The Tax Policy Debate

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Our Current Tax System

Receipts vary over time, but have remained between 15-20 percent of GDP
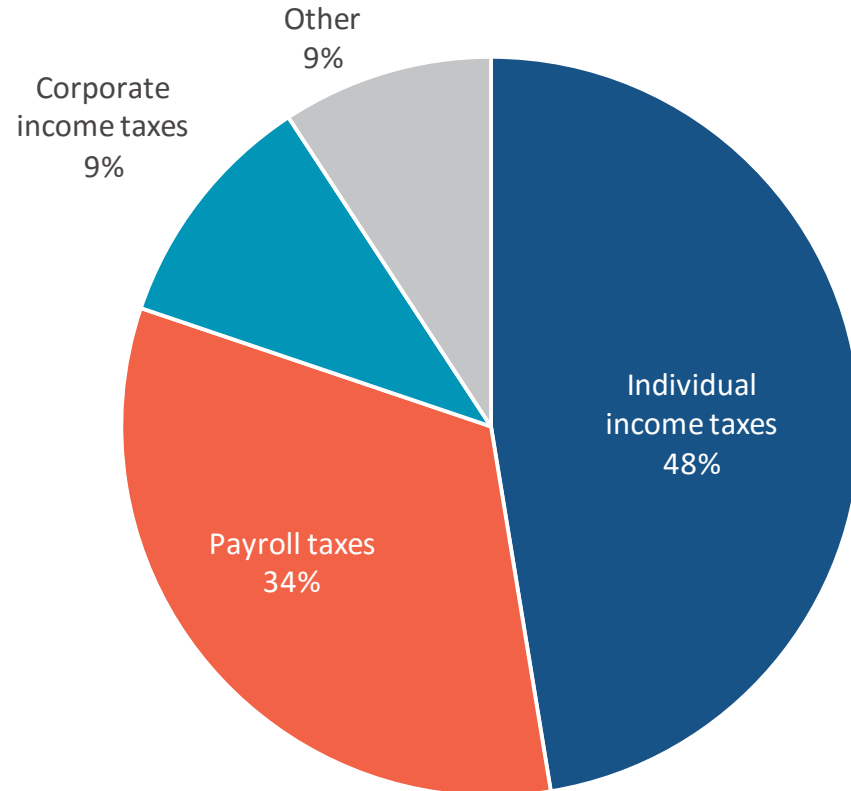
Total Federal Receipts as a Share of National GDP
1950-2016

Percent of GDP
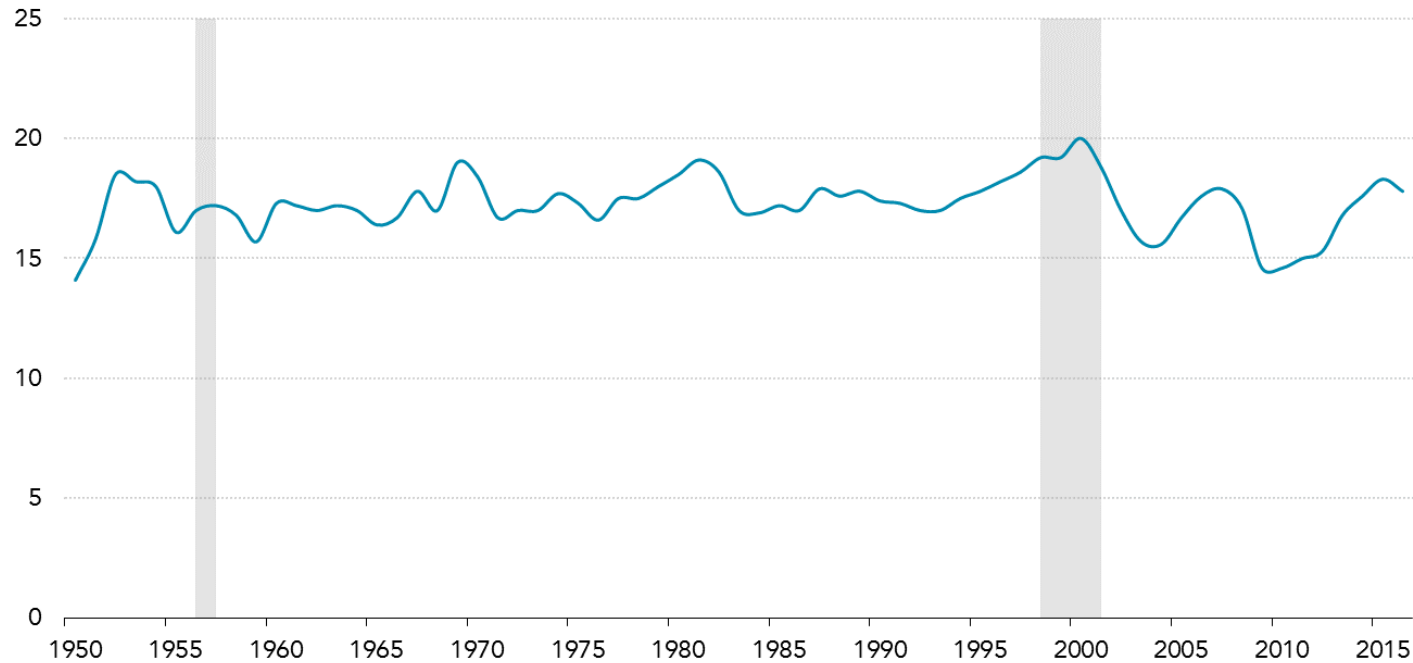
Source: Office of Management and Budget, Fiscal Year 2018, Historical Tables, Table 2.3.

Federal revenue sources in 2015

Pie chart of federal revenue sources:
- Individual income taxes 48%
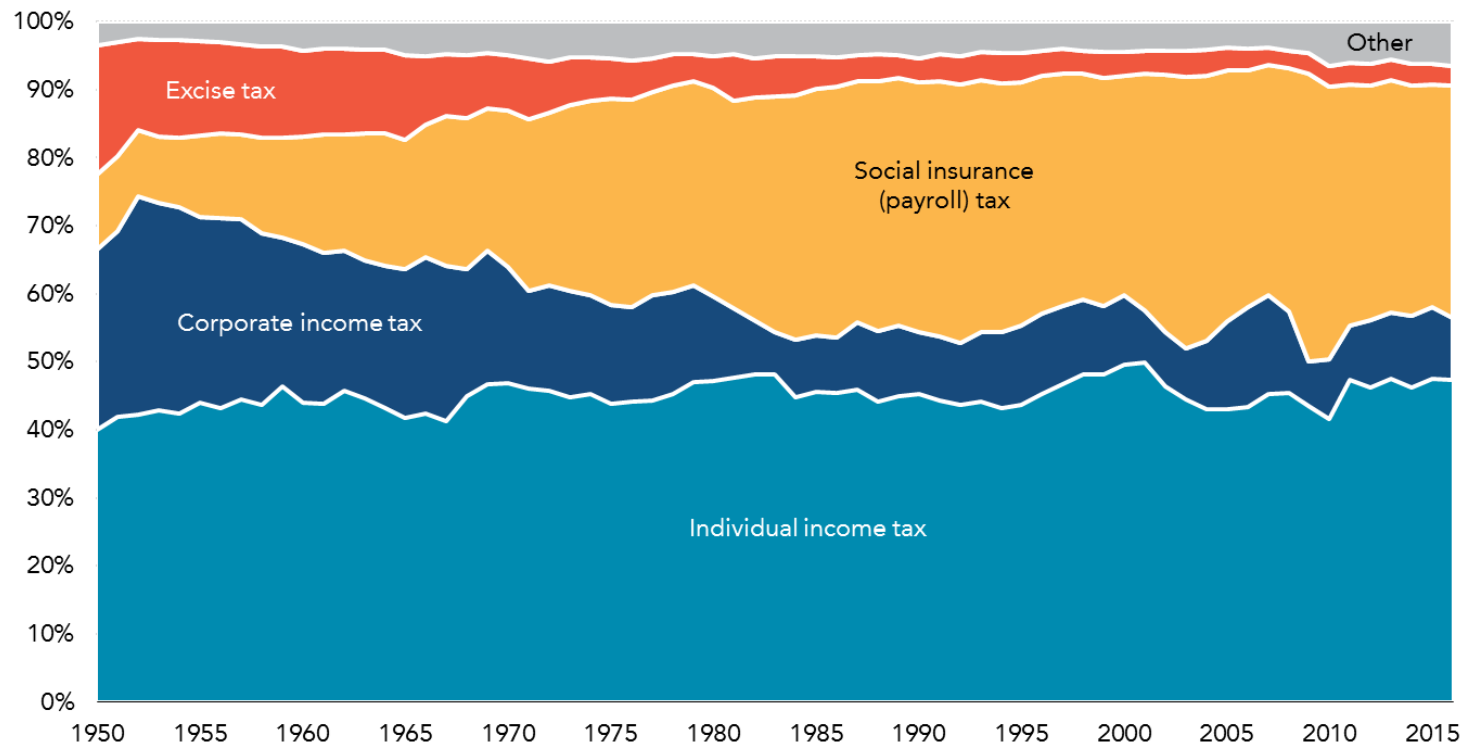- Payroll taxes 34%
- Corporate income taxes 9%
- Other 9%

Other Taxes

Excise Taxes

Estate and Gift Taxes

Customs Duties and Tariffs

Increasingly, federal revenues are earmarked for social insurance programs
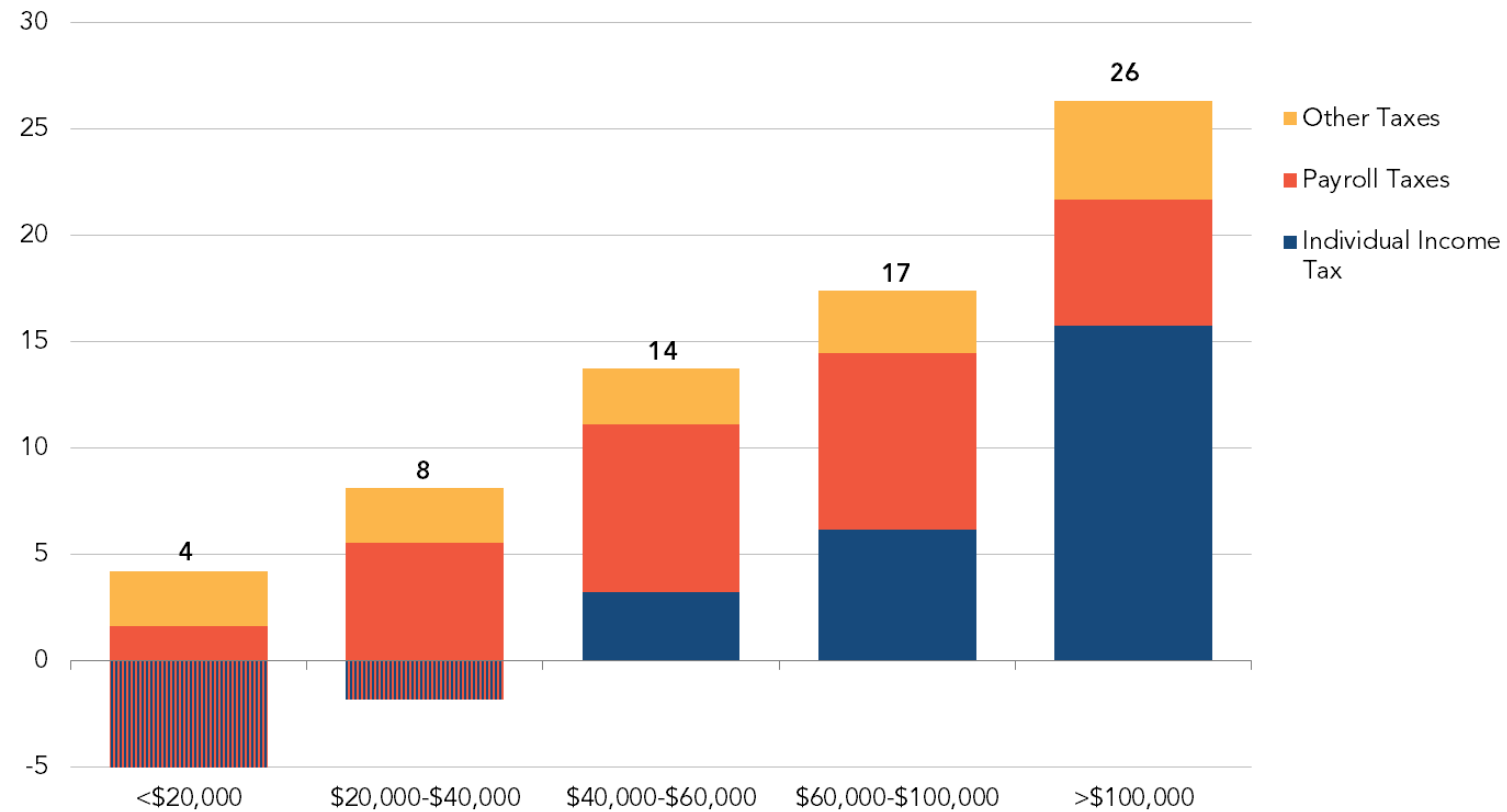

Sources of Federal Revenue
FY 1950-2016

Other
Excise tax
Social insurance (payroll) tax
Corporate income tax
Individual income tax

Source: Office of Management and Budget, Fiscal Year 2018, Historical Table 2.1.

Taxes paid by income group

How much do people pay in taxes?
Federal taxes as a percent of total income (%)

Legend:
- Other Taxes
- Payroll Taxes
- Individual Income Tax

Bar values: 4, 8, 14, 17, 26

Income groups: <$20,000, $20,000-$40,000, $40,000-$60,000, $60,000-$100,000, >$100,000

Contrary to some claims, the US is a low-tax country

Taxes as a Share of Gross Domestic Product
OECD, 2015
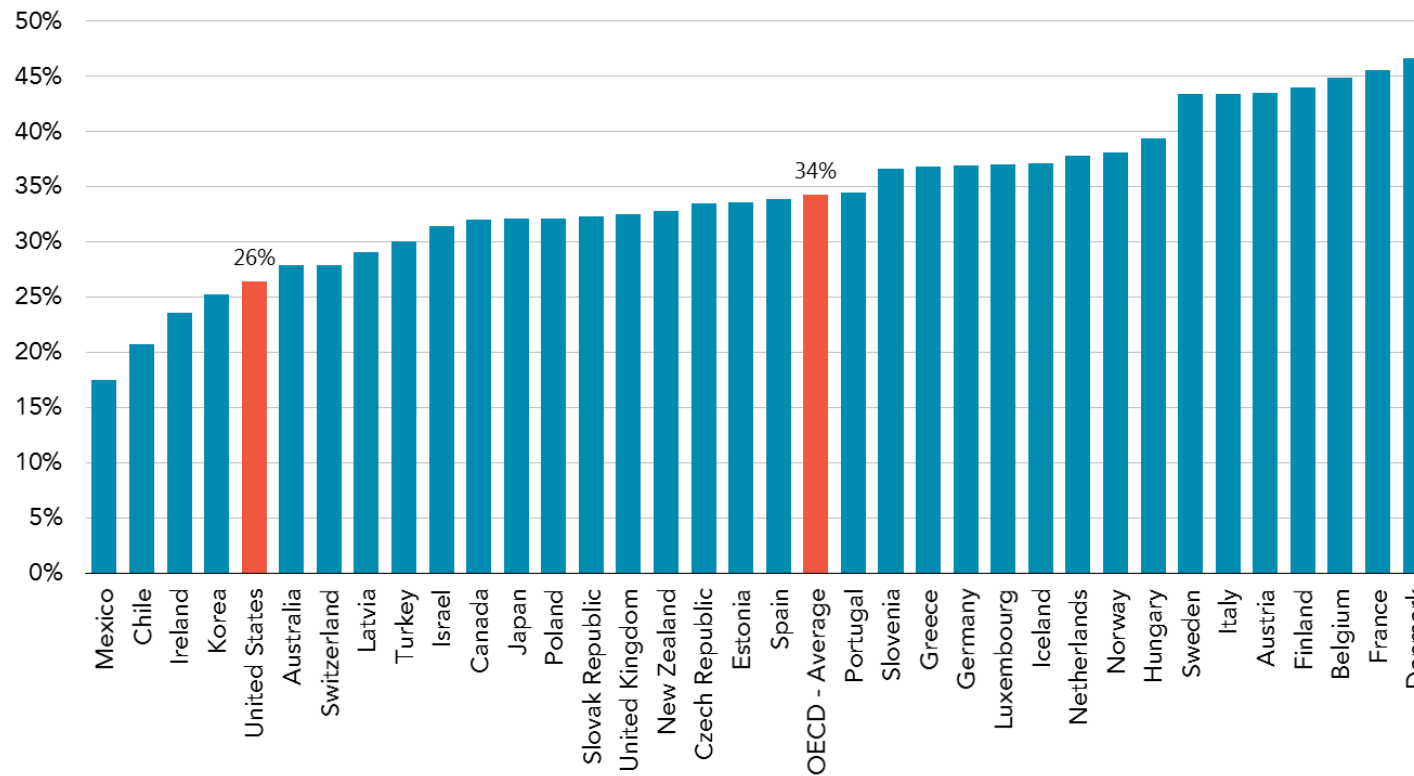
Source: OECD Stat Extract. These are provisional estimates. 2014 data are used for Australia, Japan, and Poland. The OECD average is over the most recent available data.

# There is a large gap between statutory and effective corporate tax rates

Effective and Statutory Top Corporate Income Tax Rates
Percent, 2012

	Effective Corporate Tax Rate	Statutory Corporate Tax Rate
Argentina	22.6	35.0
Japan	21.7	37.0
United Kingdom	18.7	24.0
United States	**18.6**	**39.1**
Brazil	17.0	34.0
Germany	15.5	30.2
India	13.6	32.5
Mexico	11.9	30.0
Indonesia	11.8	25.0
France	11.2	34.4
Australia	10.4	30.0
China	10.0	25.0
South Africa	9.0	34.6
Canada	8.5	26.1
Saudi Arabia	8.4	20.0
Turkey	5.1	20.0
Russia	4.4	20.0
South Korea	4.1	24.2
Italy	(23.5)	31.4

Source: Congressional Budget Office, using data from KPMG International, the Organisation for Economic Co-operation and Development, and the Oxford University Centre for Business Taxation.

Individual income tax rates have declined over time


Maximum Capital Gains and Individual Tax Rate
1954–2015

Max Individual Rate

Max Capital Gains Rate
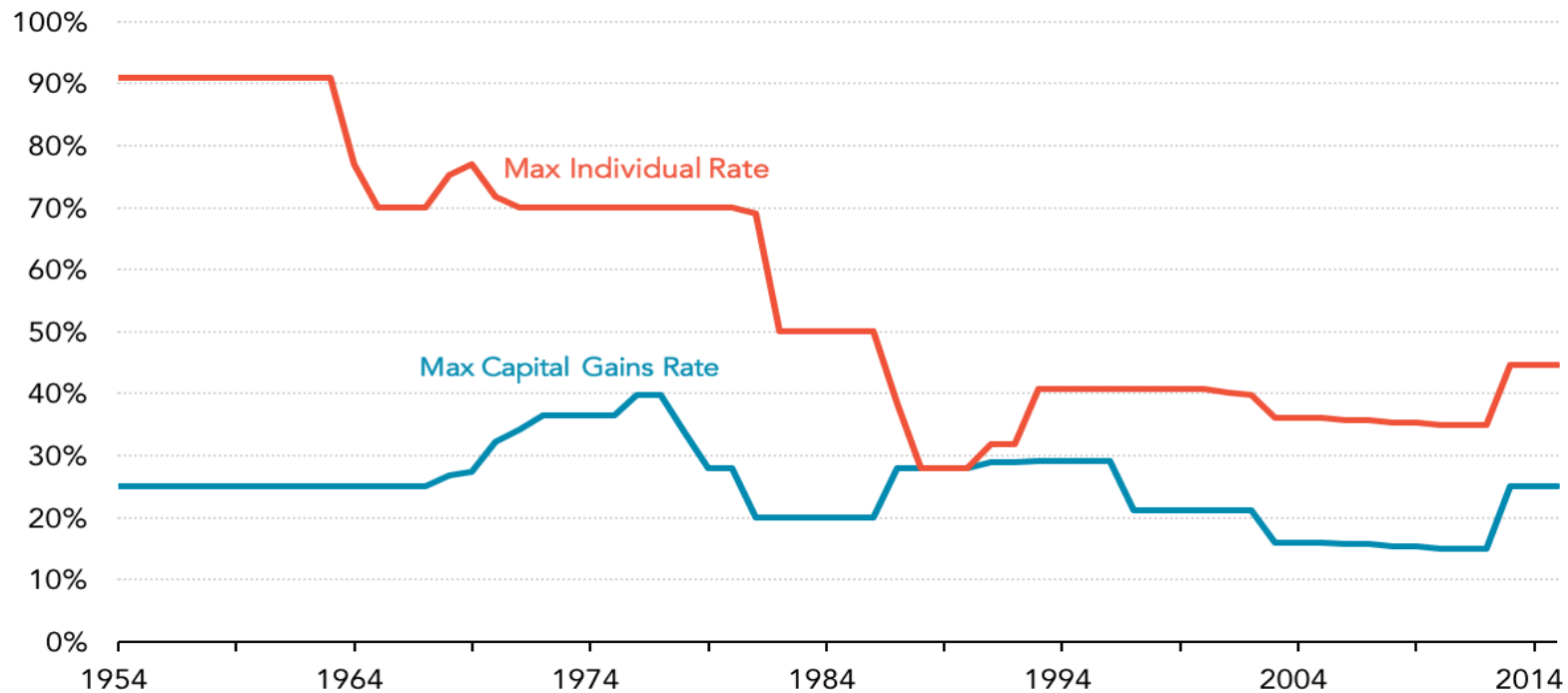
Sources: Department of Treasury, Office of Tax Analysis. 2015; Tax Policy Center.
Note: The maximum rate includes the 3.8 percent tax on net investment income (2013-2015) and adjusts for the phaseout of itemized deductions (1991-2009, 2013-2015).

Special rates for pass-through businesses are an important consideration for tax reform

## Shares of Business Income by Entity Type
1980 - 2012
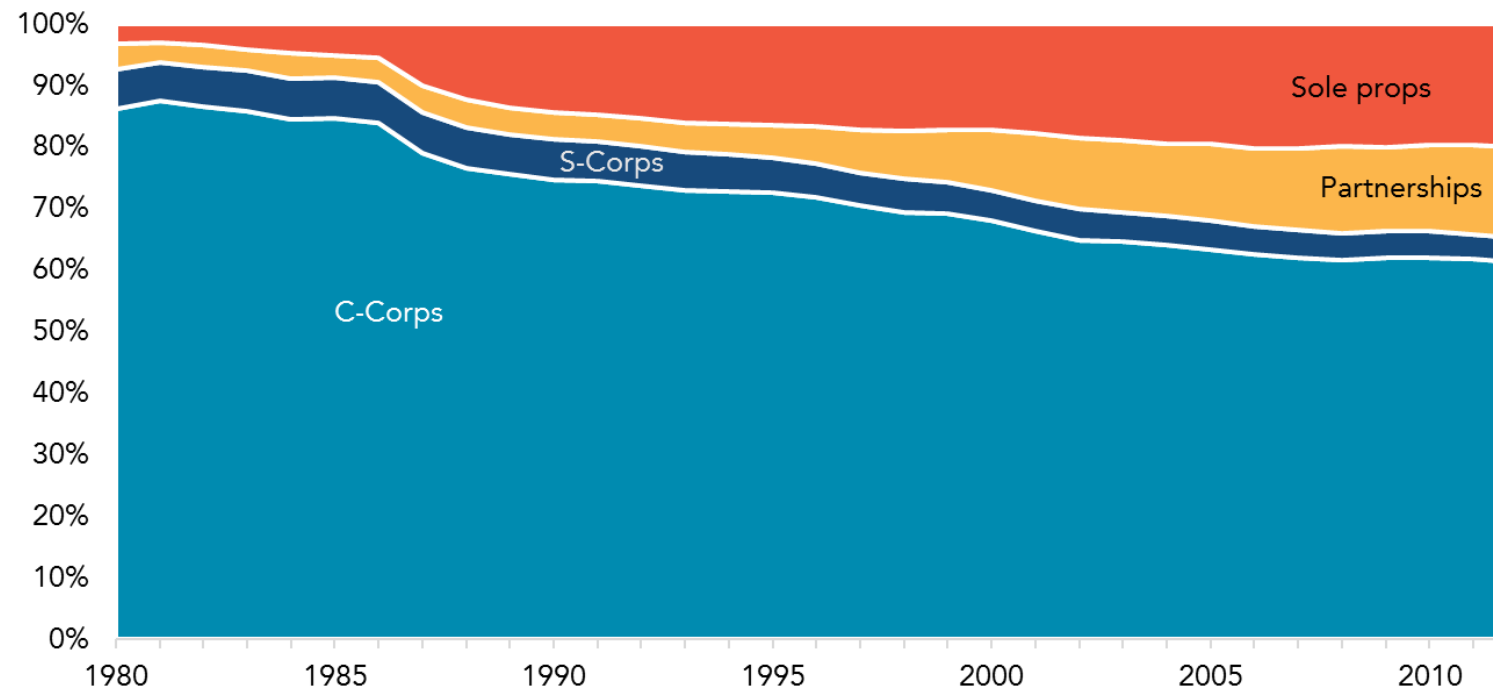
Source: IRS

Note: Shares do not include regulated investment corporations (RICs) and real estate investment trusts (REITS). C- and S-corporation income includes officer compensation.

Proposed Reforms

The TCJA passed the House of Representatives on 11/16

FIGURE 1

Percent Change in After-tax Income of the Tax Cuts and Jobs Act as Passed by House Ways and Means
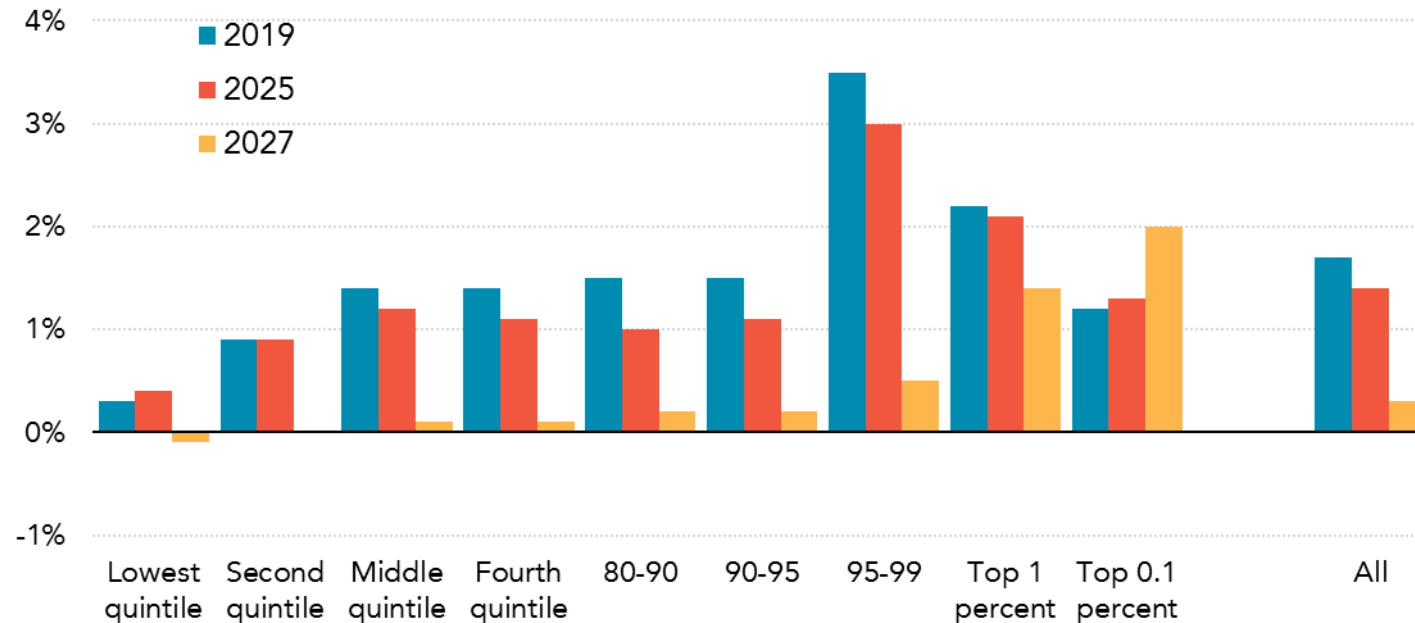By expanded cash income percentile, 2018 and 2027
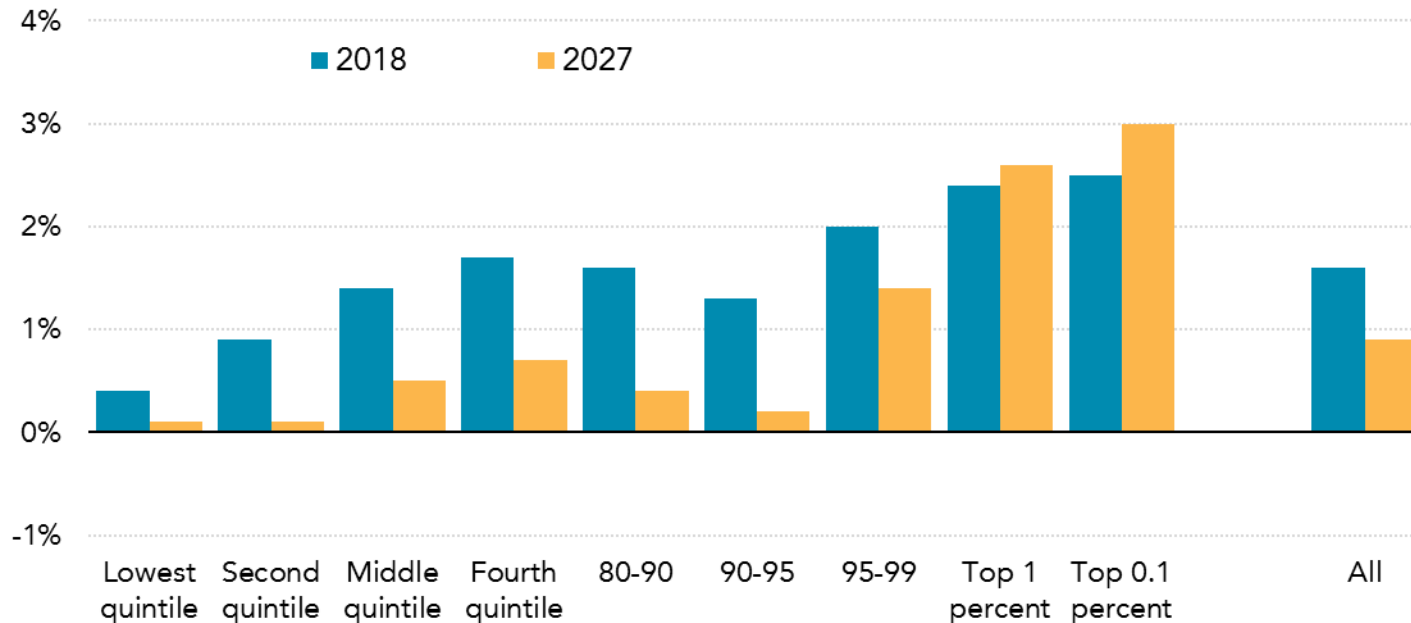
Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0217-1).

The House version of TCJA would have modest economic effects

- The legislation would increase GDP over the first two decades—by 0.6 percent in 2018 and 0.2 percent in 2037.

- The increase in output would boost revenues, offsetting roughly a tenth of the revenue loss projected under the legislation without accounting for macroeconomic feedback.

- The legislation would increase the debt-to-GDP ratio by 6 percentage points by 2027 (to 97 percent of GDP), and by 10 percentage points by 2037 (to 123 percent of GDP).

- Macroeconomic feedback would reduce the projected effect of the legislation on the national debt by 0.7 percent of GDP in 2027 and by 0.9 percent of GDP in 2037.

The TCJA passed the Senate Finance Committee on 11/16

FIGURE 1

Percent Change in After-tax Income of the Tax Cuts and Jobs Act as Passed by the Senate Finance Committee
By expanded cash income percentile, 2019, 2025, and 2027

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0217-1).