

Deficit Commission's 'Moment of Truth'

By Editor Test *Wed, Dec 1, 2010*

"After all the talk about debt and deficits, it is long past time for America's leaders to put up or shut up. The era of debt denial is over, and there can be no turning back," says the preamble to the completed Report of the National Commission on Fiscal Responsibility and Reform, which was released today.

The Moment of Truth: Report of the National Commission on Fiscal Responsibility and Reform

Figure 7: Illustrative Individual Tax Reform Plan

	Current Law	Illustrative Proposal (Fully Phased In)
Tax rates for Individuals	In 2010, six brackets: 10%/15%/25%/28%/33%/35%. In 2011, five brackets: 15%/25%/31%/36%/39.6%	Three brackets: 12%/22%/28%
Alternative Minimum Tax	Scheduled to hit middle-income individuals but "patched" annually	Permanently repealed
PEP and Pease³	Repealed for 2010, resumes in 2011	Permanently repealed
ETC and Child Tax Credit	Partially refundable child tax credit of \$1,000 per child. Refundable ETC of between \$457 and \$5,566	Maintain current law or an equivalent alternative
Standard Deduction and Exemptions	Standard deduction of \$6,700 (\$11,400 for couples) for non-itemizers, personal and dependent exemptions of \$3,650	Maintain current law, itemized deductions eliminated, so all individuals take standard deductions
Capital Gains and Dividends	In 2010, top rate of 15% for capital gains and dividends. In 2011, top rate of 20% for capital gains, and dividends taxed as ordinary income ⁴	All capital gains and dividends taxed at ordinary income rates ⁵
Mortgage Interest	Deductible for itemizers; Mortgage capped at \$1 million for principal and second residences, plus an additional \$100,000 for home equity	12% non-refundable tax credit available to all taxpayers; Mortgage capped at \$500,000; No credit for interest from second residence and equity
Employer Provided Health Care Insurance	Excluded from income. 40% excise tax on high cost plans (generally \$27,500 for families) begins in 2010; threshold indexed to inflation	Exclusion capped at 75 th percentile of premium levels in 2014, with cap frozen in nominal terms through 2016 and phased out by 2038; Excise tax reduced to 12%
Charitable Giving	Deductible for itemizers	12% non-refundable tax credit available to all taxpayers; available above 2% of Adjusted Gross Income (AGI) floor. Interest taxable as income for newly-issued bonds
State and Municipal Bonds	Interest exempt from income	Consolidate retirement accounts; cap tax-preferred contributions to lower of \$20,000 or 20% of income, expand saver's credit
Retirement	Multiple retirement account options with different contribution limits; saver's credit of up to \$1,000	Nearly all other income tax expenditures are eliminated ⁶
Other Tax Expenditures	Over 150 additional tax expenditures	

³ PEP is the Personal Exemption Phase-out. Pease is the phase-out of itemized deductions. PEP and Pease have phase-outs at different levels and are phased in at different times.

Here's a headline summary of the final [report](#) of the NCFRR:

- Achieve nearly \$4 trillion in deficit reduction through 2020, more than any effort in the nation's history.
- Reduce the deficit to 2.3% of GDP by 2015 (2.4% excluding Social Security reform), exceeding President's goal of primary balance (about 3% of GDP).²
- Sharply reduce tax rates, abolish the AMT, and cut backdoor spending in the tax code.
- Cap revenue at 21% of GDP and get spending below 22% and eventually to 21%.
- Ensure lasting Social Security solvency, prevent the projected 22% cuts to come in 2037, reduce elderly poverty, and distribute the burden fairly.
- Stabilize debt by 2014 and reduce debt to 60% of GDP by 2023 and 40% by 2035.

Here's a table that summarizes proposed changes in the tax code to reduce the deficit and debt:

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Alternative Minimum Tax	Scheduled to hit middle-income individuals but "patched" annually	Permanently repealed
PEP and Pease³	Repealed for 2010 , resumes in 2011	Permanently repealed
EITC and Child Tax Credit	Partially refundable child tax credit of \$1000 per child. Refundable EITC of between \$457 and \$5,666	Maintain current law or an equivalent alternative
Standard Deduction and Exemptions	Standard deduction of \$5,700 (\$11,400 for couple) for non-itemizers; personal and dependent exemptions of \$3,650	Maintain current law; itemized deductions eliminated, so all individuals take standard deductions
Capital Gains and Dividends	In 2010 , top rate of 15% for capital gains and dividends. In 2011 , top rate of 20% for capital gains, and dividends taxed as ordinary income ⁴	All capital gains and dividends taxed at ordinary income rates ⁵
Mortgage Interest	Deductible for itemizers; Mortgage capped at \$1 million for principal and second residences, plus an additional \$100,000 for home equity	12% non-refundable tax credit available to all taxpayers; Mortgage capped at \$500,000; No credit for interest from second residence and equity
Employer Provided Health Care Insurance	Excluded from income. 40% excise tax on high cost plans (generally \$27,500 for families) begins in 2018; threshold indexed to inflation	Exclusion capped at 75 th percentile of premium levels in 2014, with cap frozen in nominal terms through 2018 and phased out by 2038; Excise tax reduced to 12%
Charitable Giving	Deductible for itemizers	12% non-refundable tax credit available to all taxpayers; available above 2% of Adjusted Gross Income (AGI) floor
State and Municipal Bonds	Interest exempt from income	Interest taxable as income for newly-issued bonds
Retirement	Multiple retirement account options with different contribution limits; saver's credit of up to \$1,000	Consolidate retirement accounts; cap tax-preferred contributions to lower of \$20,000 or 20% of income, expand saver's credit
Other Tax Expenditures	Over 150 additional tax expenditures	Nearly all other income tax expenditures are eliminated ⁶

³ PEP is the Personal Exemption Phase-out; Pease is the phase-out of itemized deductions. PEP and Pease have phase-outs at different levels and are viewed as stealth taxes.