.60%
1993: 39.60%
1997: 39.60%
2001: 39.60%
2005: 39.60%
2009: 39.60%
2013: 39.60%
Pre-1986 Major Tax Legislation

• Revenue Act of 1962 created investment tax credit and allowed IRS to set depreciation schedules

• Revenue Act of 1964 reduced top individual marginal income tax rate from 91% to 70%, created standard deduction, reduced corporate tax rate from 52 to 48%

• Economic Recovery Tax Act of 1981 (Kemp-Roth stimulus) decreased top individual tax rate from 70% to 50%, increased investment tax credit, created Accelerated Cost Recovery System
Tax Reform Act of 1986

• Revenue neutral tax reform: broaden base, lower rates
• Raised revenue with more than 100 base broadening provisions geared toward implementing a Haig-Simons income tax:
  
  \[
  \text{Income} = \text{Savings} + \text{Consumption}
  \]

• Taxed capital gains at the same rates as ordinary income
• Modified Accelerated Cost Recovery System slowed depreciation
• Lowered top individual income tax rate from 50% to 28%
• Lowered corporate tax rate from 46% to 34%
• **Omnibus Budget Reconciliation Act of 1993**
  - Added 36% and 39.6% income tax brackets
  - Wages subject to Medicare payroll tax
  - Increased alternative minimum tax rate from 24% to 28%
  - Increased taxation of social security benefits
  - Increased corporate income tax from 34% to 35%
  - Lengthened asset lives for nonresidential structures from 31.5 to 39 years
  - Increased excise tax on gasoline

• **Taxpayer Relief Act of 1997**
  - Reduced capital gains rate from 28% to two rates: 10% and 20%
  - Excluded capital gains on personal residences: $250,000 single filers / $500,000 joint filers.
  - Increased excise taxes on airline tickets
  - Created child tax credit of $500 per child per year
Bush Era Tax Legislation

**Economic Growth and Tax Relief Reconciliation Act of 2001**
- Top individual tax rate reduced 39.6% to 35%
- Eliminated phaseout of personal exemptions and Pease limitation on itemized deductions, increased Alternative Minimum Tax exemption amount, expanded standard deduction for joint filers to twice that of single filers
- New 10% income tax bracket for low-income households, expanded child tax credit from $500 to $1,000, increased phase-out point of earned income tax credit for joint filers by $3,000.

**Jobs and Growth Tax Relief Reconciliation Act of 2003**
- Lowered capital gains rates from 10% and 20% to 0% and 15% and reduced dividend tax rate to capital gains rate
- 50 percent bonus expensing for eligible capital investment.
Obama Era Tax Legislation

**American Taxpayer Relief Act of 2012**

- Permanently extended 2001 tax cuts. Retained 0/15/25/28/33/35% tax rate structure but allowed 39.6% bracket to return for single filers with AGI over $400,000 ($450,000 for married taxpayers filing jointly)

- Permanently extended 2003 tax cuts, retaining 0/15% tax rates on long-term capital gains and qualified dividends for all taxpayers except those in the top income tax bracket; allowed 20 percent rate to return for taxpayers in the top bracket.

- Repealed the Pease limitation on itemized deductions and personal exemption phaseout for single taxpayers with AGI under $250,000 ($300,000 for married couples filing jointly).

- Increased AMT exemption amount and indexed it to inflation

**Patient Protection and Affordable Care Act of 2010**

- Additional .9% hospital insurance tax on high income taxpayers and 3.8% Medicare contribution tax on net investment income
Tax Reform Act of 2014 (Camp Draft)

- Revenue neutral and income distribution neutral over 10-year budget horizon
- Individual tax rates consolidated to 10/25/35%, capital gains and dividends taxed as ordinary income with 40% exclusion
- Increased standard deduction and eliminates personal exemption, state and local tax deduction, medical expense deduction, and reduced mortgage interest deduction to $500,000, sets floor on charitable contributions to 2% of AGI, repeals AMT
- Reduces top corporate rate to 25%, repeals corporate AMT
- Shift to territorial system, 8.75% tax on foreign earned income
• **Destination based cash-flow tax with border adjustment (DBCFT)**
  o The tax rate would be lowered to 20 percent.
  o Businesses fully expense capital investments in the year purchased rather than depreciating them over time.
  o Profits earned overseas not subject to US tax.
  o Interest no longer a deductible expense
  o Border adjusted corporate tax
  o Converts income tax into consumption tax by exempting saving

\[
\text{Income} = \text{Saving} + \text{Consumption}
\]

• Revenue neutral and income distribution neutral over 10-year budget horizon
• Individual tax rates consolidated to 12/25/33%
• Corporate tax rate reduced to 20% with a 25% passthrough rate
• Cash-flow tax means products, services and intangibles exported outside the United States are not subject to U.S. tax regardless of where they are produced, but imports are subject to U.S. tax regardless of where they are produced.
Simplification

**SIMPLE, FAIR “POSTCARD” TAX FILING**

1. Wage and compensation income
2. Add 1/2 of investment income
3. Subtract contributions to specified savings plans
4. Subtract standard deduction OR
   - Subtract mortgage interest deduction
   - Subtract charitable contribution deduction
5. Taxable income
6. Preliminary tax (from tax table)
7. Subtract child credit
8. Subtract earned income credit
9. Subtract higher education credit
10. Total tax
11. Subtract taxes withheld
12. Refund due / taxes owed
“[W]e are now confident that, without transitioning to a new domestic consumption-based tax system, there is a viable approach for ensuring a level playing field between American and foreign companies and workers, while protecting American jobs and the U.S. tax base.

While we have debated the pro-growth benefits of border adjustability, we appreciate that there are many unknowns associated with it and have decided to set this policy aside in order to advance tax reform. …

Our expectation is for this legislation to move through the committees this fall, under regular order, followed by consideration on the House and Senate floors.”
• Lowers individual top marginal rate from 39.6% to 37% through 2025, indexes brackets for inflation using slower growing “chained” CPI permanently

• Increases standard deduction to $12,000 single / $24,000 joint filers, limits home mortgage interest deduction to $750k and state and local tax deduction to $10k, eliminates personal exemption and Pease limit, increases AMT exemption (all through 2025).

• Eliminates health care individual mandate starting 2019

• Doubles estate tax exemption through 2025
Tax Cuts and Jobs Act

Businesses

• Corporate income tax rate permanently reduced to 21%, full expensing of short lived capital investments for five years, § 179 expensing cap increased from $500k to $1M

• 20% deduction for passthroughs with qualified business income (other than lawyers)

• Interest deductibility limited to 30% of EBITDA for four years, and 30% of EBIT thereafter, eliminates NOL carrybacks, limits carryforwards to 80% of taxable income, eliminates § 199

• New minimum tax on stateless income (GILTI), deemed repatriation tax, territorial system with base erosion rules.