

Preliminary Summary of the Gore Tax Plan (more to come)

Citizens for Tax Justice, August 30, 2000

Democratic presidential candidate Al Gore has proposed a collection of targeted tax breaks that he says will cost a total of \$500 billion over the next decade. The proposals include:

- # Increasing the standard deduction for married couples to double the single level.
- # Boosting the earned-income tax credit for two-earner couples and families with three or more children.
- # A 25 percent refundable tax credit for people lacking access to employer-based health insurance who purchase coverage in the individual market.
- # Big increases in tax credits for dependent care expenses, including making it refundable for families that don't owe income taxes, increasing the percentage credits to up to 50% from the current 20%, offering an extra credit for infants (up to \$250), even if there are no day care expenses, and expanding the credit to children up to age 16 (from 12 now).
- # A tax credit of up to \$3,000 for long-term care expenses.
- # Expanding the current \$2,000 college tax credit to \$2,800 and making it available at somewhat higher income levels.
- # Major new tax breaks for savings accounts for retirement, college and first time home purchases. Under Gore's plan, the government would match an individual's contribution to such an account by up to 370 percent, depending on income level. When fully phased in (in 2009), the maximum annual addition to an account would be \$2,000 for individuals and \$4,000 for couples.
 - ! For individuals making less than \$15,000, a personal contribution of \$425 would be matched by a refundable tax credit and deduction to bring the total to \$2,000.
 - ! For individuals making between \$15,000 and \$30,000, an \$850 contribution would be supplemented by \$1,150 in tax breaks to get \$2,000 into an account.
 - ! And for individuals making between \$30,000 and \$50,000, it would take an individual contribution of \$1,080 plus tax breaks of \$920 to reach the \$2,000 maximum.

For couples, the income levels (as well as the \$2,000 annual account limit) would be doubled.

- # Tax credits for energy efficient products (to both individual and businesses).
- # Tax breaks for companies that engage in research.
- # Tax breaks for smaller companies that purchase health insurance for their employees.
- # An increase in the estate tax exemption to \$5 million for couples (half that for singles).

Due to data constraints and other problems, we have not yet been able to do a distributional analysis of the Gore proposals. Because most of the proposals are limited to taxpayers below certain income levels, however, it seems clear that the bulk of the proposed tax breaks would go to middle- and lower-income taxpayers.

The following table shows the maximum income cutoffs for the Gore proposals, where applicable.

Income limits for Gore tax cuts

Personal items	Singles	Couples	Notes
Earned-income tax credit changes	35,600	37,000	
Health insurance personal credits	Mostly lower end		Only for those without employer paid insurance
Dependent care credit rates	60,000	60,000	(not counting indexing, increase in age limit and infant credit, which are not capped)
Retirement Savings Plus	50,000	100,000	
Married standard deduction	na	100,000	94% under \$100K, 80% under \$75K
Education credits	60,000	120,000	Phase outs end
Long-term care credit	135,000	170,000	Phase outs end (generally)
Tax credits for buying efficient products	no upper limit		
Estate tax cuts	no upper limit		All in top few percent

Business items

Business health insurance credits	Limited to businesses below a certain size
R&E tax credit	No limit (almost all large corporations)
Energy-efficiency business credits	No limit

Details on specific items in the Gore plan (Subject to change as more details are released)

Proposed Changes to the Earned-Income Tax Credit:

Current Law 2000 levels	3+ kids (like 2+)	Everyone						
		2+ kids	1 kid	no kids				
Max base	\$ 9,720	\$ 9,720	\$ 6,920	\$ 4,610				
Rate	40%	40%	34%	7.65%				
Max credit	3,888	3,888	2,353	353				
PO rate	21.06%	21.06%	15.98%	7.65%				
PO start	12,690	12,690	12,690	5,770				
PO end	31,149	31,149	27,413	10,380				
Proposed 2000 levels	All but 2-earner couples				2-earner couples			
	3+ kids	2 kids	1 kid	no kids	3+ kids	2 kids	1 kid	no kids
Max base	\$ 9,720	\$ 9,720	\$ 6,920	\$ 4,610	\$ 9,720	\$ 9,720	\$ 6,920	\$ 4,610
Rate	45%	40%	34%	7.65%	45%	40%	34%	7.65%
Max credit	4,374	3,888	2,353	353	4,374	3,888	2,353	353
PO rate	19.06%	19.06%	15.98%	7.65%	19.06%	19.06%	15.98%	7.65%
PO start	12,690	12,690	12,690	5,770	14,140	14,140	14,140	7,220
PO end	35,636	33,086	27,413	10,380	37,086	34,536	28,863	11,830
Changes								
Max base	—	—	—	—	—	—	—	—
Rate	+5%	—	—	—	+5%	—	—	—
Max credit	+486	—	—	—	+486	—	—	—
PO rate	-2%	-2%	—	—	-2%	-2%	—	—
PO start	—	—	—	—	+1,450	+1,450	+1,450	+1,450
PO end	+4,486	+1,937	—	—	+5,936	+3,387	+1,450	+1,450
Benefits start at income of	\$ 1	\$ 12,690	na	na	\$ 1	\$ 12,690	\$ 12,690	na
End at	\$ 35,636	\$ 33,086	na	na	\$ 37,086	\$ 34,536	\$ 28,863	na

Matching Rules for Gore Savings Plans:

	Income		Govt Match%	Max govt amount			Max total (x2 for mfj)			Ind. contributes (max)		
	Couples	Others		thru 06	07-08	2009	thru 06	07-08	2009	thru 06	07-08	2009
Less than	30,000	15,000	300%	750	1,125	1,500	1,000	1,500	2,000	250	375	500
Up to	60,000	30,000	100%	500	750	1,000	1,000	1,500	2,000	500	750	1,000
Up to	100,000	50,000	33%	250	375	500	1,000	1,500	2,000	750	1,125	1,500
Counting deductibility of contribution												
Less than	30,000	15,000	371%	788	1,181	1,575	1,000	1,500	2,000	213	319	425
Up to	60,000	30,000	135%	575	863	1,150	1,000	1,500	2,000	425	638	850
Up to	100,000	50,000	85%	460	690	920	1,000	1,500	2,000	540	810	1,080

Dependent Care Credit Changes:

- # The credit would be refundable in 2003 and thereafter.
- # The credit rates would be increased from the current maximum of 30%, to 40% in 2003 and to 50% in 2005 and thereafter.
- # The maximum expenses eligible for the credit, now \$2,400 for one child and \$4,800 for two or more children would be indexed for inflation starting in 2002.
- # The income levels for computing the credit percentages would be indexed starting in 2002.
- # Parents of infants (under 1) could add \$500 to their child care expenses, even if they do not incur daycare expenses.
- # The maximum age for the credit would be increased from 12 to 16.

