
Tax Policy at a Crossroads

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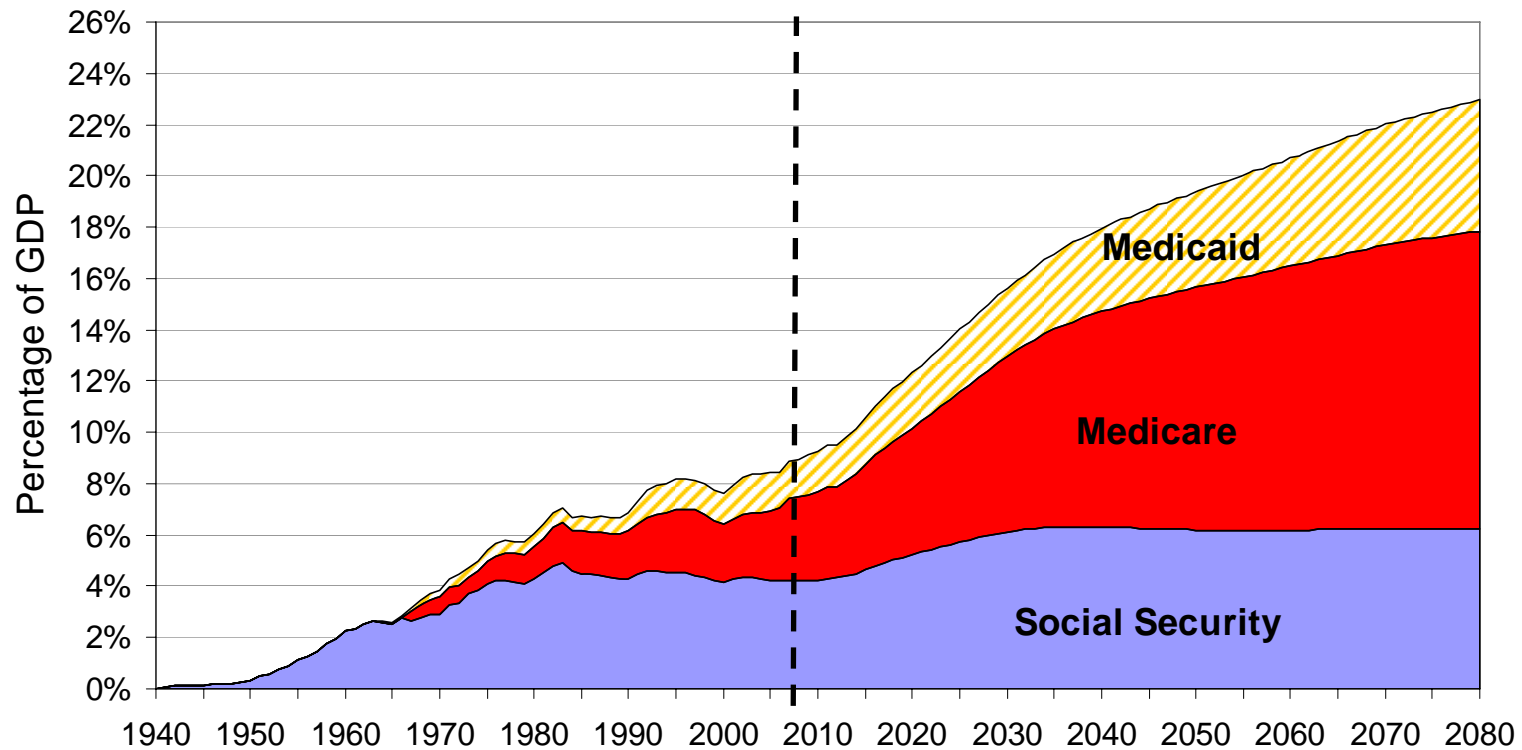
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Action-Forcing Events

- Exploding entitlement costs
- The AMT
- Increased economic inequality
- Expiration of Bush tax cuts



Major Entitlements as a Percentage of GDP, Fiscal Years 1940 - 2080

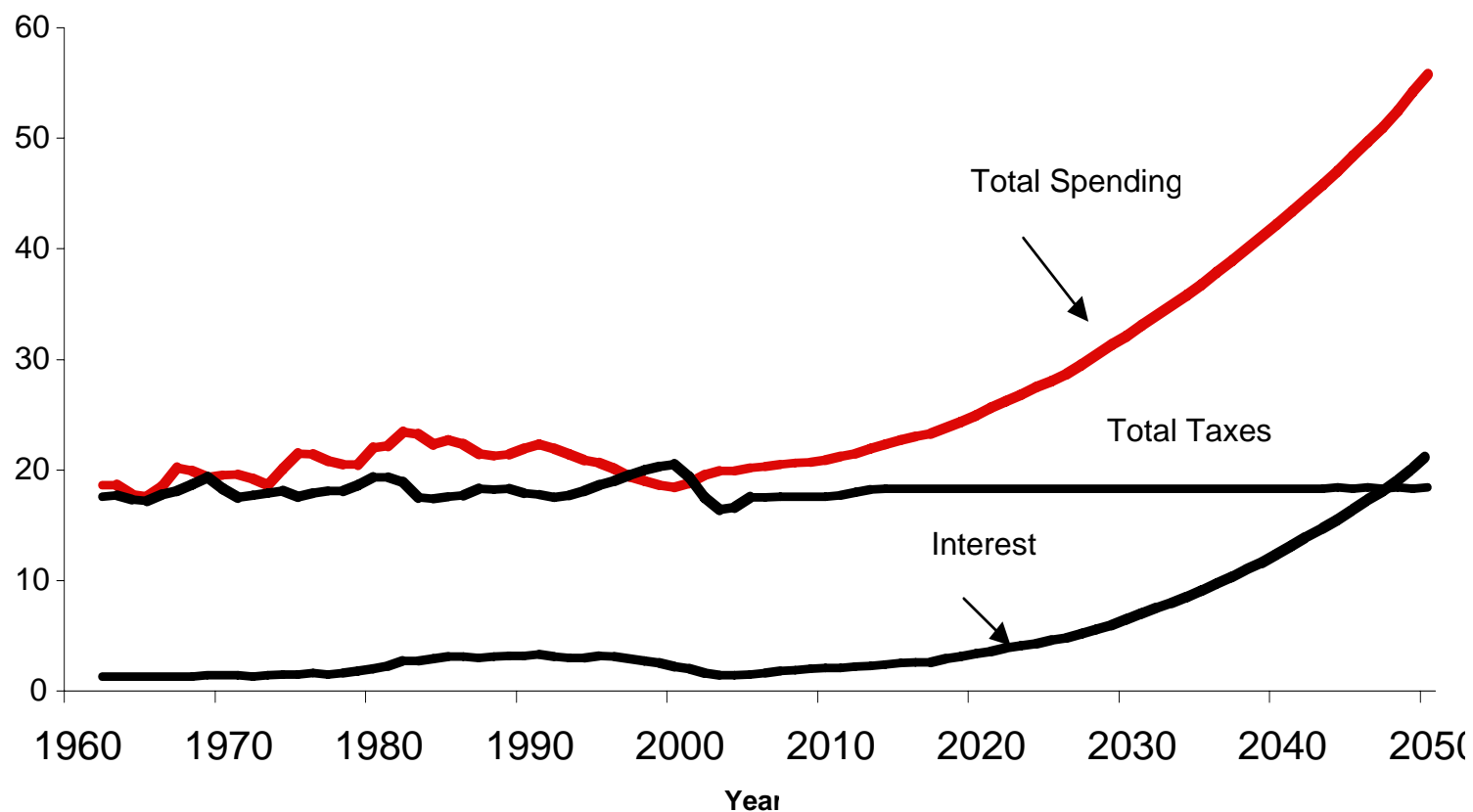


Source: C. Eugene Steuerle, Adam Carasso, Elizabeth Bell, The Urban Institute, 2006.

Note: Authors used January 2006 CBO data for Social Security, Medicare, and Medicaid through 2016, and grew Social Security and Medicare levels with 2006 Trustees data and Medicaid with 2005 CBO data.



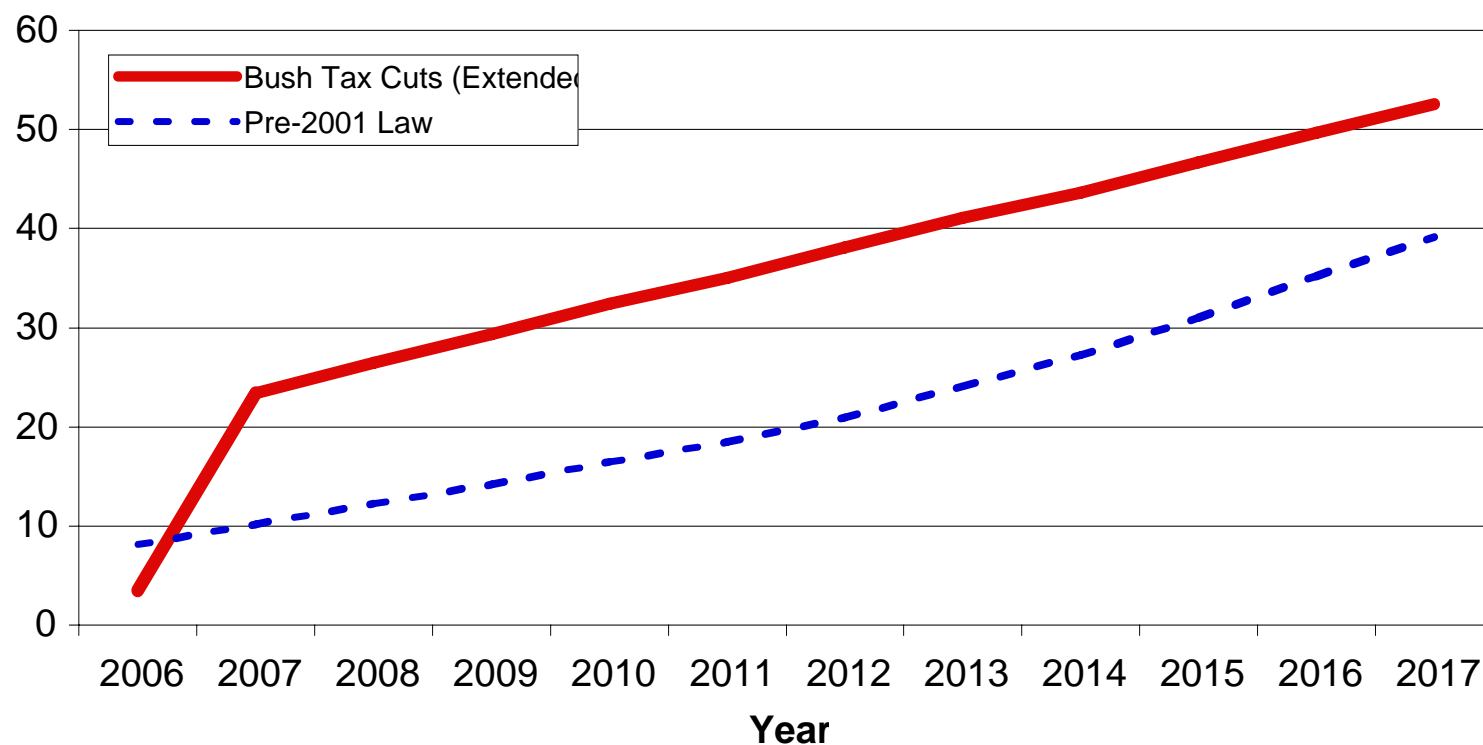
Spending and Revenue as Percentage of GDP, 1962-2050



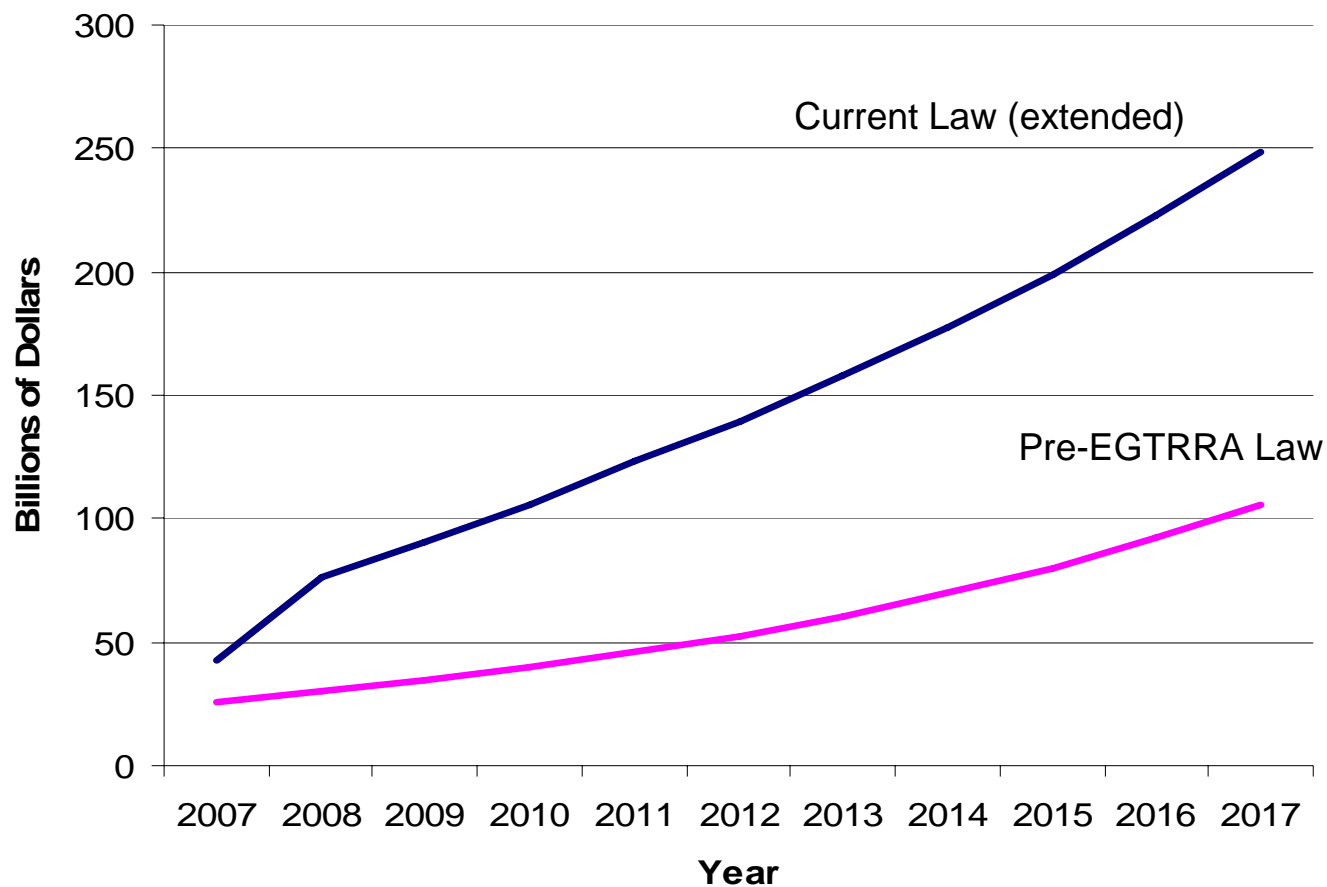
Source: CBO, Long-Term Budgetary Trends (2005). Chart assumes entitlement spending growth follows recent trend, revenues equal norms, and other spending growth at rate of GDP or less.



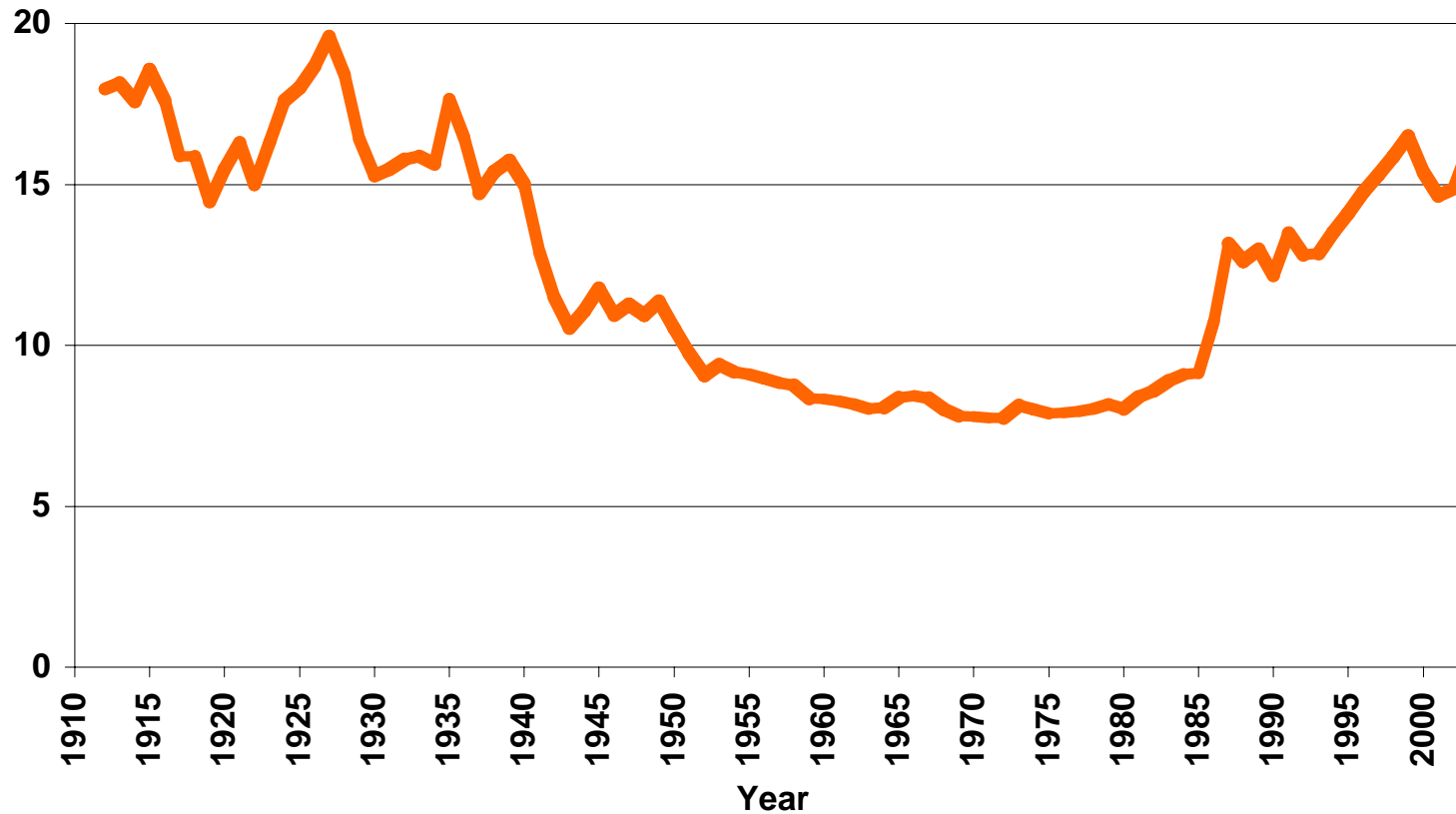
Number of AMT Taxpayers (millions) 2006 – 2017



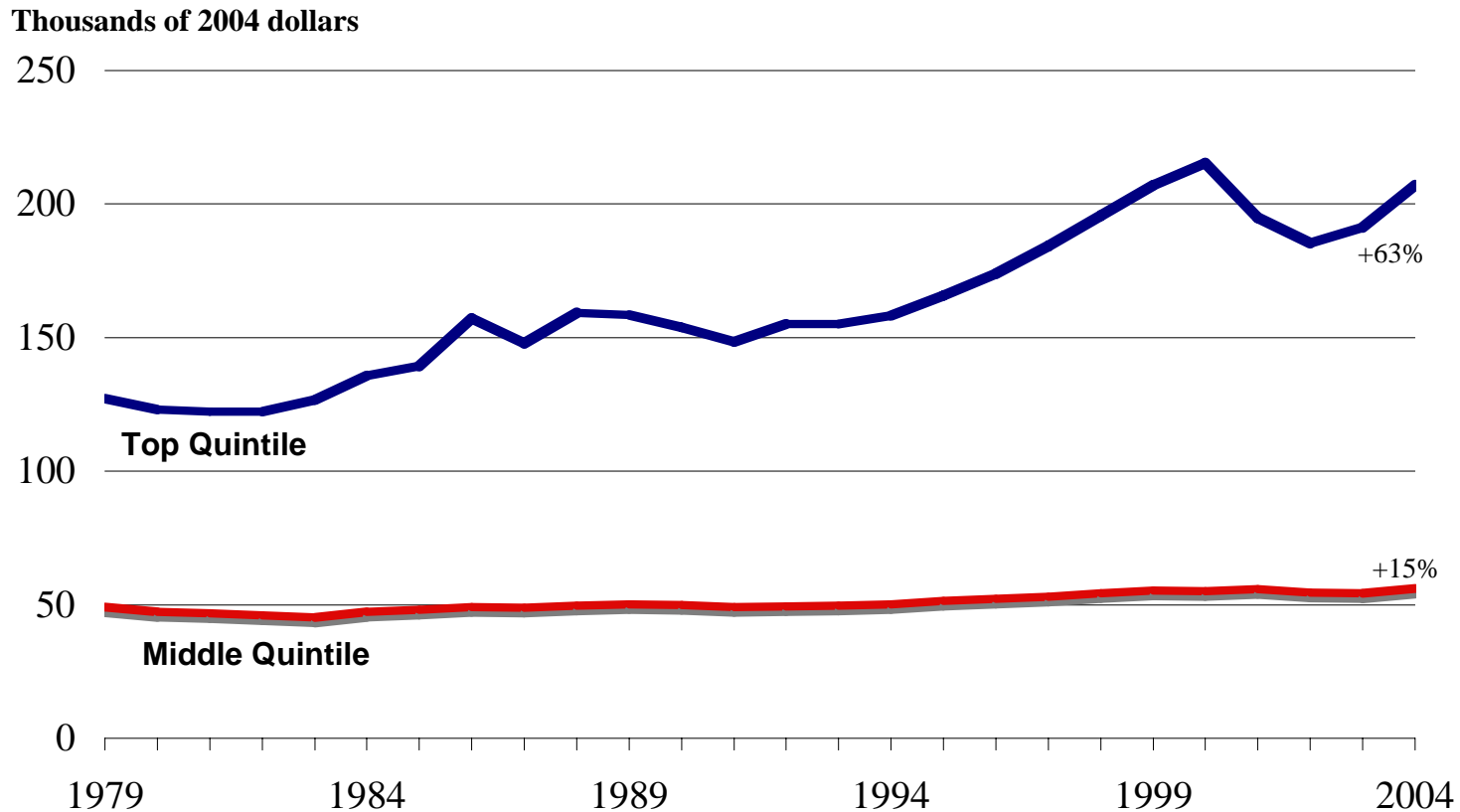
AMT Revenue, FY2007-17



Income Share of Top 1 Percent 1913 - 2004



Real Mean Pre-Tax Household Income of 3rd and 5th Quintiles, 1979-2004

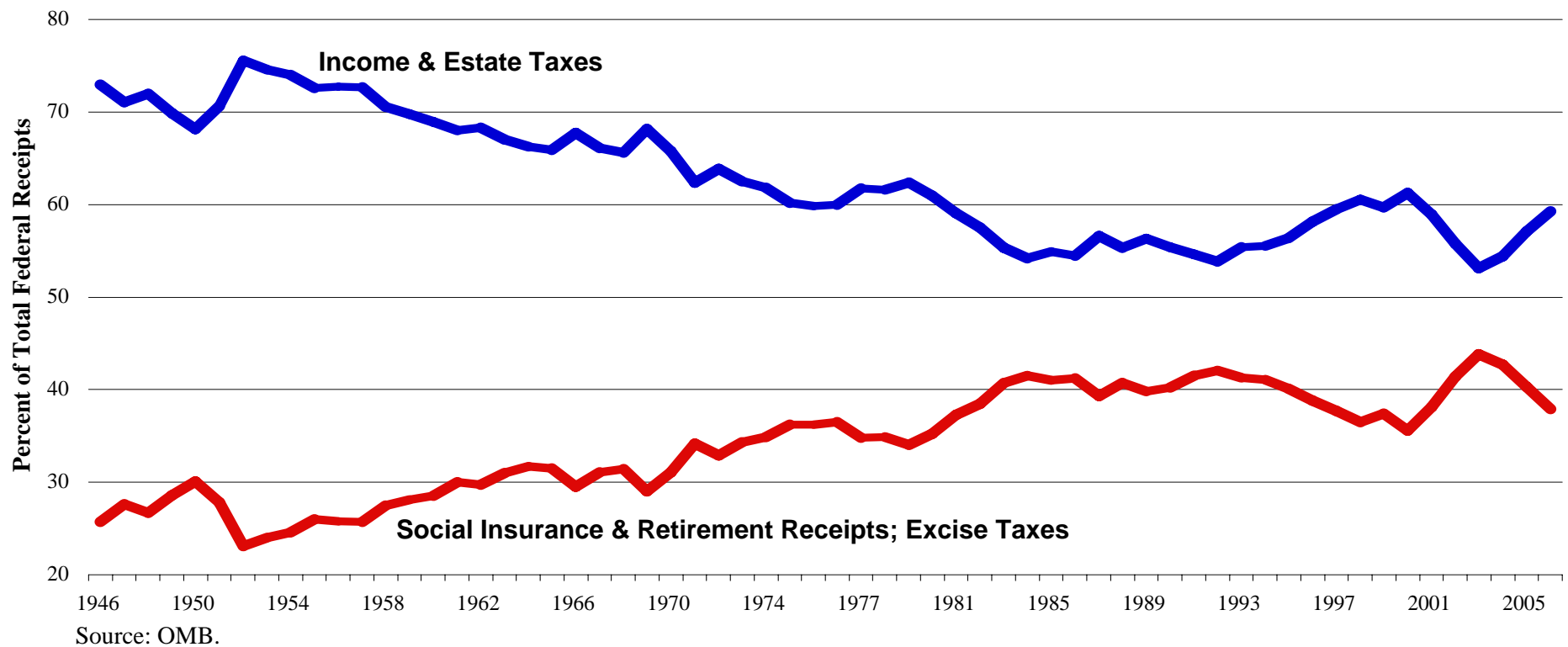


Source: Congressional Budget Office.

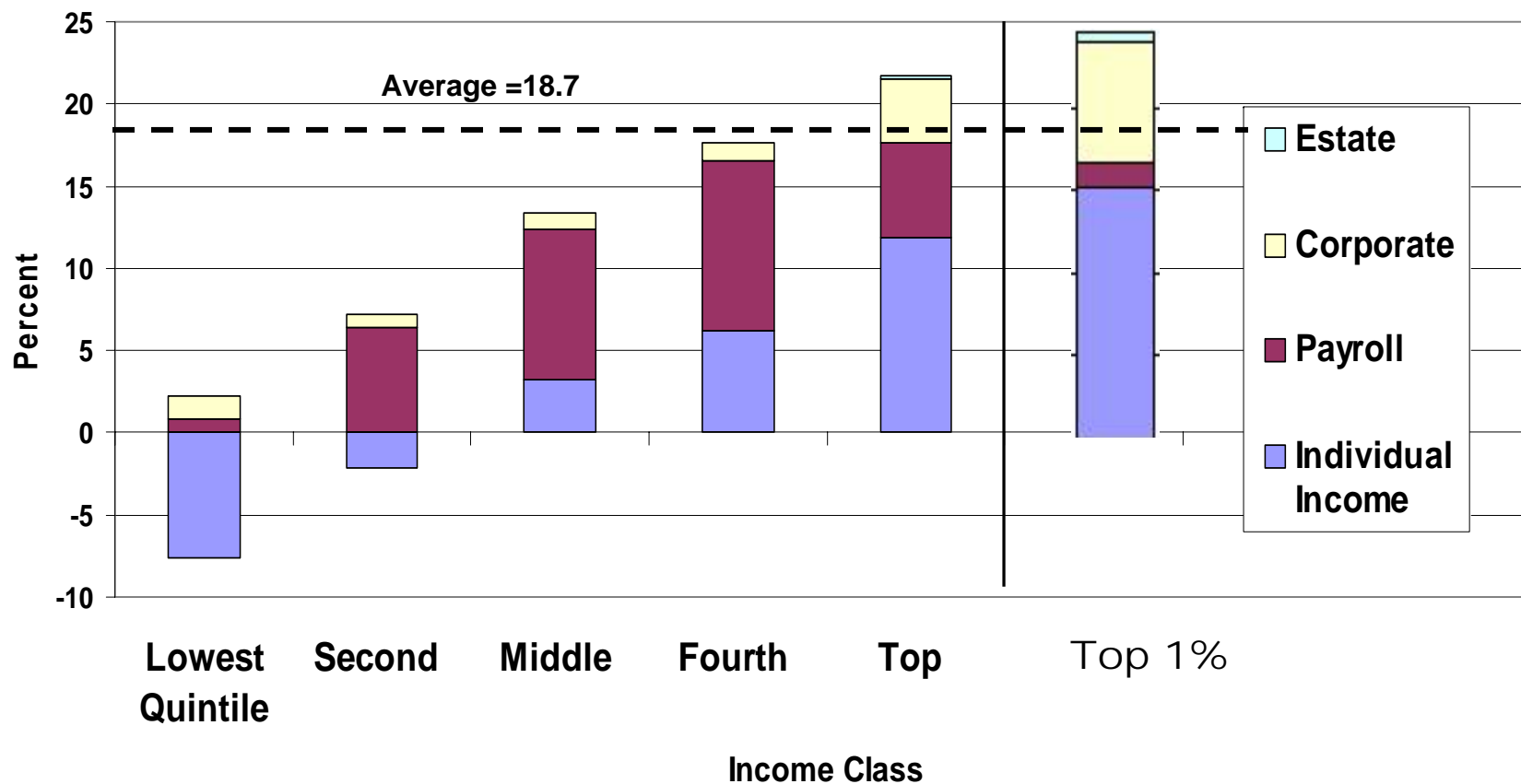


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Composition of Federal Receipts by Source, 1946-2006



Effective Federal Tax Rates by Economic Income Class, 2006

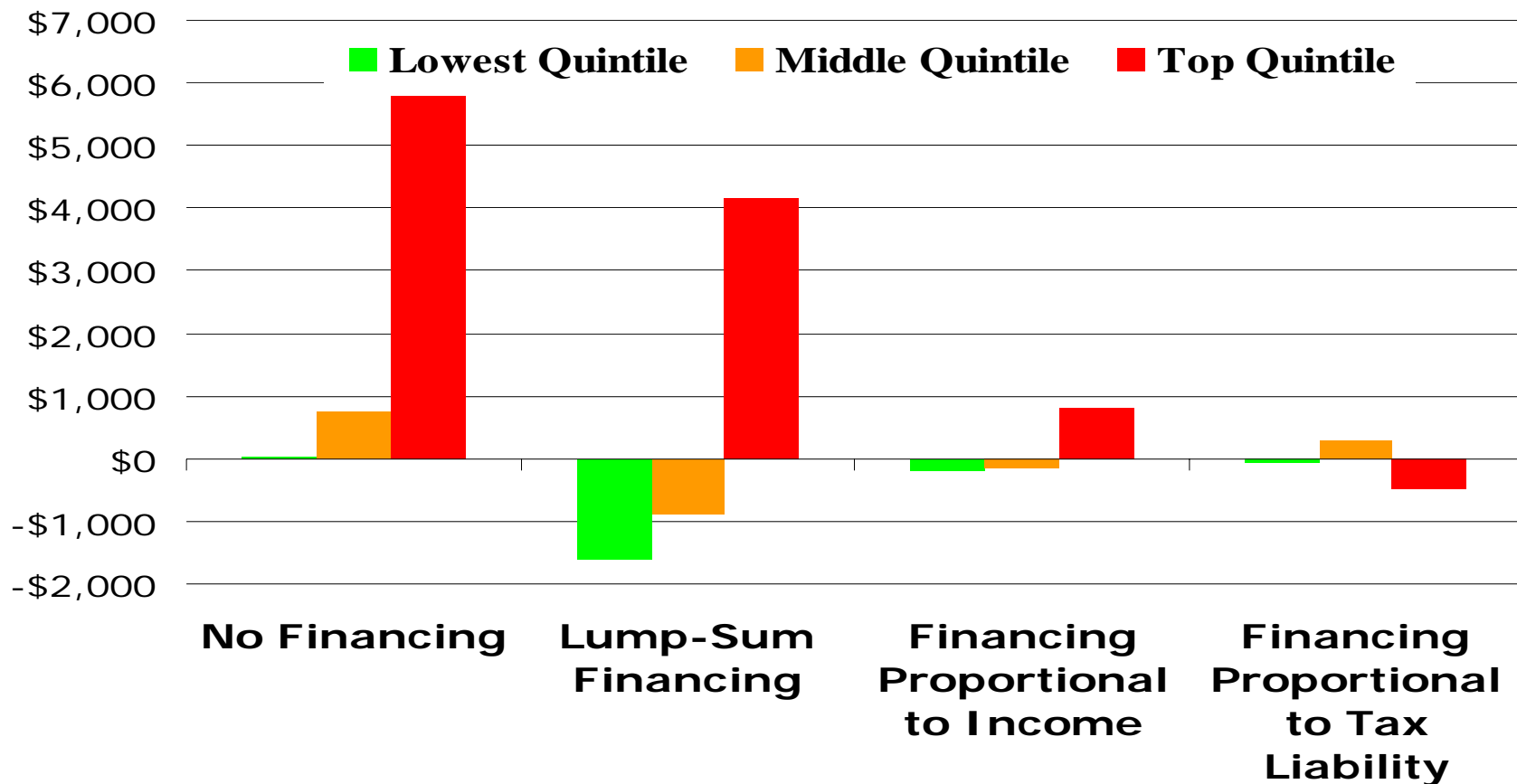


Distribution of 2001 – 2006 Tax Cuts in 2007

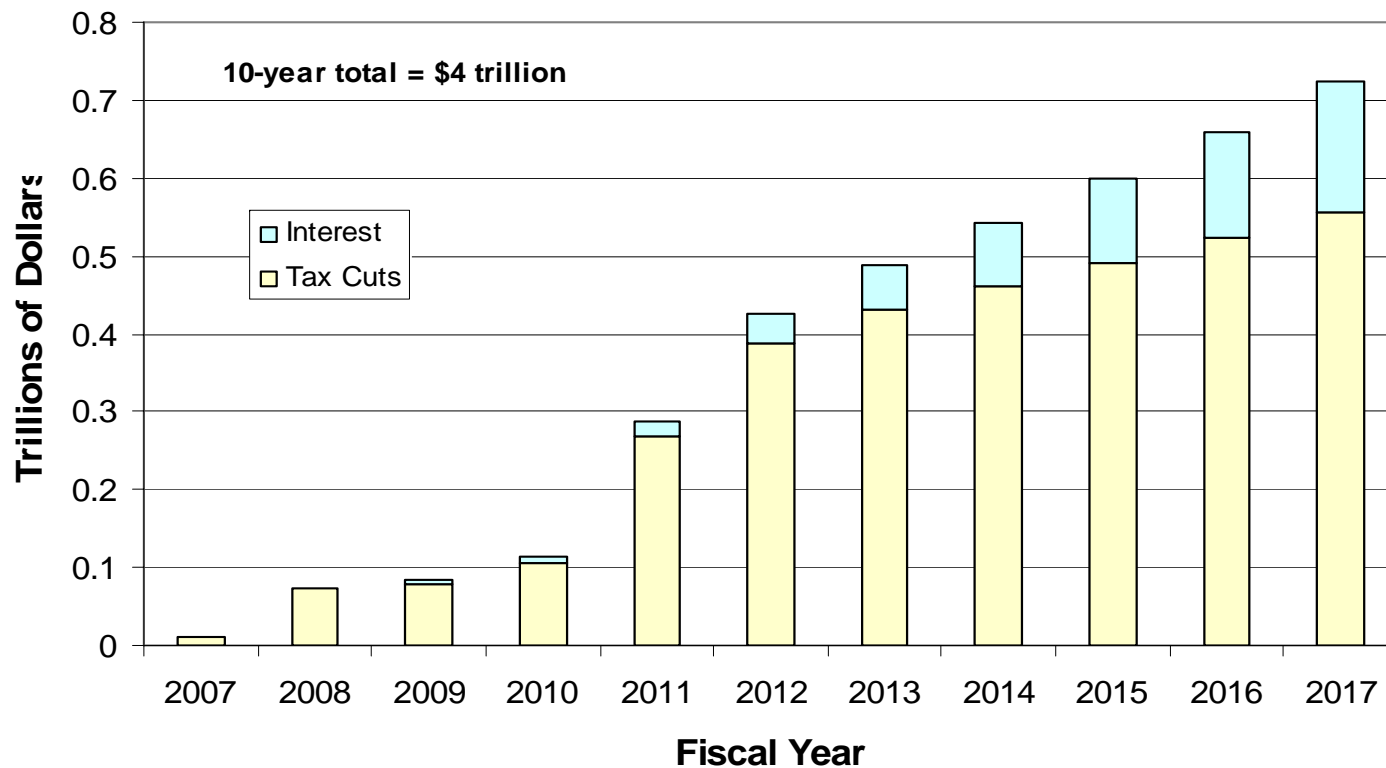
Cash Income Class	Percent of Tax Units	Average Federal Tax Change	Percent of Income
	With Tax Cut	Dollars	
Lowest Quintile	12.6	-22	0.3
Second Quintile	65.2	-360	1.9
Middle Quintile	87.3	-746	2.4
Fourth Quintile	97.3	-1,192	2.3
Top Quintile	96.0	-4,656	3.2
All	71.7	-1,396	2.8
Top 1 Percent	98.7	-44,622	5.3
Top 0.1 Percent	99.5	-234,972	6.2



Dollar Value of Tax Cuts, With and Without Financing, 2006



Revenue Loss from Extending All Tax Cuts plus AMT Fix, 2007-2018



Source: CBO (2007), and Tax Policy Center calculations.



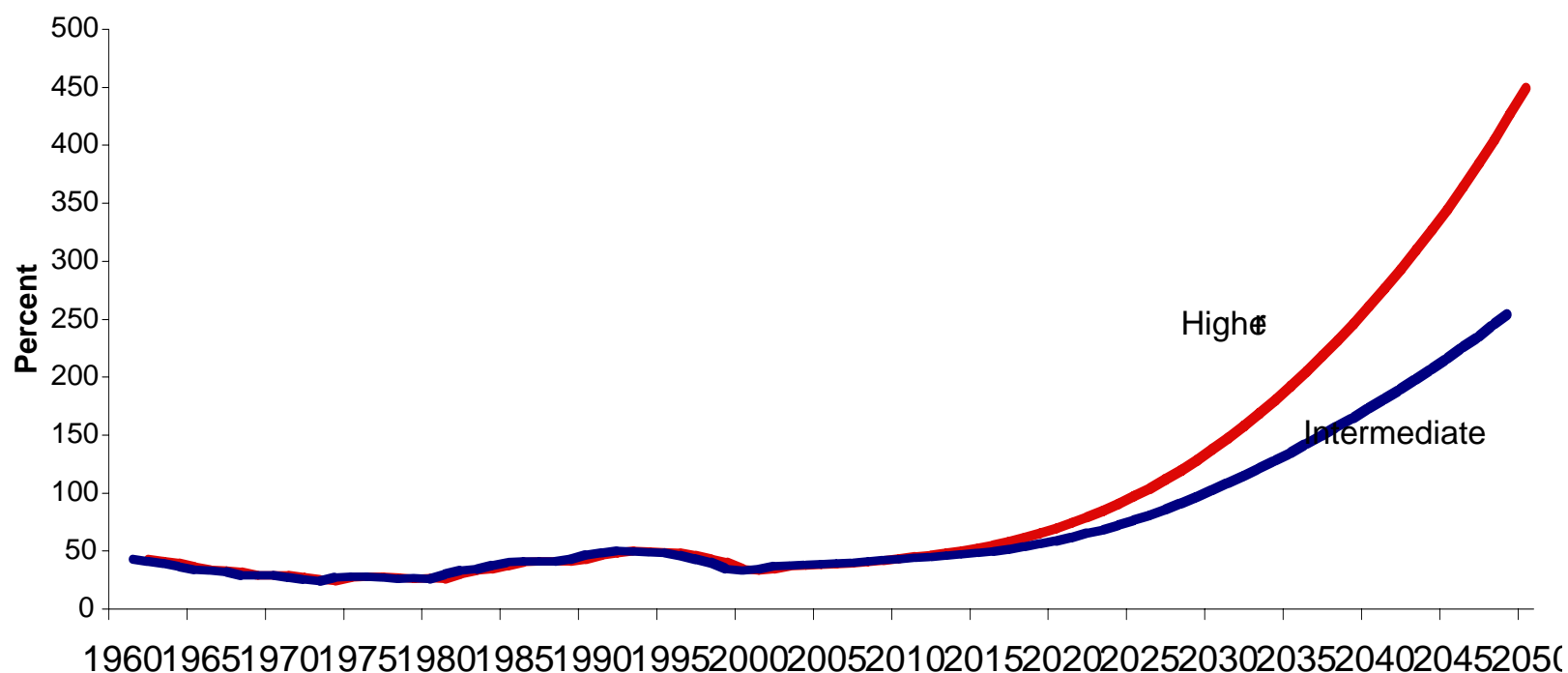
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Possible Actions or The Good, the Bad, and the Ugly (not necessarily in that order)

- Do nothing: the Argentina scenario
- Slash social safety net (and all other discretionary spending)
- Shift more spending to states
- Raise income tax revenues
- Limit entitlement spending growth
- Enact “good” taxes



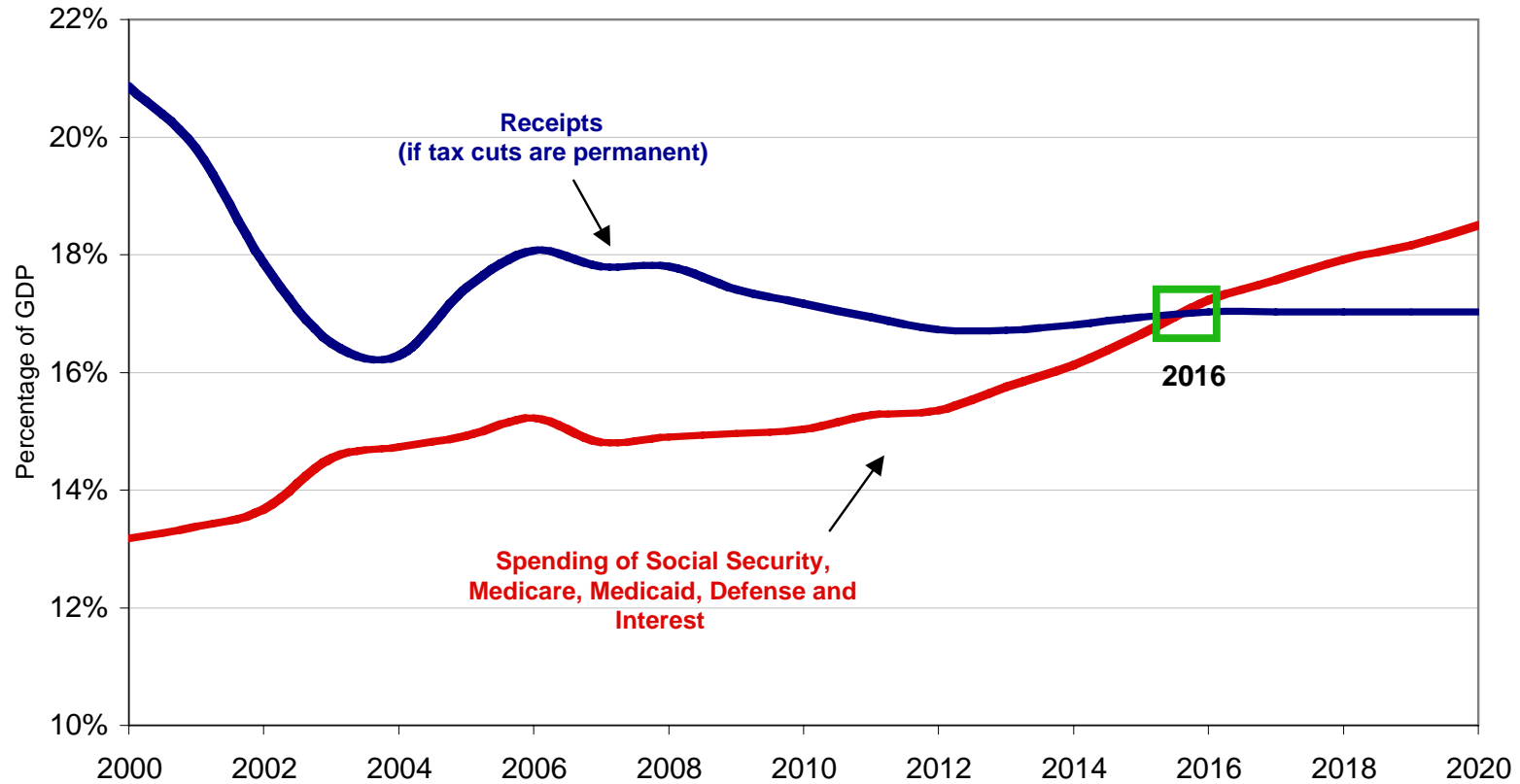
Do Nothing: Debt Held by the Public as Percentage of GDP, 1962-2050



Source: CBO, Long-Term Budgetary Trends (2005). Chart assumes that revenue stays at about 18 percent of GDP (lower taxes scenario). Higher spending scenario assumes entitlement spending growth follows recent trend and other spending growth at rate of GDP or less; intermediate spending assumes that rate of growth of entitlement spending moderates.



The Big Squeeze on Spending



Source: C. Eugene Steuerle, Adam Carasso, and Gillian Reynolds, The Urban Institute, 2006. Authors' calculations based on data from CBO Budget Outlook (August 2006) and OASDI and HI-SMI Trustees Reports (2006).



Good and Bad Ways to Raise Income Tax Revenues

- Tax reform
 - Broadening base (closing loopholes) could make tax system simpler, fairer, and more efficient while raising more revenue
- AMT consumes the income tax
 - Would increase revenues, but...
 - Unfair, inefficient, and doesn't discourage tax shelters
- Raise income tax rates
 - Limited scope to do that absent reform



“Good Taxes”

- VAT – common in rest of world
- Carbon taxes – could raise \$100 billion per year or more and reduce greenhouse gases
- Regressivity could be offset by expanded safety net, such as national health insurance
 - NAF’s “Health VAT”
- If combined with effective measures to limit health care costs, could also reduce entitlement spending growth and help states

