CTJ Citizens for Tax Justice

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Another Ryan Budget Gives Millionaires Average Tax Cut of At Least $200,000

As in previous years, House Budget Committee Chairman Paul Ryan has released a budget proposal that includes some specific, enormous tax cuts with a vague promise that the amount of revenue collected by the federal government would somehow be unchanged. There is no way the plan could be implemented without providing millionaires with tax cuts averaging at least $200,000.

The language in Ryan's budget plan makes clear that he expects Congress to limit or eliminate tax expenditures (special breaks or loopholes in the tax code) in order to offset the cost of his proposed tax cuts, which include reducing personal income tax rates to 25 and 10 percent, repealing the Alternative Minimum Tax (AMT) and reducing the corporate income tax rate to 25 percent, among other tax cuts.

Impact of Ryan Tax Plan on Very High-Income Taxpayers in 2015, Compared to Current Law

Income Group	Average Income	Average Tax Change		
$500,000—$1 million	678,500	–22,570	to	–51,440
Over $1 million	3,161,200	–208,950	to	–329,990

Source: Institute on Taxation and Economic Policy (ITEP) microsimulation tax model, April 2014

For taxpayers with income exceeding $1 million, the benefit of Ryan's tax rate reductions and other proposed tax cuts would far exceed the loss of any tax expenditures. In fact, under Ryan's plan taxpayers with income exceeding $1 million in 2015 would receive an average *net* tax decrease of over $200,000 that year even if they had to give up *all* of their tax expenditures. These taxpayers would see an even larger net tax decrease if Congress failed to limit or eliminate enough tax expenditures to offset the costs of the proposed tax cuts.

Estimates produced using the Institute on Taxation and Economic Policy (ITEP) microsimulation tax model illustrate two scenarios for how the Ryan budget plan could be implemented. In the first scenario, very high-income people must give up all of their tax expenditures, except for those subsidizing investment and savings which Ryan has consistently made clear he would preserve. Even in this scenario, these very wealthy people would receive enormous net tax cuts, as illustrated in the table above. In the second scenario, these very high-income people are not required to give up any tax expenditures, and as a result their net tax cuts would be even larger.[1]

Because these very high-income taxpayers would pay less than they do today in either scenario, the average net impact of Ryan's plan on some taxpayers at *lower* income levels would necessarily be a tax *increase* in order to fulfill Ryan's goal of collecting the same amount of revenue as expected under current law.

Chairman Ryan's budget plan lays out (on page 83) the following "solutions" for our tax system:

- Simplify the tax code to make it fairer to American families and businesses.
- Reduce the amount of time and resources necessary to comply with tax laws.
- Substantially lower tax rates for individuals, with a goal of achieving a top individual rate of 25 percent.
- Consolidate the current seven individual-income-tax brackets into two brackets with a first bracket of 10 percent.
- Repeal the Alternative Minimum Tax.
- Reduce the corporate tax rate to 25 percent.
- Transition the tax code to a more competitive system of international taxation [apparently similar to the international proposal by House Ways and Means Chairman Dave Camp].

Elsewhere the plan makes it clear that the Affordable Health Care for America Act (President Obama's major health care reform) would be repealed. This means the plan would repeal tax increases that were part of the health reform law, including a significant provision reforming the Medicare Hospital Insurance (HI) tax so that it has a higher rate for high-income earners and no longer exempts the investment income of wealthy taxpayers.

Tax Provisions of the Ryan Budget for Fiscal Year 2015

	Specified in Plan	Filling in the Blanks
Income Tax Rates on Ordinary Income	Two rates, 10% and 25%.	The goal of the Ryan plan is to reduce rates, not raise them, so we assume that income tax rates currently higher than 25% will be replaced with the 25% rate while rates below 25% will all become 10%.
Capital Gains and Dividends	Nothing. Chairman Ryan's previous budget cited the alleged "double taxation of capital and investment" as one of three factors that "combine to suppress innovation, job creation, and economic growth." His budget the year before that specifically objected to "raising taxes on investing."	Currently, the tax brackets in which ordinary income is taxed at 25% and 10% have a 15% and 0% rate for capital gains/dividend income. We therefore assume the 25% and 10% brackets in the Ryan plan would have 15% and 0% rates for capital gains and dividends. We do not assume a 20% rate for capital gains and dividends for those with taxable income above $450,000/$400,000 as in current law because this would require a third tax bracket, contradicting Ryan's goal of having just two brackets.
Tax Expenditures	"Many of the major changes over the years have involved carving out special preferences, exclusions, or deductions for various activities or groups... Many of the deductions and preferences in the system are mainly used by a relatively small class of mostly higher-income individuals. The large amount of tax preferences that pervade the code ends up narrowing the tax base. A narrow tax base requires much higher tax rates to raise a given amount of revenue..."	To calculate our minimum average net tax cuts, we assume that the very rich must give up all itemized deductions, all credits, the exclusion for employer-provided health care, and the deduction for health care for the self-employed. To calculate our maximum average net tax cuts, we assume none of these tax expenditures are reduced at all.

Hospital Insurance (HI) tax increase in health reform	The plan makes clear that the health reform law would be repealed.	We assume the HI tax reform that was enacted as part of the health reform law would be repealed.
Corporate Tax Statutory Rate	Cut to 25%.	In the scenario in which corporate tax expenditures are not limited, we assume benefits of the resulting corporate tax cuts are distributed among income groups in the manner recently described by the Joint Committee on Taxation (JCT). Under this method (for example) roughly 23 percent of the benefits of a corporate tax cut go to those with incomes exceeding $1 million.
Corporate Tax Treatment of Offshore Profits	"The structure of U.S. international taxation is also out of sync with the international standard used by the majority of other countries, putting U.S. businesses operating abroad at a competitive disadvantage. Most countries operate under a so-called ''territorial'' system of international taxation, whereby their businesses operating abroad are only subject to the tax of the country where they do business. The U.S. has an antiquated ''worldwide'' system... Reforming the U.S. tax code to a more competitive international system would boost the competitiveness of U.S. companies..."	We assume the tax plan would include provisions similar to those in Ways and Means Chairman Dave Camp's proposal to move to a tax system more like a territorial system. (We do not include any one-time revenue boost that is part of that plan but that would not be permanent.)

[1] Some of the details that need to be filled in for Ryan's plan would have little effect on the tax bills of very high-income taxpayers. For example, Ryan's plan does not specify the level of taxable income at which the 10 percent rate would end and the 25 percent rate would begin, and it says nothing about standard deductions and personal exemptions. We assume that all income tax rates currently above 25 percent are replaced with the 25 percent rate, and all rates below the current 25 percent rate are replaced with the 10 percent rate. We also assume no change to standard deductions and personal exemptions. These assumptions make little difference for very high-income taxpayers, because the vast majority of their income would be taxed at the 25 percent rate in any event under Ryan's plan. But these details could dramatically impact the tax liability of low- and middle-income taxpayers.