



BIPARTISAN POLICY CENTER

Bipartisan Policy Center (BPC) Tax Reform Quick Summary

The BPC Tax Reform Plan represents a radical simplification of the current tax code and would raise approximately \$1.4 trillion less than the system under current law. In fact, to best explain it, forget what you know about the complexities of the current tax system, and start fresh.

Outlined below are the core elements of the plan:

- A **two-bracket income tax with rates of 15% and 28%**. Because there is no standard deduction or personal exemptions, the 15% rate applies to your 1st dollar of income.¹
- The **corporate tax rate will be set at 28%**, instead of the current 35% level.
- Capital gains and dividends will be taxed as **ordinary income (with a top rate of 28%)**, excluding the first \$1,000 of realized net capital gains (or losses).²
- To replace the overly-complex Earned Income Tax Credit (EITC) and to help offset the elimination of personal exemptions, the standard deduction and the child credit, the BPC Plan will establish:
 - A flat **refundable per child tax credit of \$1,600** (higher than current law); and
 - A **refundable earnings credit**³ similar in structure to the recent Making Work Pay credit, but substantially higher.
- Instead of the current system of itemized deductions, which disproportionately subsidizes the housing consumption and charitable giving of upper-income taxpayers, the BPC Plan will:
 - Provide a **flat 15% refundable tax credit for charitable contributions** and for up to \$25,000 per year, not indexed, **mortgage interest on a primary residence**.
 - Eliminate the deduction for state and local taxes.
 - Provide a flat, **15% refundable tax credit** or a deduction (for those in the higher bracket) **for contributions to retirement saving accounts** up to 20% of earnings or a maximum of \$20,000.

¹ The 28% rate applies approximately to income above \$51,000 for single filers and \$102,000 for couples.

² \$500 for singles and heads of household

³ The refundable earnings credit is equal to 17.5% of the first \$20,000 of earnings.

- Include 100% of Social Security benefits in taxable income, but:
 - Create a non-refundable credit for Social Security beneficiaries equal to 15% of the current standard deduction; and
 - Create a non-refundable credit equal to 15% of an individual's Social Security benefits.
- Effective in 2015, cap and then phase out over 10 years the tax exclusion for employer-sponsored health insurance benefits.
- Allow deduction of medical expenses in excess of 10% of AGI (as in current law).
- Allow deduction of miscellaneous itemized deductions in excess of 5% of AGI.

The BPC Plan achieves a massive simplification of the tax code by **aligning the top individual, capital gains and dividend tax rates, significantly reducing the corporate tax rate, and eliminating the AMT**. Additionally, **most individuals will no longer have to file an annual tax return**⁴ beyond an initial declaration of status because the most commonly taken deductions have either been turned into refundable credits, determined solely based on the number of children and earnings, or can only be deducted above a substantial floor. Despite a low top rate of 28%, the new tax system created under the BPC Plan will be **more progressive than the current system** and **raise the requisite revenue to achieve our debt-reduction goal**.

⁴ According to Tax Policy Center projections, only 50% of tax units would be required to file tax returns, as opposed to 88% under the current tax system.

BPC Tax Proposal vs. Current Policy Baseline
Distribution of Federal Tax Change by Cash Income Percentile, 2021 ¹

Cash Income Percentile ^{2,3}	Percent Change in After-Tax Income ⁵	Share of Total Federal Tax Change	Average Federal Tax Change		Share of Federal Taxes		Average Federal Tax Rate ⁶	
			Dollars	Percent	Change (% Points)	Under the Proposal	Change (% Points)	Under the Proposal
Lowest Quintile	-1.2	1.3	181	55.7	0.1	0.5	1.2	3.3
Second Quintile	-2.3	5.2	807	20.0	0.1	4.5	2.0	12.2
Middle Quintile	-2.3	7.8	1,419	11.2	-0.5	11.0	1.9	19.1
Fourth Quintile	-3.8	17.1	3,779	14.8	-0.3	18.9	3.0	23.4
Top Quintile	-6.5	68.9	17,418	17.9	0.6	65.0	4.8	31.5
All	-4.6	100.0	3,620	16.7	0.0	100.0	3.6	25.3
Addendum								
80-90	-5.9	17.4	8,798	19.6	0.4	15.2	4.5	27.7
90-95	-7.1	13.7	13,836	22.7	0.5	10.6	5.4	29.1
95-99	-5.3	14.0	17,752	14.4	-0.3	16.0	3.9	30.7
Top 1 Percent	-7.8	23.7	120,178	17.0	0.1	23.3	5.3	36.7
Top 0.1 Percent	-11.1	13.2	660,685	20.7	0.4	11.0	7.2	42.0

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0411-2).

Number of AMT Taxpayers (millions). Baseline: 8.6

Proposal: 0.0

(1) Calendar year. Baseline is current policy which assumes extension of all provisions in place for 2011 (except for the payroll tax cut) and indexation of the AMT exemption after 2011.

(2) Tax units with negative cash income are excluded from the lowest income class but are included in the totals. For a description of cash income, see <http://www.taxpolicycenter.org/TaxModel/income.cfm>

(3) The cash income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2011 dollars): 20% \$21,695; 40% \$44,916; 60% \$77,171; 80% \$135,885; 90% \$184,122; 95% \$268,473; 99% \$700,346; 99.9% \$3,089,039.

(4) Includes both filing and non-filing units but excludes those that are dependents of other tax units.

(5) After-tax income is cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); and estate tax.

(6) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, and the estate tax) as a percentage of average cash income.