

Executive Summary

How the Tax Code Would Change		
Provisions	Simplified Income Tax Plan	Growth and Investment Tax Plan
Households and Families		
Tax rates	Four tax brackets: 15%, 25%, 30%, 33%	Three tax brackets: 15%, 25%, 30%
Alternative Minimum Tax	Repealed	
Personal exemption	Replaced with Family Credit available to all taxpayers: \$3,300 credit for married couples, \$2,800 credit for unmarried taxpayers with child, \$1,650 credit for unmarried taxpayers, \$1,150 credit for dependent taxpayers; additional \$1,500 credit for each child and \$500 credit for each other dependent	
Standard deduction		
Child tax credit		
Earned income tax credit	Replaced with Work Credit (and coordinated with the Family Credit); maximum credit for working family with one child is \$3,570; with two or more children is \$5,800	
Marriage penalty	Reduced; tax brackets and most other tax parameters for couples are double those of individuals	
Other Major Credits and Deductions		
Home mortgage interest	Home Credit equal to 15% of mortgage interest paid; available to all taxpayers; mortgage limited to average regional price of housing (limits ranging from about \$227,000 to \$412,000)	
Charitable giving	Deduction available to all taxpayers (who give more than 1% of income); rules to address valuation abuses	
Health insurance	All taxpayers may purchase health insurance with pre-tax dollars, up to the amount of the average premium (estimated to be \$5,000 for an individual and \$11,500 for a family)	
State and local taxes	Not deductible	
Education	Taxpayers can claim Family Credit for some full-time students; simplified savings plans	
Individual Savings and Retirement		
Defined contribution plans	Consolidated into Save at Work plans that have simple rules and use current-law 401(k) contribution limits; AutoSave features point workers in a pro-saving direction (Growth and Investment Tax Plan would make Save at Work accounts "prepaid" or Roth-style)	
Defined benefit plans	No change	
Retirement savings plans	Replaced with Save for Retirement accounts (\$10,000 annual limit) available to all taxpayers	
Education savings plans	Replaced with Save for Family accounts (\$10,000 annual limit); would cover education, medical, new home costs, and retirement saving needs; available to all taxpayers; refundable Saver's Credit available to low-income taxpayers	
Health savings plans		
Dividends received	Exclude 100% of dividends of U.S. companies paid out of domestic earnings	Taxed at 15% rate
Capital gains received	Exclude 75% of corporate capital gains from U.S. companies (tax rate would vary from 3.75% to 8.25%)	Taxed at 15% rate
Interest received (other than tax exempt municipal bonds)	Taxed at regular income tax rates	Taxed at 15% rate
Social Security benefits	Replaces three-tiered structure with a simple deduction. Married taxpayers with less than \$44,000 in income (\$22,000 if single) pay no tax on Social Security benefits; fixes marriage penalty; indexed for inflation	
Small Business		
Tax rates	Taxed at individual rates (top rate has been lowered to 33%)	Sole proprietorships taxed at individual rates (top rate lowered to 30%); Other small businesses taxed at 30%
Recordkeeping	Simplified cash-basis accounting	Business cash flow tax
Investment	Expensing (exception for land and buildings under the Simplified Income Tax Plan)	
Large Business		
Tax rates	31.5%	30%
Investment	Simplified accelerated depreciation	Expensing for all new investment
Interest paid	No change	Not deductible (except for financial institutions)
Interest received	Taxable	Not taxable (except for financial institutions)
International tax system	Territorial tax system	Destination-basis (border tax adjustments)
Corporate AMT	Repealed	

The President's Advisory Panel on
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The Current Tax System	
Provisions	Current Law (2005)
Households and Families	
Tax rates	Six tax brackets: 10%, 15%, 25%, 28%, 33%, 35%
Alternative Minimum Tax	Affects 21 million taxpayers in 2006; 52 million taxpayers in 2015
Personal exemption	\$3,200 deduction for each member of a household; phases out with income
Standard deduction	\$10,000 deduction for married couples filing jointly, \$5,000 deduction for singles, \$7,300 deduction for heads of households; limited to taxpayers who do not itemize
Child tax credit	\$1,000 credit per child; phases out for married couples between \$110,000 and \$130,000
Earned income tax credit	Provides lower-income taxpayers refundable credit designed to encourage work. Maximum credit for working family with one child is \$2,747; with two or more children is \$4,536
Marriage penalty	Raises the tax liability of two-earner married couples compared to two unmarried individuals earning the same amounts
Other Major Credits and Deductions	
Home mortgage interest	Deduction available only to itemizers for interest up to \$1.1 million of mortgage debt
Charitable giving	Deduction available only to itemizers
Health insurance	Grants tax-free status to an unlimited amount of premiums paid by employers or the self-employed
State and local taxes	Deduction available only to itemizers; not deductible under the AMT
Education	HOPE Credit, Lifetime Learning Credit, tuition deduction, student loan interest deduction; all phase out with income
Individual Savings and Retirement	
Defined contribution plans	Available through 401(k), 403(b), 457, and other employer plans
Defined benefit plans	Pension contributions by employers are untaxed
Retirement savings plans	IRAs, Roth IRAs, spousal IRAs – subject to contribution and income limits
Education savings plans	Section 529 and Coverdell accounts
Health savings plans	MSAs, HSAs, and Flexible Spending Arrangements
Dividends received	Taxed at 15% or less (ordinary rates after 2008)
Capital gains received	Taxed at 15% or less (higher rates after 2008)
Interest received (other than tax-exempt municipal bonds)	Taxed at ordinary income tax rates
Social Security benefits	Taxed at three different levels, depending on outside income; marriage penalty applies
Small Business	
Tax rates	Typically taxed at individual rates
Recordkeeping	Numerous specialized tax accounting rules for items of income and deductions
Investment	Accelerated depreciation; special small business expensing rules allow write-off of \$102,000 in 2005 (but cut by ¼ in 2008)
Large Business	
Tax rates	Eight brackets: 15%, 25%, 34%, 39%, 34%, 35%, 38%, 35%
Investment	Accelerated depreciation under antiquated rules
Interest paid	Deductible
Interest received	Taxable (except for tax-exempt bonds)
International tax system	Worldwide system with deferral of business profits and foreign tax credits
Corporate AMT	Applies second tax system to business income