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Are JCT Analyses of Tax Change Proposals Useful to Individual Taxpayers?

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Abstract

This article examines whether taxpayers may rely on Joint Committee of Taxation (JCT) studies to assess how a proposed tax change will impact their circumstances by evaluating the impact of a proposed tax law change to broaden the individual income tax base and lower individual income tax rates by performing a microeconomic analysis on their explicit tax burdens before and after the proposed change in tax law. Our results indicate that JCT studies do not fully reveal the impact of proposed tax law changes on individual explicit tax burdens. Finally, we provide a simple methodology to determine the distributional impact of tax proposals on individuals using publically available information.

1. INTRODUCTION

The 2008 election cycle has generated numerous proposals from various Members of Congress to reform and simplify the U.S. individual income tax system.[1] Each proposal is then subject to a macroeconomic analysis by the Joint Committee on Taxation (JCT) to estimate its impact on the aggregate economy (as well as specific sectors) and predict behavioral responses of affected taxpayer groups.[2, 3] The JCT utilizes three different models to perform this task: (1) a macroeconomic equilibrium

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Data are available from public sources identified within this article.

[1] These proposals also emanate from candidates for public office and various tax organizations such as the Americans for Tax Reform, the Americans for Fair Taxation, and the Citizens for Tax Justice.

[2] Joint Committee on Taxation. 2003. *Overview of Work of the Staff of the Joint Committee on Taxation to Model the Macroeconomic Effects of Proposed Tax Legislation to Comply with House Rule XIII.3.(h)(2)*. JCX-105-03 (December 22): 1. House Rule XIII.3.(h)(2) generally requires that a macroeconomic analysis be included in bills reported by the Committee on Ways and Means that amend the Internal Revenue Code of 1986. In addition, as required by the Congressional Budget Act of 1974 (as amended), the JCT is also required to generate tax revenue estimates associated with each proposed tax law change (Joint Committee on Taxation. 2005. *Overview of Revenue Estimating Procedures and Methodologies Used by the Staff of the Joint Committee on Taxation*. JCX-1-05 [February 22]: 2).

[3] Other countries have similar committees that support the legislative body on tax matters (e.g., the Australian Senate establishes committees as necessary, such as the Senate Select Committee on a New Tax System; the Canadian House of Commons has the Standing Committee on Finance; New Zealand's House of Representatives has the Select Committee on Finance and Expenditures).

growth model (MEG), (2) an overlapping generations lifecycle model (OLG), and (3) a dynamic stochastic general equilibrium model with infinitely lived agents (DSGE). Each model, however, provides limited range regarding the various individual taxpayer groups that may be impacted by a proposed tax law. In fact, only the DSGE model directly considers the impact of a tax law change on individual taxpayers by distinguishing between two types of individuals: savers and spenders.[4] While this latter feature allows for an analysis of the differential impact of any tax proposal on low and high income taxpayer households, its definitional vagueness makes it difficult for individual taxpayers to map these results to their own particular circumstances.[5]

Upon request by Members of Congress, the JCT may also generate an individual distributional analysis of a proposed tax law change.[6] However, unlike the macroeconomic analyses referred to above, distributional analyses are rarely produced as they are significantly costly to generate both in terms of JCT staff resources and money.[7] In addition, requests made by Members of Congress are treated as confidential, and the responses are released only to the Member making the request unless the Member decides to make the information public.[8] Therefore, even in the event a distributional analysis is generated by the JCT staff it is highly unlikely that its results will be communicated with individual taxpayers to allow them to evaluate how a proposed tax law change will impact their own explicit tax burdens.

The purpose of this article is two-fold. First, we investigate whether JCT macroeconomic analyses provide sufficient information to allow taxpayers to determine how proposed tax law changes will impact their explicit tax burdens. We focus on the sufficiency of these studies since they contain the information that is most likely to be released to the public for each tax law change being considered.[9] Second, as our results indicate that the JCT macroeconomic analyses do not provide adequate information to inform taxpayers, we provide an alternative methodology to

[4] Joint Committee on Taxation. 2006. *Background Information about the Dynamic Stochastic General Equilibrium Model Used by the Staff of the Joint Committee on Taxation in the Macroeconomic Analysis of Tax Policy*. JCX-52-06 (December 14): 1.

[5] Joint Committee on Taxation. 2008. *Inside the JCT Revenue Estimating Process*. (January 30): 10. The JCT utilizes an Individual Tax Model for revenue estimates that incorporates 180,000 actual tax returns from all categories of taxpayers. However, the results are aggregated and reported as a single amount in each year for each proposed change to current tax law.

[6]

estimate the distributional effects of proposed changes in tax law on individual taxpayer explicit tax burdens. This methodology utilizes Statistics of Income (SOI) data to estimate average taxable income amounts for representative tax filers. The SOI data is based on a sample of tax returns, selected before audit, of individuals that filed tax returns using Forms 1040, 1040A and 1040EZ (including electronic returns). While our study is based on the United States tax system, our findings are generalizable to other taxing jurisdictions that have publically available data that allows for a similar analysis that the U.S. SOI data provides (e.g., Canada, the United Kingdom and Ireland).[10] Other countries (e.g., Australia; New Zealand) provide income tax return statistics that are not stratified into various income brackets, therefore not allowing for the analysis documented in this study.

We evaluate the impact of a proposed tax law change to broaden the individual income tax base and lower individual income tax rates by performing a microeconomic analysis on their explicit tax burdens before and after the proposed change in tax law. We select this proposed tax law change for our study because of the differential predictions that the related JCT macroeconomic analysis (JCT study) makes regarding the impact of the proposal on individual taxpayer consumption patterns and explicit tax benefits. The JCT study estimates the impact of a proposal to reduce marginal tax rates on individuals by 32 percent and eliminate the alternative minimum tax (AMT) and most personal credits. It also broadens the individual tax base by eliminating most above-the-line deductions, itemized deductions and personal exemptions. Overall, the conventional JCT revenue estimate finds that the proposal is approximately revenue neutral over a ten year budget window. Each model's simulation results predict that the proposed tax legislation will increase real gross domestic product (GDP), business investment, and employment. The MEG and OLG simulations predict that short term individual consumption will increase due to the proposal's lower marginal tax rates (MTRs) while the DSGE simulation predicts that short term individual consumption will decrease due to a redistribution of individual tax liabilities from high wage earners to low wage earners.[11]

Overall, our results indicate that JCT macroeconomic studies do not fully reveal the impact of the proposed tax legislation on individual tax return filers. We show that the proposed tax law change will differentially impact two filing groups: those that pay taxes under current tax law (taxable filers) and those that do not (nontaxable filers). For the taxable filer subgroup, the proposed tax law change will redistribute explicit tax costs from high to low income taxpayers. This disparity can be reduced, but not eliminated, if the preferential tax rate on capital gains (and qualified dividends) is also eliminated in conjunction with the adoption of this proposal. In contrast, we illustrate that the proposed tax legislation will increase the explicit tax costs to all nontaxable filers by either reducing their expected tax refunds or forcing them to pay taxes to the federal government. Finally, we show that repealing the preferential tax rate on capital

[10] The Canada Revenue Agency publishes *Final Statistics - Sample Data* that reports detailed profiles of Canadian tax7raeeD (.54u redistr

gains (and qualifying dividends) will have little impact on this subgroup since most nontaxable filers do not generate substantial amounts of preferential income. Our contribution to the literature is to point out the shortcomings of JCT macroeconomic analyses regularly performed for proposed tax law change legislation. In addition, this article presents an alternative methodology using publicly available information to help taxpayers estimate the distributional impact of tax law change proposals.

The remainder of this article is presented as follows. The next section describes the functions of the JCT. The third section discusses the proposed tax law change legislation and the JCT study. The fourth section describes our methodology while the fifth section contains the results that estimate the impact of the potential change in tax law on individual explicit tax costs. A summary of significant findings concludes the article and is included in the final section.

2. JCT

The JCT is a Committee of the U.S. Congress originally established under the Revenue Act of 1926 and is currently authorized under the Internal Revenue Code (IRC) of 1986.[12] The JCT is composed of ten members: five from the Senate Finance Committee and five from the House Ways and Means Committee. The members of the JCT choose the Chief of Staff of the JCT, who is responsible for selecting the remainder of the staff on a nonpartisan basis. The independence and neutrality of the JCT staff serve to facilitate exchanges of information with the Internal Revenue Service (IRS), Treasury, other governmental agencies, interest groups (and their representatives) and taxpayers. [13]

The duties of the JCT are: (1) investigating the operation, effects, and administration of internal revenue taxes, (2) investigate measures and methods for the simplification of taxes, (3) make reports on the results of those investigations and make recommendations, and (4) review any proposed refund or credit of taxes in excess of $2,000,000. In performing these tasks, the JCT has developed the important function of providing technical expertise (usually in the form of legal analysis) to Congress on such specialized tax topics as international taxation, pensions, insurance, trusts and estates, tax administration, tax exempt bonds, excise taxes, and mergers and acquisitions.[14]

In addition to these functions, the Congressional Budget Act of 1974 requires that the JCT provide revenue estimates for all tax legislation considered by either the House or the Senate.[15] Such analyses are the official Congressional estimates for proposed tax legislation.[16] In conjunction with revenue estimates, the JCT is required by House Rule XIII.3.(h)(2) to: (1) perform macroeconomic analysis of the effects of tax

[12] I.R.C. §§001-§005 and §§021-§023 of the I.R.C. of 1986, and predecessor sections of the I.R.C. of 1954, the I.R.C. of 1939, and preceding Revenue Acts back to the Revenue Act of 1926.

[13]

proposals on both the aggregate economy and specific sectors and (2) provide predictions as to the behavioral responses of affected taxpayers. [17]

Towards this end, the JCT estimates the impact of tax legislation proposals on GDP, real business and residential capital stock, equipment, labor supply and consumption using three different macroeconomic analyses: the MEG, OLG, and DSGE analysis.[18] The MEG analysis uses an open economy model that allows international capital flows to affect investment and net exports to affect domestic consumption. This model is based on the assumption that the amount of output is determined by the availability of capital and labor, and in the long run, prices adjust so that demand equals supply. The supply of labor over time is determined by the size of the working age population and its willingness to work in response to changes in after-tax wages. Population and age profile projections are calibrated to the Census Bureau middle series projections.

model is a closed economy in the sense that individuals do not have perfect information regarding future fiscal policy. Government in the DSGE model can also operate at permanently increasing debt levels due to tax cuts as long as the economy grows at a faster rate than debt loads, thus maintaining fiscal solvency. The model has one production sector and no distinction is made between residential and production capital.

In addition, upon request by a Member of Congress, the JCT may perform a distributional analysis. A distributional analysis is a study of how a tax change's aggregate costs and economic burdens are shared by taxpayers, taking into account their different incomes, consumption, etc. The JCT distributional analysis model the incremental changes in the distribution of tax costs and tax burdens that are expected to follow from a proposed change in law, when compared with current law and are designed to supplement the JCT macroeconomic analyses. The JCT provides the distributional effects of a proposal across a five year window for three filing statuses and nine income brackets. Complexity is increased as the JCT utilizes an expanded income concept which includes both taxable and tax exempt income. In addition, the JCT also predicts the tax impact of anticipated changes in taxpayer demographics and behavior.[22] The JCT distributional analyses are more time consuming and costly to prepare than macroeconomic analyses because: (1) it is possible to determine the changes in total taxes paid without knowing how these tax changes are allocated among filing statuses and income groups, (2) data on the income levels of the affected taxpayers are not always available, and (3) in some cases, no reliable method is available to allocate to individuals the taxes paid by businesses. Unlike macroeconomic analysis, the distributional effect(s) on individual taxpayers of proposed tax law changes may not be available for two reasons. First, the JCT staff may decline a Member's request for a distributional analysis in cases where the effects of a proposal on different income groups cannot be predicted with reasonable accuracy.[23] Second, requests made by Members of Congress are treated as confidential, and the responses are released only to the Member making the request unless the Member decides to make the information public.[24]

3. PROPOSED TAX LAW CHANGE AND JCT STUDY

3.1 Proposed Tax Law Change

In 2006 a proposal to modify the individual income tax system by broadening the tax base and reducing statutory tax rates was introduced into Congress. As shown in Figure 1, the tax legislation proposes to broaden the individual tax base in the following ways. First, it eliminates most personal deductions for adjusted gross income (AGI) except for retirement savings deductions (individual retirement account

[22] Joint Committee on Taxation. 2008. *Reading JCT Staff Distribution Tables: An Introduction to*

(IRA) payments and Keogh plan payments) and self-employment taxes.[25] In addition, all itemized deductions and personal/dependency exemptions would be eliminated.[26]

FIGURE 1: SUMMARY OF PROPOSED TAX CHANGES

Current Tax Law	Proposed Tax Legislation
Gross income	Gross income
- "For" AGI deductions	- Modified "For" AGI deductions [a]
= AGI	= Modified AGI
- Itemized deductions	
or Standard deduction [b]	- Standard deduction [b]
- Exemption amount [c]	
= Taxable income	= Modified taxable income
x Tax rate [d]	x Tax rate [d]
= Current-law tax due	= Proposed-law tax due
+ AMT [e]	
- Nonrefundable credits	- Reduced nonrefundable credits [f]
= Tax due before refundable credits	= Modified tax due before refundable credits
- Refundable credits	- Reduced refundable credits [g]
= Tax due	= Modified tax due

Notes:

[a] The proposal eliminates the following deductions for AGI: certain employee fringe benefits, educator expenses, certain business expenses of reservists, performing artists, etc., health savings accounts, moving expenses, self-employed health insurance, penalty on early withdrawal of savings, alimony paid, student loan

[25] Under the proposal, the following deductions for AGI would be eliminated: educator expenses, certain business expenses of reservists, performing artists, etc., health savings accounts, moving expenses, self-employed health insurance, penalty on early withdrawal of savings, alimony paid, student loan interest, tuition and fees, and domestic production activities. As a result, only business, rental, retirement savings, and self-employment tax deductions remain under the proposed tax law.

[26] The JCT study states [page 2]: "[t]he largest categories of deductions repealed are present-law deductions for home mortgage interest expenses, state and local taxes, and charitable contributions. In addition, the exclusions for certain employee fringe benefits, such as employer contributions for health and life insurance as well as special tax incentives for specific activities (childcare, adoptions, and expenditures on personal residences to increase home efficiency) would be repealed.

interest, tuition and fees, and domestic production activities. As a result, only business, rental, retirement savings, and self-employment tax deductions remain under the proposed tax law.

[b] The proposal eliminates itemized deductions but retains the standard deduction.

[c] The proposal eliminates the personal and dependency exemption.

[d] Under the current tax law the short term ordinary tax rates are 10, 15, 25, 28, 33 and 35 percent. The proposed tax law reduces thes

because of a redistribution of individual explicit tax costs from high income to the low income wage earners. However, consistent with the other two models, this model predicts that individual consumption will increase over the two longer term periods.

4. METHODOLOGY

While the MEG and OLG analysis fail to incorporate any alternative individual taxpayer grouping variables into their models, the DSGE includes one variable to distinguish between two types of individuals: savers and spenders. Spenders are assumed to be those individuals in the lower portion of the income distribution (40th percentile of filers with positive income) with savers comprising the balance of the income distribution. While this feature allows for an analysis of the differential impact of a proposed tax law change on the explicit tax costs and consumption patterns of relatively low and high income individual households, it does not allow for more discrete individual taxpayer group partitions based on factors such as income level, filing status, itemizing deductions vs. taking the standard deduction, etc.[29]

We evaluate the range limitations inherent in the JCT macroeconomic studies by performing a microeconomic analysis on their explicit tax burdens before and after the proposed change in tax law. Whether individual tax costs will increase or decrease under the proposed tax legislation relative to the current law is an empirical issue. We utilize the SOI data obtained from the Fall 2007 Statistics of Income Bulletin as provided by the Internal Revenue Service (IRS) for the 2005 tax year to estimate average taxable income amounts for representative tax filers. [30] The SOI data is based on a sample of tax returns, selected before audit, of individuals that filed tax returns using Forms 1040, 1040A and 1040EZ (including electronic returns). We estimate the tax due for each representative filer by applying the 2007 ordinary tax rates to the estimated current law taxable income amounts. Next, we estimate the total current year tax due amount by adding any AMT tax owed by each representative tax filer (obtained from SOI data) and reducing the total tax due by all nonrefundable and refundable tax credits (except for prepaid federal income taxes) available under current law (obtained from the SOI data). [31]

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[29] *Id.* at 6.

[30] Internal Revenue Service (IRS). 2007. *Statistics of Income Bulletin.*

[31] Taxable income for each filing status and AGI bracket is calculated by taking the mean AGI and subtracting either the mean itemized deductions or the mean standard deduction and then subtracting the mean exemption amount. These SOI data are obtained from Table 1.2 –

Next, we estimate each representative tax filer's modified taxable income by considering the impact of the base broadening provisions associated with the proposed tax legislation to convert "current law" taxable income to "proposed law" taxable income.[32] We then estimate each representative tax filer's tax due under the proposed legislation by applying the proposed ordinary tax rates to their modified taxable income amount. We then reduce this amount by any nonrefundable/refundable tax credits allowed under the proposal to estimate the modified tax due under the proposed tax legislation.[33] Finally, we evaluate the impact of the proposed tax law change by comparing the estimated current law tax due to the proposed law tax due for each hypothetical taxpayer. Table 1 describes how the SOI data is used; Panel A provides the calculations for taxable income, preferential income calculations are in Panel B, while the calculations for total income taxes are in Panel C.[34]

TABLE 1: CALCULATIONS UTILIZING THE INTERNAL REVENUE SERVICES (IRS) STATISTICS OF INCOME (SOI) DATA

Current Law - Standard Deduction		Current Law - Itemized Deductions		Proposed Tax Law	
Variable	IRS SOI Table	Variable	IRS SOI Table	Variable	IRS SOI Table
Panel A: Determination of Taxable Income					
Adjusted Gross Income	1.2[a]	Adjusted Gross Income	1.2[a]	Adjusted Gross Income	1.2[a]
				+ "For" AGI deductions eliminated	1.4[b]
				Revised AGI	
- Standard Deduction	1.2[a]	- Itemized Deductions	1.2[a]	- Standard Deduction	1.2[a]
- Exemption Amount	1.2 [a]	- Exemption Amount	1.2 [a]		
Taxable Income		Taxable Income		Taxable Income	
Panel B: Determination of Preferential Income					
Net gain from sales of capital assets	1.4[c]	Net gain from sales of capital assets	1.4[c]	Net gain from sales of capital assets	1.4[c]
+ Capital Gain	1.4[c]	+ Capital Gain	1.4[c]	+ Capital Gain	1.4[c]

Gross Income, Tax Year 2005 is used to obtain SOI data for tax credits. First, the mean nonrefundable credits are subtracted from the tax liability before credits. This amount is set to zero if the result is negative. Then, the mean refundable credits are subtracted to determine the total income tax.

[32] We determine the mean gross income for each filing status and AGI bracket by adding the mean "for" AGI deductions to the mean AGI. We then subtract the "for" AGI deductions remaining in the proposal to determine the modified AGI. These SOI data are obtained from Table 1.4.

[33] The SOI data for mean credit amounts remaining in the proposal are obtained from Table 3.3.

[34] All supporting calculations are available from the authors upon request.

Distributions + Qualified Dividends	1.4[c]	Distributions + Qualified Dividends - Investment Interest Expense	2.1[d] 2.1[d]	Distributions + Qualified Dividends	1.4[c]
Preferential Income		Preferential Income		Preferential Income	

Panel C: Determination of Income Tax

Capital Gains Tax + Ordinary Income Tax + Alternative Minimum Tax	1.4[c]	Capital Gains Tax + Ordinary Income Tax + Alternative Minimum Tax	2.1[d]	Capital Gains Tax + Ordinary Income Tax + Alternative Minimum Tax	1.4[c]
- Nonrefundable Credits	3.3[e]	- Nonrefundable Credits	3.3[e]	- Nonrefundable Credits[f]	3.3[e]
Tax before Refundable Credits (• 0)		Tax before Refundable Credits (• 0)		Tax before Refundable Credits (• 0)	
- Refundable Credits	3.3[e]	- Refundable Credits	3.3[e]	- Refundable Credits[f]	3.3[e]
Income Tax (Refund)		Income Tax (Refund)		Income Tax (Refund)	

Notes:

[a] Adjusted gross income, the standard deduction, itemized deductions, and the exemption amount are obtained from the Internal Revenue Service (IRS) 2007 Statistics of Income (SOI) Bulletin Table 1.2 – *All Returns: Adjusted Gross Income, Exemptions, Deductions, and Tax Items, by Size of Adjusted Gross Income and by Marital Status, Tax Year 2005*.

[b] The tax change proposal eliminates most above-the -line deductions ith the exception of retirement savings deductions and self-employment taxes. Th erefore, e add back all "For" AGI deductions ith the exception of individual retirement account (IRA) payments, Keogh plan payments, and self-employment taxes to determine a revised AGI am ount. These data are obtained from the Internal Revenue Service (IRS) 2007 Statistics of Income (SOI) Bulletin Table 1.4 – *All returns: Sources of Income, Adjustments, and Tax Items, by Size of Adjusted Gross Income, Tax Year 2005*.

[c] Taxable net gain from the sales of capital assets, capital gain distributions, qualified dividends, and the alternative minimum tax are obtained from the In ternal Revenue Service (IRS) 2007 Statistics of Income (SOI) Bulletin Table 1.4 – *All returns: Sources of Income, Adjustments, and Tax Items, by Size of Adjusted Gross Income, Tax Year 2005*.

[d] Qualified dividends, the investment interest expe nse deduction, and the alternative minimum tax for itemized returns are obtained from the Internal Revenue Service (IRS) 2007 Statistics of Income (SOI) Bulletin Table 2.1 – *Returns with Itemized deductions: Sources of Income, Adjustments, Itemized Deductions by Type, Exemptions, and Tax Items, by Size of Adjusted Gross Income, Tax Year 2005.*

[e] The Internal Revenue Service (IRS) 2007 Statistics of Income (SOI) Bulletin Table 3.3 – *All Returns: Tax Liability, Tax Credits, and Tax Payments, by Size of Adjusted Gross Income, Tax Year 2005* is used to obtain SOI data for tax credits.

[f] The proposal eliminates most personal nonrefundable and refundable credits except for prepaid federal income taxes and the earned income credit. The foreign tax credit, the general business credit, the empowerment zone and community renewal credit and the non conventional source fuel credit would remain under the proposal.

We increase the precision of different taxpayer groups examined by performing this analysis for taxpayers in each of the following AGI income ranges [35]:

- Under $5,000,
- $5,000 to under $10,000,
- $10,000 to under $15,000,
- $15,000 to under $20,000,
- $20,000 to under $25,000,
- $25,000 to under $30,000,
- $30,000 to under $40,000,
- $40,000 to under $50,000,
- $50,000 to under $75,000,
- $75,000 to under $100,000,
- $100,000 to under $200,000,
- $200,000 to under $500,000, and
- $500,000 to under $1,000,000.

We also expand the range of alternative taxpayer groups that might be impacted by the proposed change in tax law by separately considering two distinct filing groups: those that had an explicit tax burden upon filing (taxable filers) and those who did not (non taxable filers). For each subgroup, we perform this analysis separately for representative tax filers that itemized deductions or claimed the standard deduction. In addition, this analysis is stratified into the following filing status subgroups: Single, Unmarried Head of Household (HofH) and Married Filing Jointly (MFJ). [36]

The SOI data for each variable in each AGI bracket is presented as a total dollar amount. In addition, the number of returns is provided, so that the mean amount for each return in that AGI bracket can be determined.[37] This SOI data is provided for

[35] These AGI ranges correspond to the ranges used in the SOI Bulletin. As the proposal impacts "For" AGI deductions, modified AGIs are calculated to determine the impact of the proposal (See Figure 1).

[36] Single, HofH and MFJ returns comprised 98 percent of the total returns filed for the 2005 tax year [Internal Revenue Service (IRS). 2007. Statistics *of Income Bulletin*]. Distributional analy

both all returns filed and taxable returns filed. Therefore, by subtracting the taxable return amount from the total return amount (both the dollar amount and the number of returns), the mean nontaxable return amount can also be determined. This methodology is used to determine the mean amount for each variable listed in Table 1.

5. RESULTS

5.1 Selected Descriptive Statistics

$100k-200k	8.0	0.0	100.0
$200k-500k	2.0	0.0	100.0
$500k-1M	0.4	0.0	100.0
> $1M	0.2	0.0	100.0
Total	*67.4*	*32.6*	

Panel B: Standard Deduction Filers vs. Itemizers

	Taxable Filers [b] (%)		Nontaxable Filers [c] (%)	
AGI Range:	Standard[e]	Itemizers[e]	Standard[e]	Itemizers[e]
	A	B	C	D
$0-5k	98.5	1.4	96.9	3.1
$5k-10k	99.3	0.7	93.0	7.0
$10k-15k	95.2	4.8	86.9	13.1
$15k-20k	89.4	10.6	85.6	14.4
$20k-25k	84.6	15.4	81.3	18.7
$25k-30k	79.0	21.0	75.7	24.3
$30k-40k	70.5	29.5	61.5	38.5
$40k-50k	58.5	41.4	40.7	59.3
$50k-75k	42.2	57.8	16.6	83.4
$75k-100k	23.9	76.1	2.7	97.3
$100k-200k	10.4	89.6	10.3	89.7

[d] Computed as follows: percentage of taxable filers divided by the sum of the percentage of taxable and non taxable filers.

[e] Standard represents the percentage of individual filers that claimed the standard deduction on their 2005 tax returns. Itemizers represent the percentage of individual filers that itemized deductions on their 2005 tax returns.

The breakout between tax filers that claimed the standard deduction or who itemized deductions is shown in Panel B of Table 2. As shown in Columns A and B, more than half of the taxable filers with AGI levels less than $50,000 claimed the standard deduction on their 2005 tax returns while the majority of filers with AGI levels in excess of $50,000 itemized deductions. Similarly, the majority of nontaxable filers with AGI levels less than $40,000 claimed the standard deduction on their 2005 tax return, while the majority of filers with AGIs in excess of $40,000 itemized deductions (Columns C and D).

5.2 Results: Taxable Returns

The microeconomic results for the taxable filers' subgroup are presented in Table 3. The estimated current law tax due (before prepaid federal income taxes) is shown in Column A for representative filers claiming the standard deduction and Column B for representative filers that itemized deductions. The proposed law tax due (before prepaid income taxes) is shown in Column C. The next column indicates whether the proposed tax law change increases (decreases) each representative tax filers explicit tax costs relative to their current law tax amounts (standard deduction or itemizer). We do not consider representative filers with AGI levels less than $5,000 or greater than $1 million since they comprise a relatively small percentage of this tax filer population.[39] Consistent with the DSGE model simulation result predictions, our results suggest that representative filers with the highest AGIs (over $200,000) will enjoy a reduction in their explicit tax costs under the proposed tax legislation at the expense of representative filers at the lower AGI levels. More specifically, taxpayers with the lowest AGIs (less than $25,000) will generally experience an increase in their explicit tax costs. [40] The impact to taxpayers with AGIs between $25,000 and $200,000 depends somewhat on their filing status and whether they use the standard deduction (or itemize) but generally we show they will also experience an increase in their explicit tax costs.

[39] After this adjustment, our analysis addresses approximately 98.8 percent of the total population of taxable filers.

[40] Similar results were obtained using the 2004 SOI data.

TABLE 3: ESTIMATED TAX DUE COMPARISONS FOR TAXABLE FILER SUBGROUP

	Tax Due: Current Law		Tax Due: Proposed Tax Law
AGI Range:	Standard[b]	Itemizers[b]	Tax Due [b]
	A	B	C

$100k-200k	22,448	17,219	19,314[d,f]	(-,+)	19,795[i]	(-,+)
$200k-500k	71,001	57,641	54,291[d,f]	(-,-)	58,493[i]	(-,+)
$500k-1M	188,092	150,862	142,153[d,f]	(-,-)	159,591[i]	(-,+)
Panel C: Married Filing Jointly						
$5k-10k	$ (3)	$ (3)	$ (3)	(0,0)	$ (3)	(0,0)
$10k-15k	(6)	(6)	247[d,f]	(+,+)	253	(+,+)
$15k-20k	94	22	590[d,f]	(+,+)	598	(+,+)
$20k-25k	390	159	857[d,f]	(+,+)	866	(+,+)
$25k-30k	846	455	1,273[d,f]	(+,+)	1,302	(+,+)
$30k-40k	1,565	913	2,214[d,f]	(+,+)	2,246	(+,+)
$40k-50k	2,776	1,892	3,379[d,f]	(+,+)	3,432	(+,+)
$50k-75k	5,019	3,963	5,361[d,f]	(+,+)	5,445	(+,+)
$75k-100k	8,333	6,840	9,088[d,f]	(+,+)	9,190	(+,+)
$100k-200k	19,835	15,648	17,689[d,f]	(-,+)	17,997[g]	(-,+)
$200k-500k	64,073	52,680	49,787[d,f]	(-,-)	[illegible]	

89TJ7.02 0 0 7.02 457.32 68T7ay03 Tm-.0043 Tc(i)Tj10.98 0 0 10.98 508.3199 680.8403 T 19,835 d,f 8886m.9727 TD.00248
ET61.02 387.68 69.12 .23999 re

This table is developed by using data taken from the Fall 2007 SOI Bulletin for the 2005 tax year. Supporting calculations are available from the authors upon request.

[g] The tax due without preferential treatment for capital gains is significantly different from the tax due under the proposal at the 0.1 level using a two-tailed Chi-squared test.

[h] The tax due without preferential treatment for capital gains is significantly different from the tax due under the proposal at the 0.05 level using a two-tailed Chi-squared test.

[i] The tax due without preferential treatment for capital gains is significantly different from the tax due under the proposal at the 0.01 level using a two-tailed Chi-squared test.

We further investigate this result by examining the gross income composition for 2005 individual tax filers. As shown in Figure 2, tax filers with gross income levels less than $100,000 generate relatively low percentages (less than 3 percent) of preferential type income (long term capital gains and qualifying dividends). Meanwhile, tax filers with gross income levels in excess of $100,000 report increasing

$15k-20k	(2,452)	(2,452)	(1,418)[d,f]	(+,+)	(1,412)	(+,+)
$20k-25k	(2,388)	(2,388)	(658)[d,f]	(+,+)	(654)	(+,+)
$25k-30k	(1,984)	(1,984)	326[d,f]	(+,+)	340	(+,+)
$30k-40k	(1,386)	(1,454)	1,879[d,f]	(+,+)	1,913	(+,+)
$40k-50k	0	0	3,337[d,f]	(+,+)	3,394	(+,+)
$50k-75k	0	0	4,869[d,f]	(+,+)	5,027[g]	(+,+)

Notes

[a] This table is developed by using data taken from the Fall 2007 SOI Bulletin for the 2005 tax year. Supporting calculations are available from the authors upon request.

[b] Represents estimated tax due (before prepaid income taxes) for the following nontaxable filer subgroups: (1) individual filers that claimed the standard deduction (itemized) under the current law, (2) individual filers under the proposed tax law and (3) individual filers under the proposed tax law assuming that the preferential tax rate on capital gains (and qualifying dividends) was also eliminated.

[c] The tax due under the proposal is significantly different from the current tax due for taxpayers using the standard deduction at the 0.1 level using a two-tailed Chi-squared test.

[d] The tax due under the proposal is significantly different from the current tax due for taxpayers using the standard deduction at the 0.01 level using a two-tailed Chi-squared test.

[e] The tax due under the proposal is significantly different from the current tax due for taxpayers itemizing deductions at the 0.1 level using a two-tailed Chi-squared test.

[f] The tax due under the proposal is significantly different from the current tax due for taxpayers itemizing deductions at the 0.01 level using a two-tailed Chi-squared test.

[g] The tax due without preferential treatment for capital gains is significantly different from the tax due under the proposal at the 0.1 level using a two-tailed Chi-squared test.

qualifying dividends) on nontaxable filers. As expected, this additional repeal would

available to the public, our methodology provides individual taxpayers a cost effective means of estimating the distributional effects of proposed tax legislation on their explicit tax burdens using publically available data.

Our methodology is applicable to other countries that have publically available tax return statistics that is stratified into various income brackets. Some countries (e.g., Australia; New Zealand) that do not provide this type of data may want to consider the benefit of supplying this data so that individuals can determine the impact of proposed tax legislation on their own particular circumstance. [46]

[46] We thank an anonymous reviewer for this suggestion.