

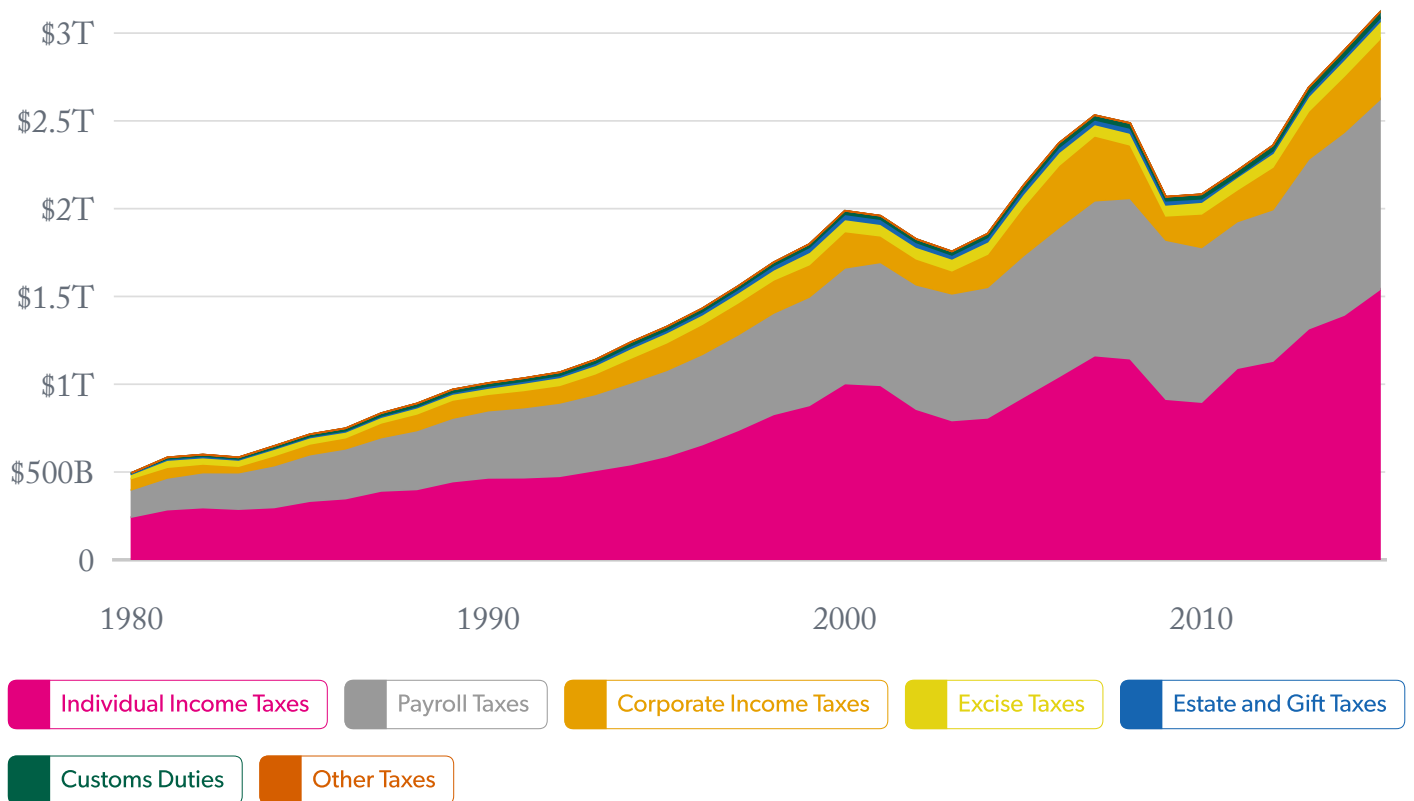
# Facts in Focus: 8 proposed tax changes

Published on November 5th 2017

Tax policy is at the top of the agenda in Washington after House Republicans released the Tax Cuts and Jobs Act. The legislation builds on a joint framework developed with the Trump administration earlier this fall; House Democrats released a set of tax principles in response. Some of the proposed changes to the tax code are narrow and specific, others are broader. This *Facts in Focus* walks you through the facts and historical data you need to evaluate the tax ideas under consideration on Capitol Hill.

As a nonpartisan group, USAFacts takes no position on the merits of the proposed tax changes. None of the figures below have been adjusted for inflation.

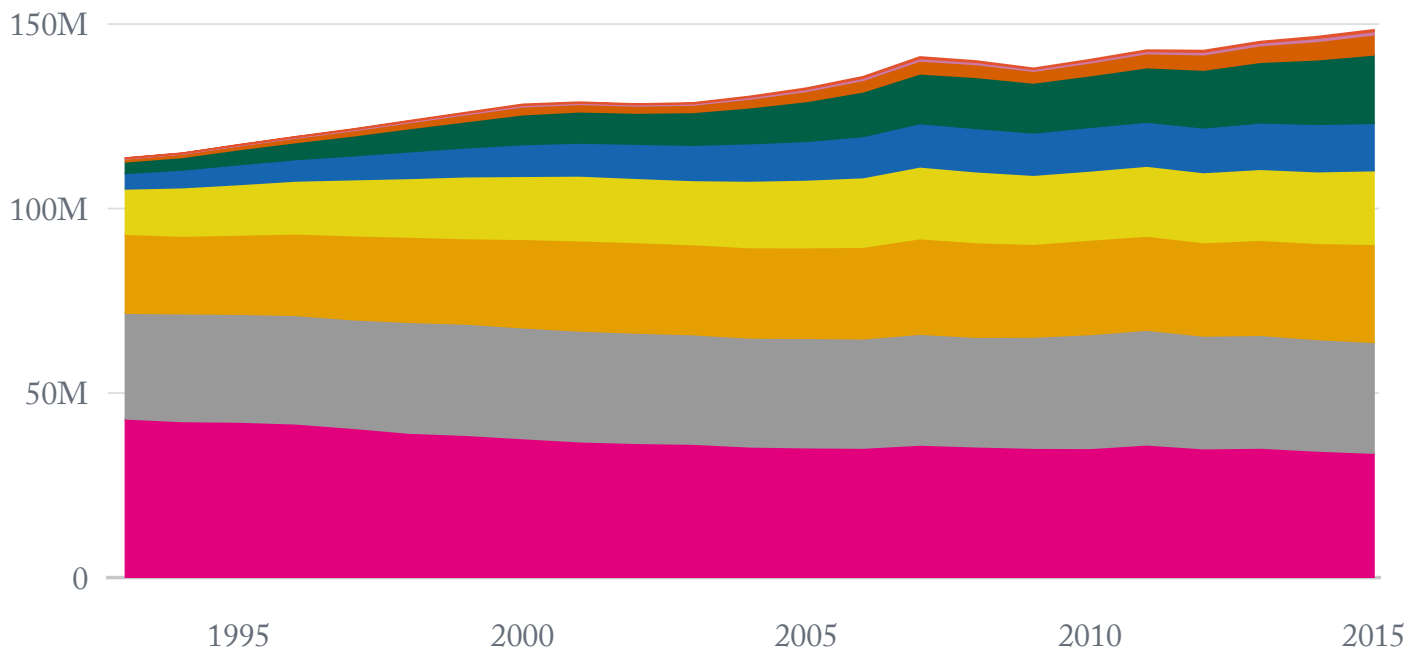
## Historical taxes collected by the federal government:



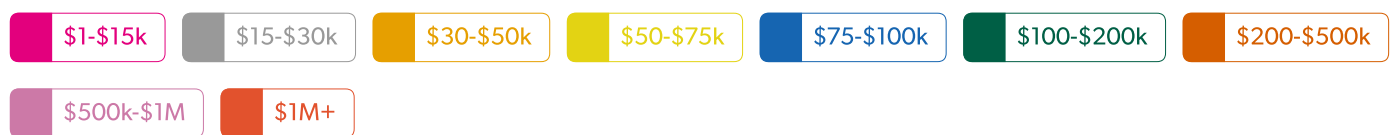
## 1. Changes to itemized and standard deductions

Deductions lower a taxpayer's tax bill by reducing the amount of income subject to tax. Taxpayers can elect to receive a standard deduction or to itemize their deductions. Tax credits and the personal exemption can be claimed regardless of whether a taxpayer elects to itemize or uses the standard deduction.

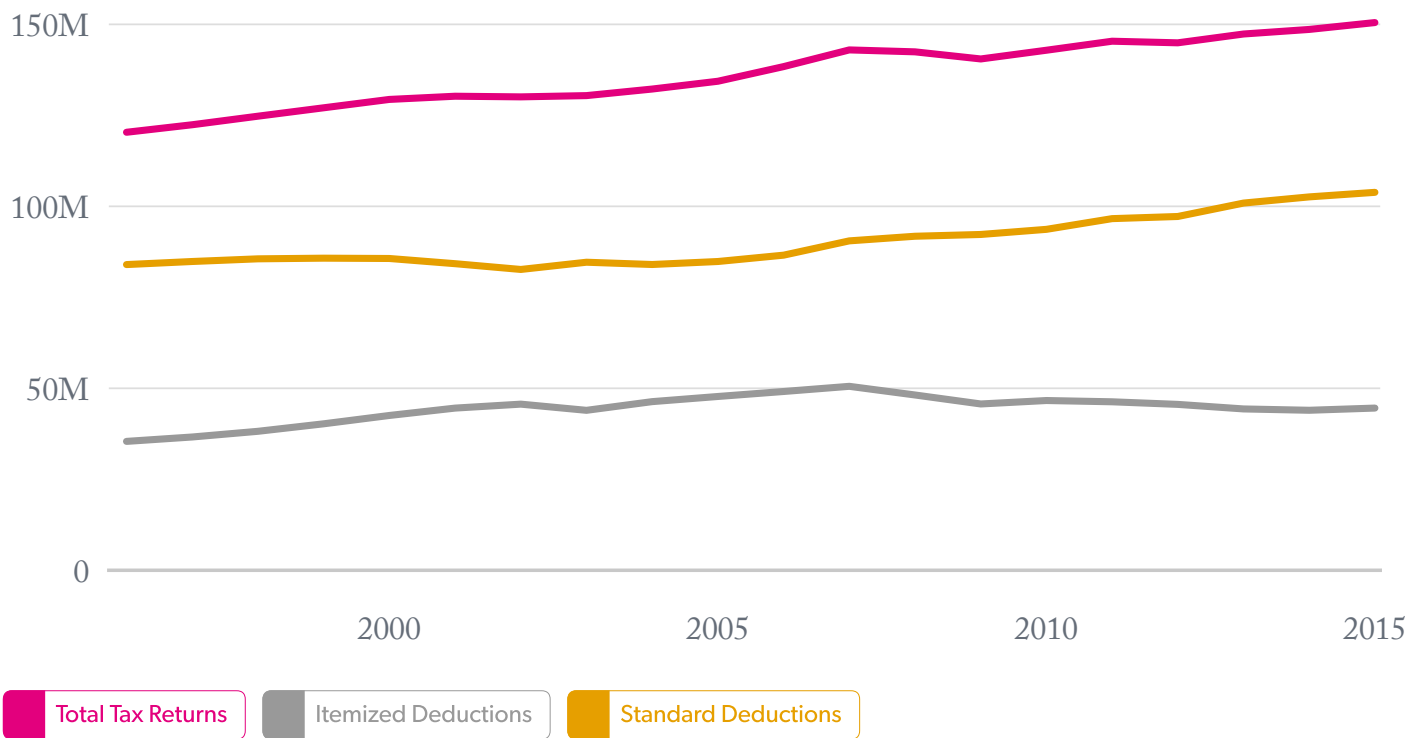
**About 150 million tax returns are filed each year:**



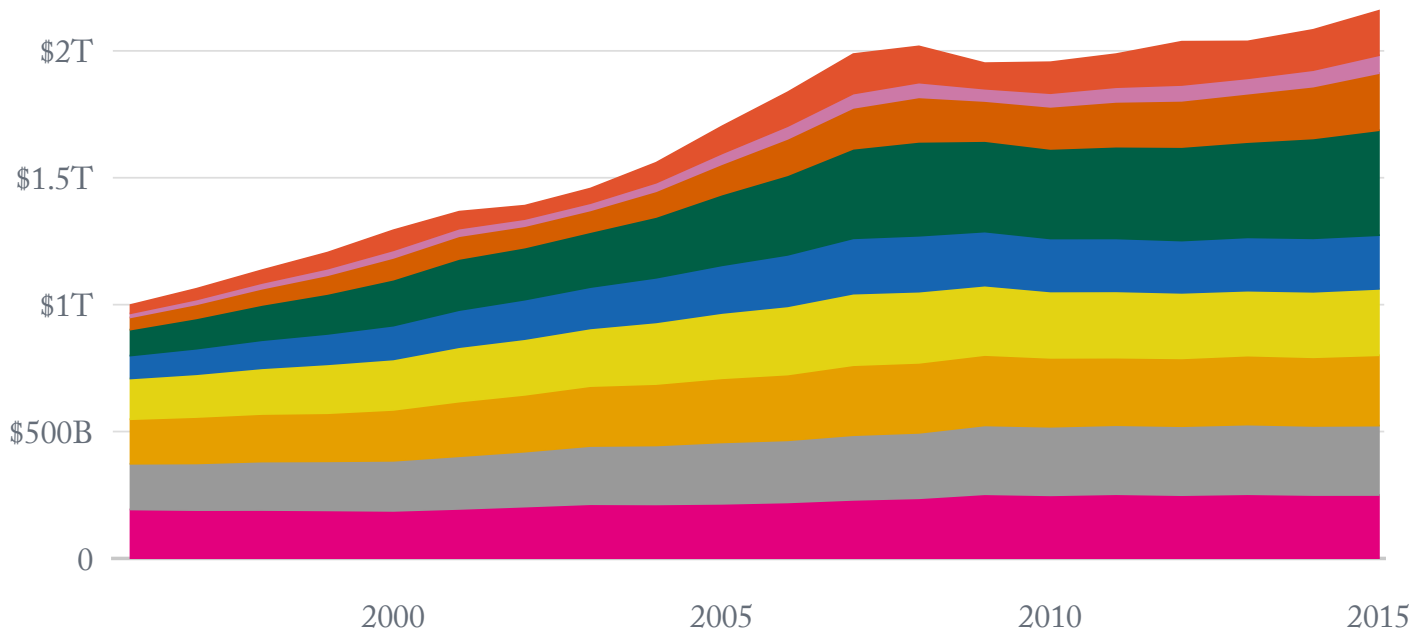
**Income brackets:**



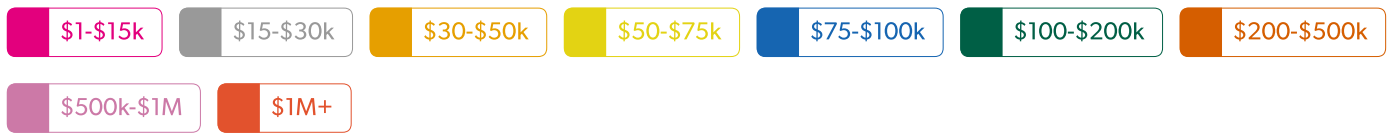
**Roughly two thirds of tax filers claim the standard deduction and one third itemize their deductions:**



**Those deductions, both standard and itemized, allow them to remove \$2.1 trillion from their taxable income:**



Income brackets:



**Two changes have been proposed: double the standard deduction and eliminate the personal exemption.**

Currently, married couples who do not itemize can exclude \$20,800 of their income from taxation, through a combination of the standard deduction and the personal exemption . Single taxpayers can exclude \$10,400. Single taxpayers with children add an additional \$4,050 per child through the personal exemption.

The personal exemption reduces the taxable income of taxpayers with adjusted gross income lower than \$384,000 (\$436,300 for married couples filing jointly), and can be used by both taxpayers claiming the standard deduction or choosing to itemize. Those who itemize and have incomes below the phase-out level will lose the personal exemption. Some could choose to claim the expanded standard deduction, but those who do not could pay more in taxes.

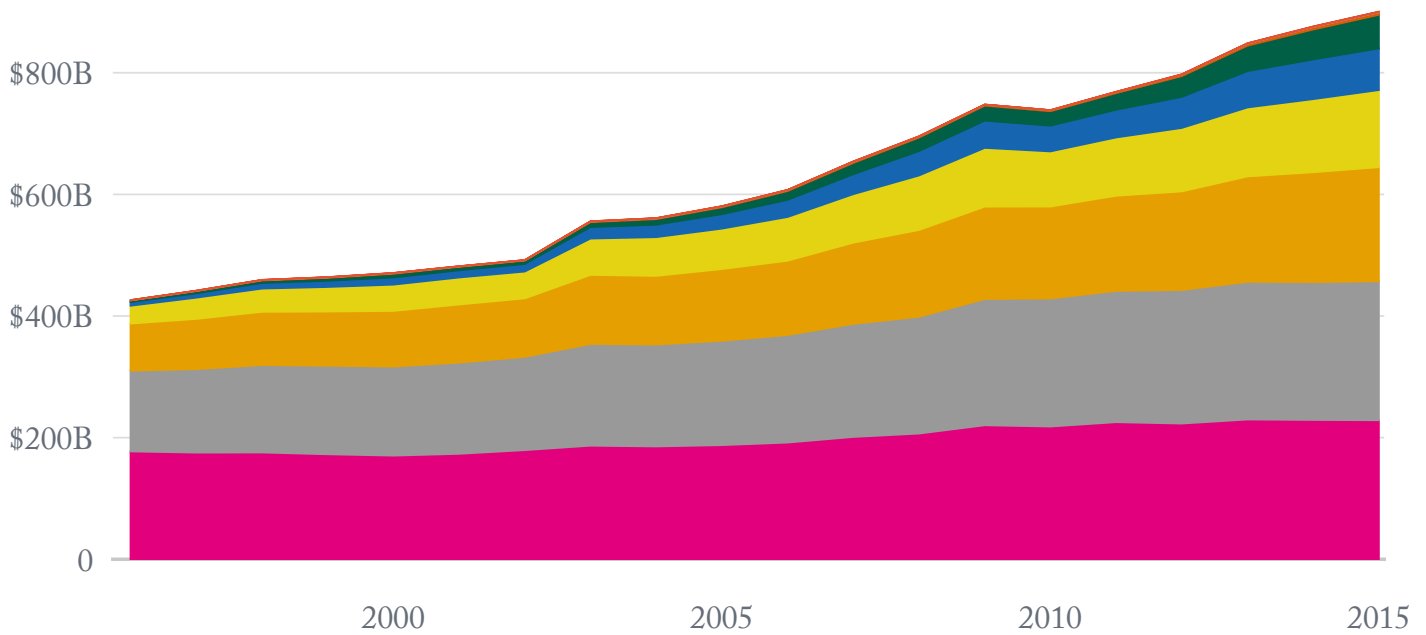
The new standard deduction would be:

\$24,400 for married taxpayers filing jointly

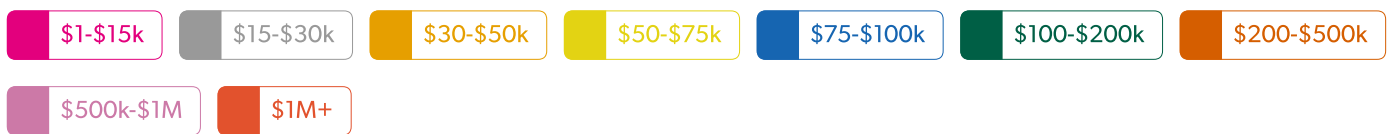
\$18,300 for single filers with children

\$12,200 for single filers without children

**Taxpayers using the standard deduction remove \$900 billion from their taxable income annually:**

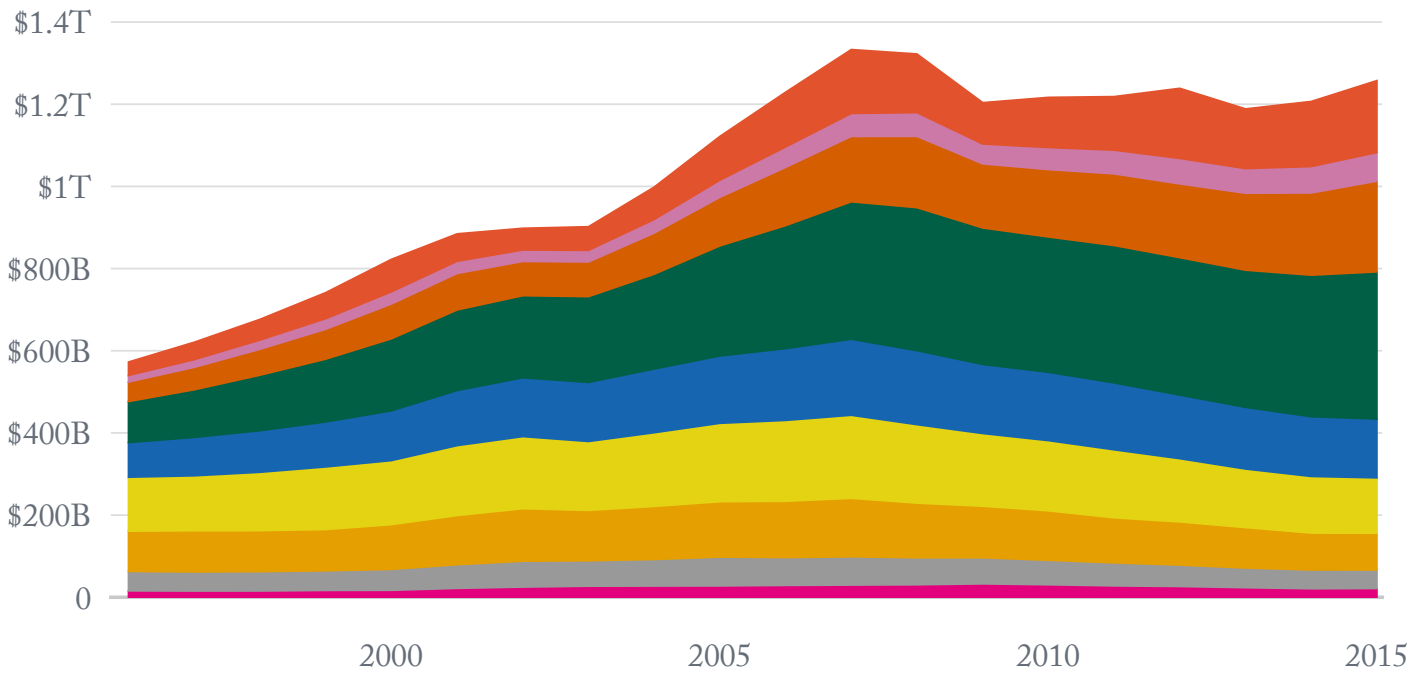


**Income brackets:**

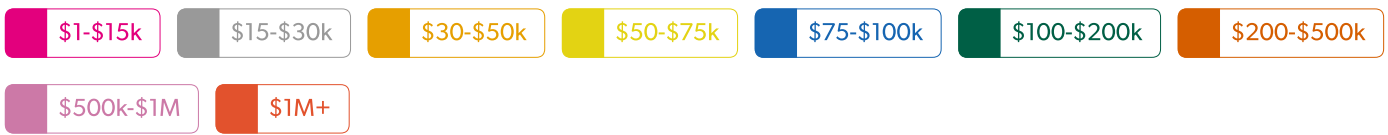


The House legislation retains deductions for charitable contributions and reduces but retains the deductions for home mortgage interest and state and local taxes. It eliminates most other deductions, including: tax preparation expenses, medical expenses, and personal casualty losses.

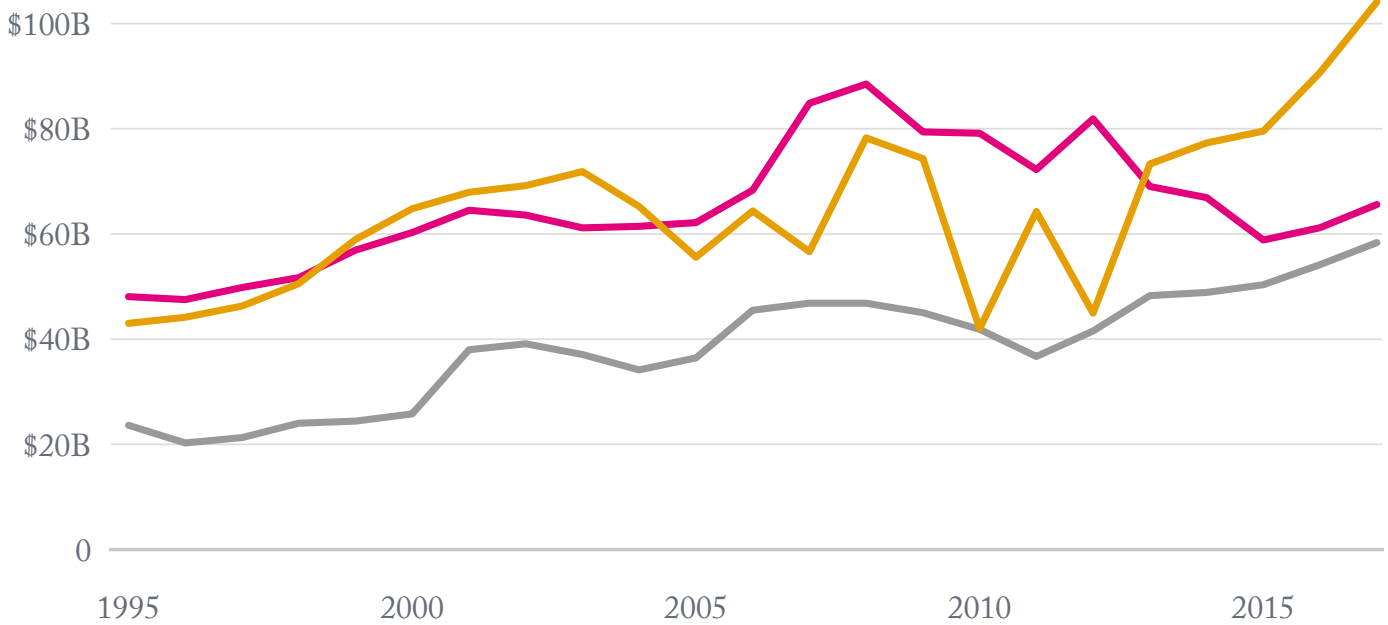
**Taxpayers who choose to itemize do not pay tax on roughly \$1.2 trillion in income annually:**



**Income brackets:**



**Aggregate amount of select deductions:**



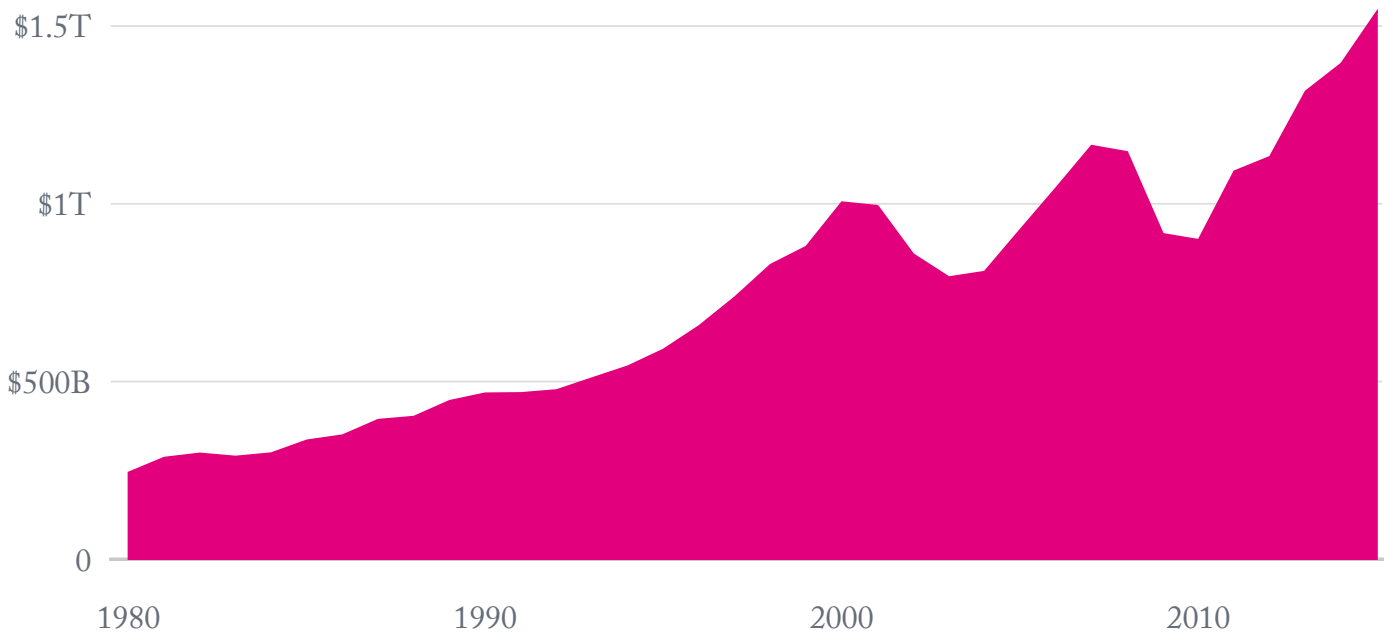
## Additional information on the Mortgage Interest Deduction, the Charitable Deduction, and the State and Local Deduction

### Average tax savings per return (family unit) by income (2015):

Income Quintile	State & Local Tax Deduction	Mortgage Interest Deduction	Charitable Deduction
All	\$645	\$484	\$324
Bottom 20% (\$0-\$8k)	\$7	\$3	\$1
Second 20% (\$8k-\$31k)	\$35	\$17	\$10
Middle 20% (\$31k-\$61k)	\$144	\$84	\$45
Fourth 20% (\$61k-\$113k)	\$452	\$373	\$151
Top 2%-20% (\$113k-\$711k)	\$1,569	\$1,669	\$727
Top 1% (\$711k+)	\$21,723	\$6,971	\$14,330

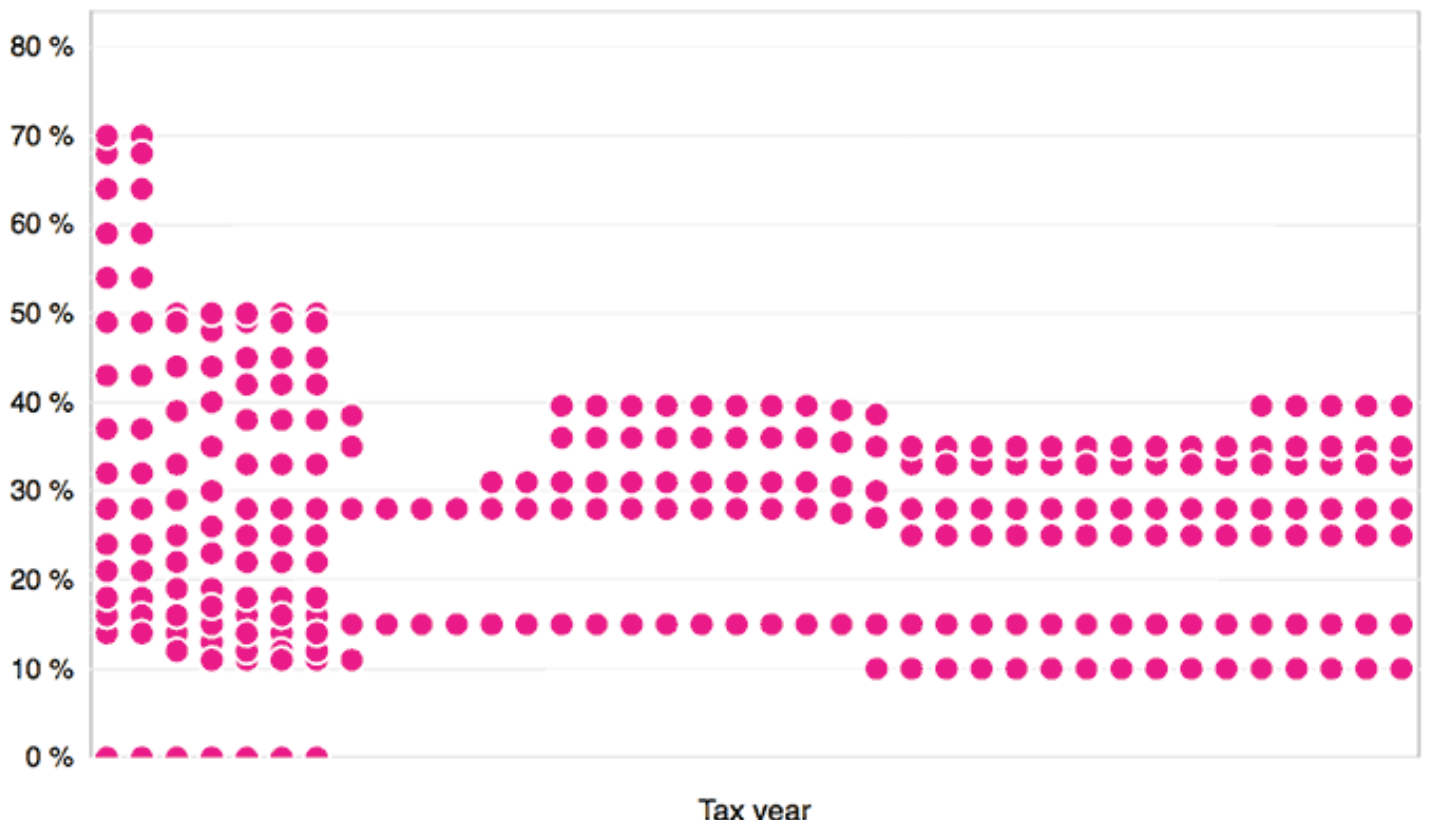
## 2. Consolidate tax brackets, reduce top tax rate, and increase bottom tax rate

### Total revenue from individual income taxes:



**The legislation proposes to reduce to four tax brackets: 12%, 25%, 35%, 39.6%.**

Tax brackets have changed many times, and currently there are seven: 10%, 15%, 25%, 28%, 33%, 35%, and 39.6%





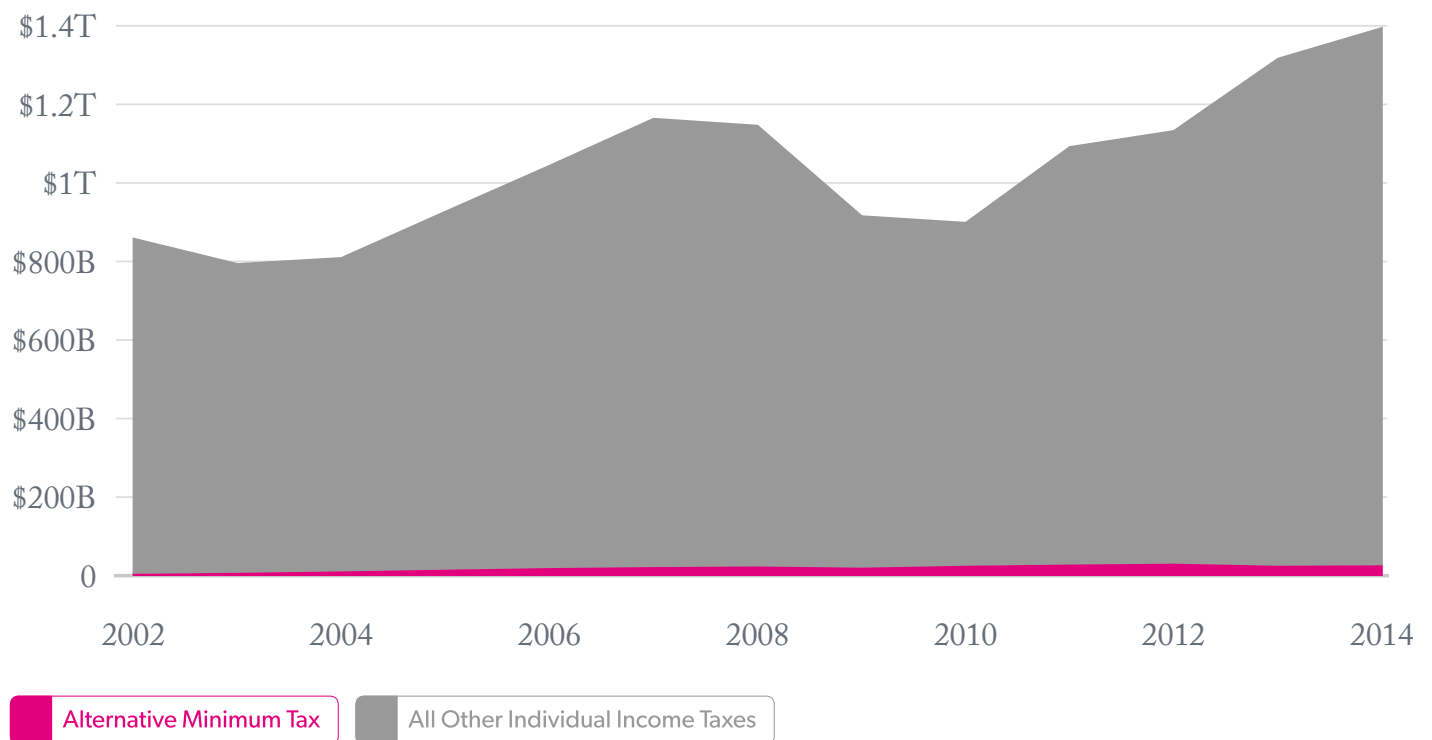
NOTE: In this image, individual income tax brackets are based on married filing jointly status, and tax rates are for ordinary income (not dividends or investment income). The sources are the Internal Revenue Service and Congress.gov.

### 3. Repeal the Alternative Minimum Tax

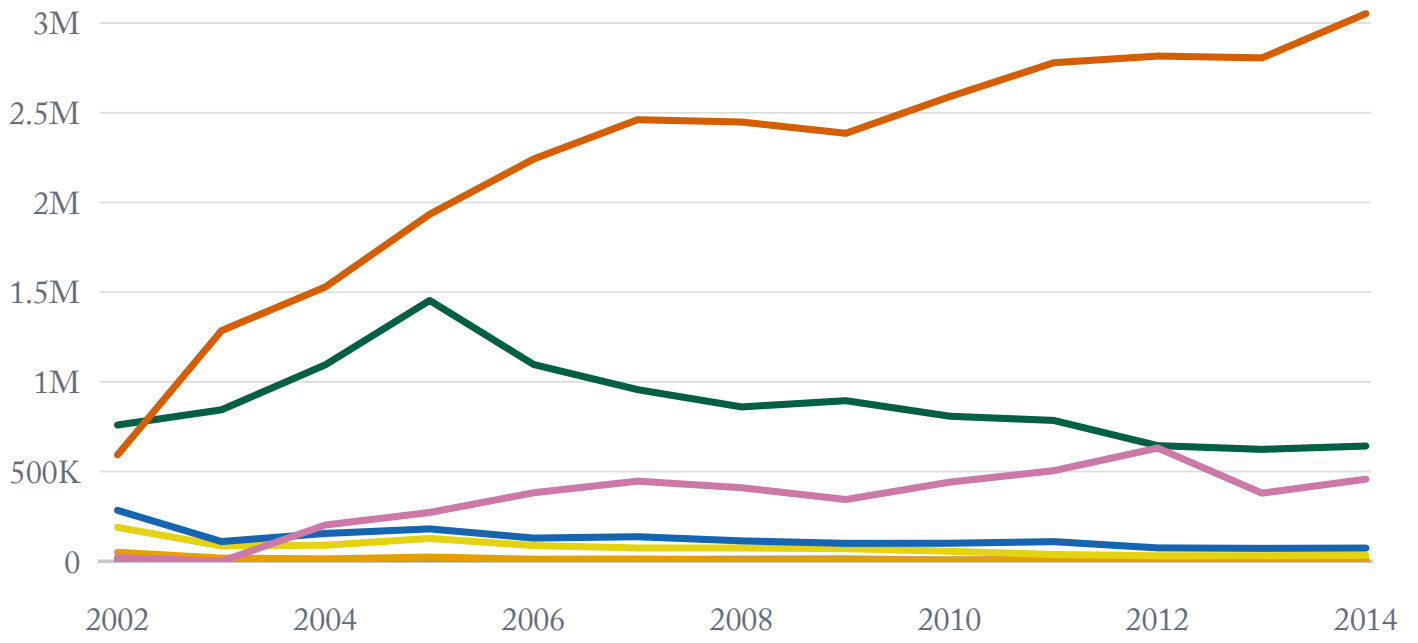
The current Alternative Minimum Tax (AMT) was created in 1982 to prevent high-income earners from using deductions, credits, and other tax benefits to avoid taxation. In the years prior to 2012, the AMT was not indexed to inflation during which time an increasing number of upper and middle income taxpayers were subjected to the AMT.

The House legislation proposes to repeal the Alternative Minimum Tax.

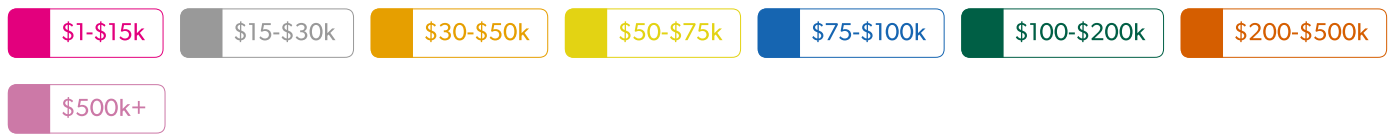
#### Alternative Minimum Tax paid as portion of all federal individual income taxes:



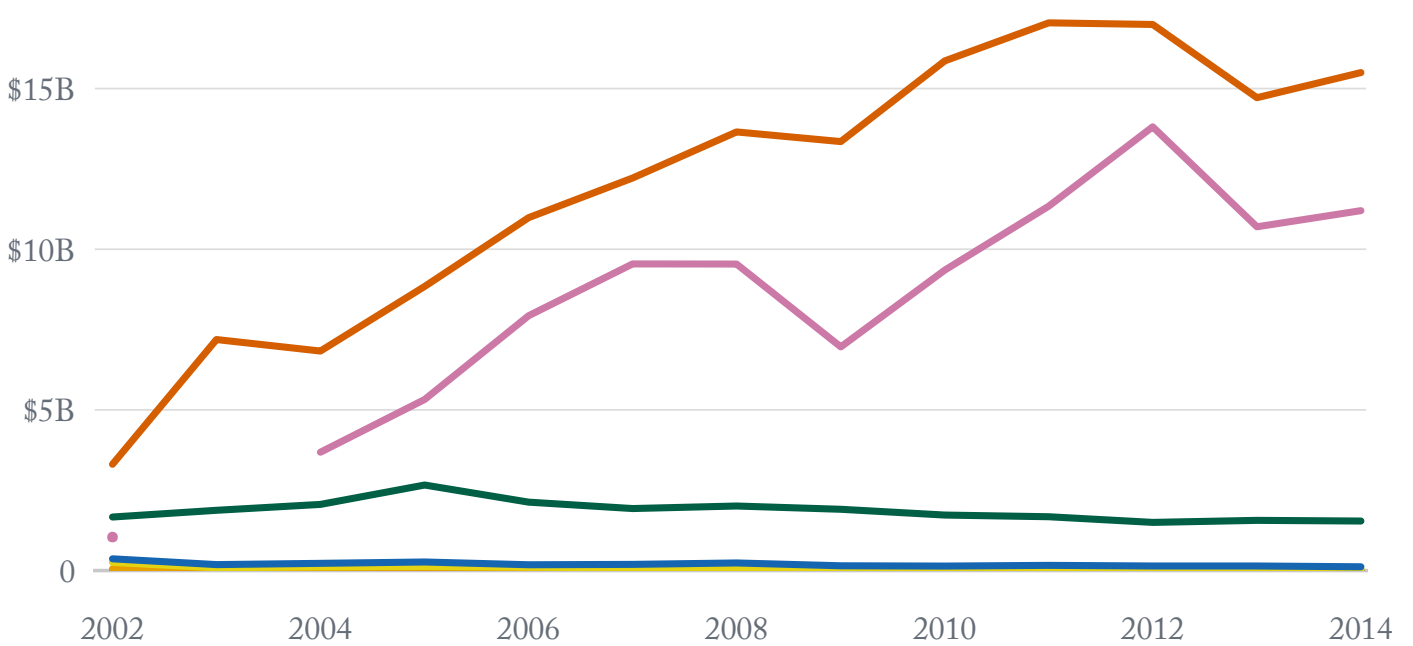
**Roughly 4 million tax returns are subject to the Alternative Minimum Tax...**



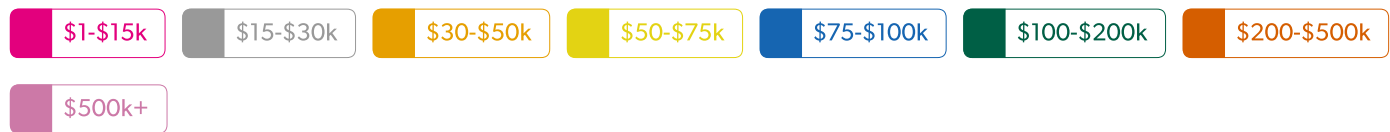
Income brackets:



...and those taxpayers pay almost \$29 billion in additional taxes as a result.



## Income brackets:



\*Data not available from source for 500K+ income bracket in 2003

## 4. Changes in individual tax credits

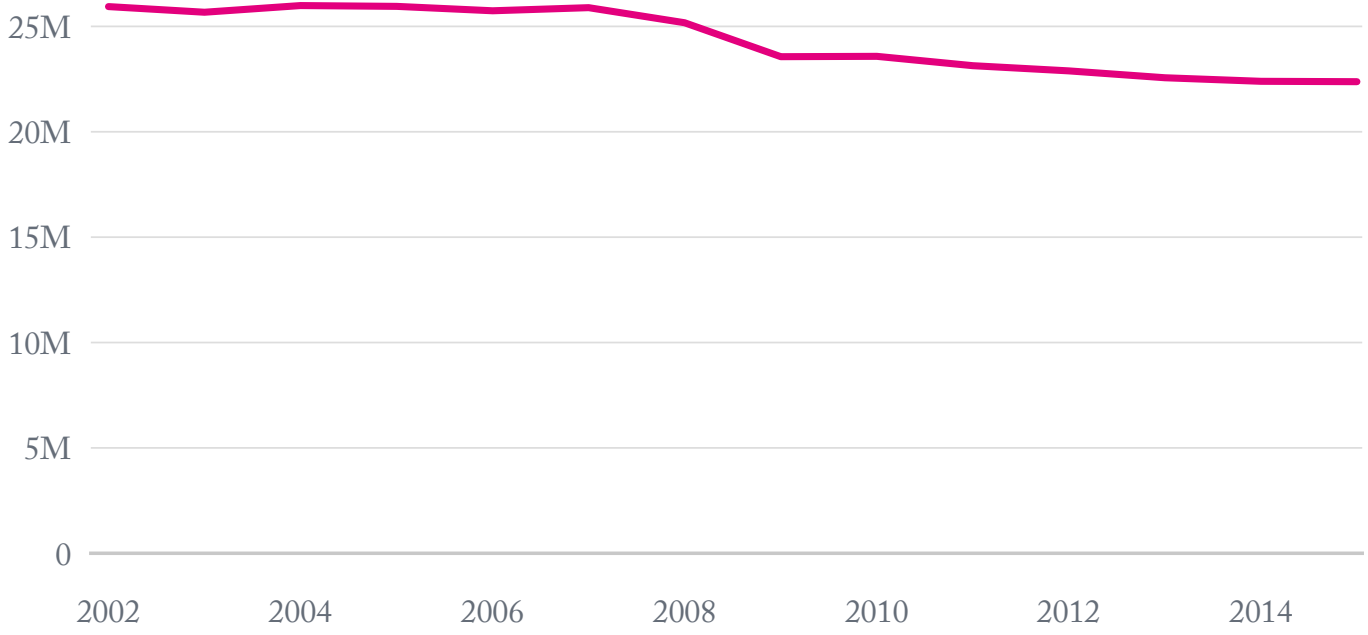
Tax credits, like tax deductions, are targeted benefits that allow taxpayers to reduce their tax bill. Unlike tax deductions which lower the amount of income subject to tax, tax credits subtract a set amount off the final tax bill. Credits that are refundable can result in a cash refund if your income tax liability falls below zero.

### Expand the Child Tax Credit

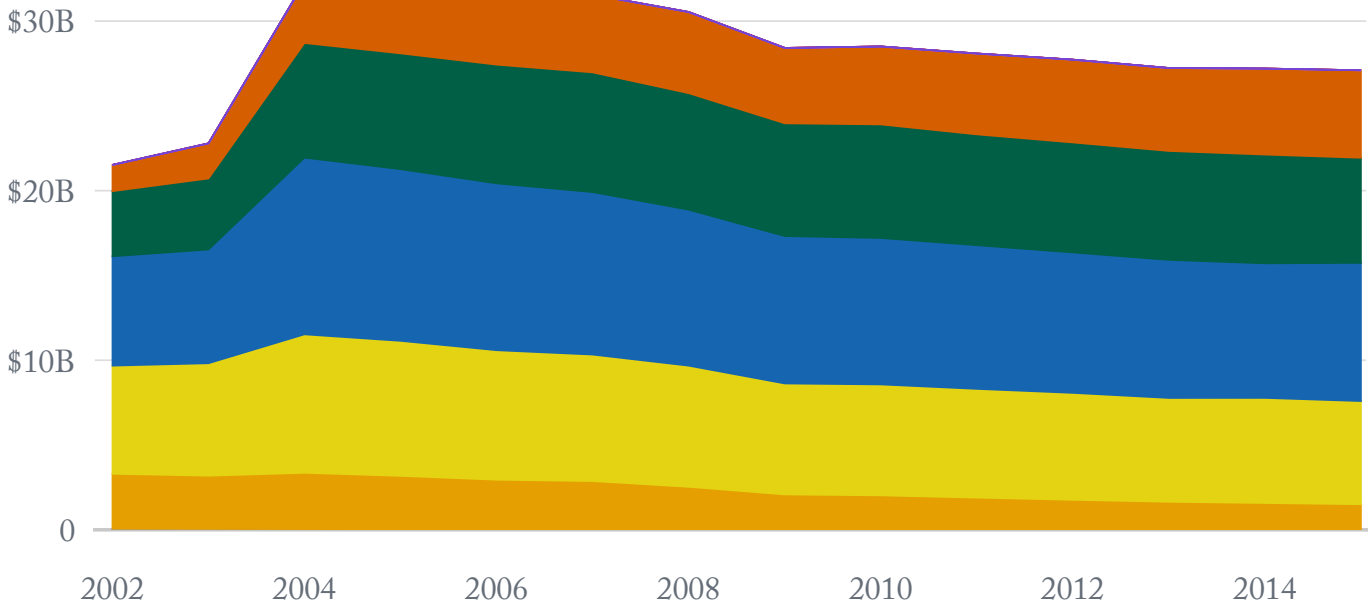
The Child Tax Credit reduces the income tax liability of qualifying families by \$1,000 per child. If a family does not owe any taxes, they may be eligible for the additional child tax credit if certain conditions are met.

The legislation increases the Child Tax Credit to \$1,600 per child, plus \$300 per filer and any non-child dependents. The credit would remain refundable up to \$1,000 as under current law. The legislation also proposes increasing the income thresholds at which the Child Tax Credit phases out, which would allow higher-income taxpayers to claim the credit.

**More than 22 million taxpayers claim the child tax credit...**



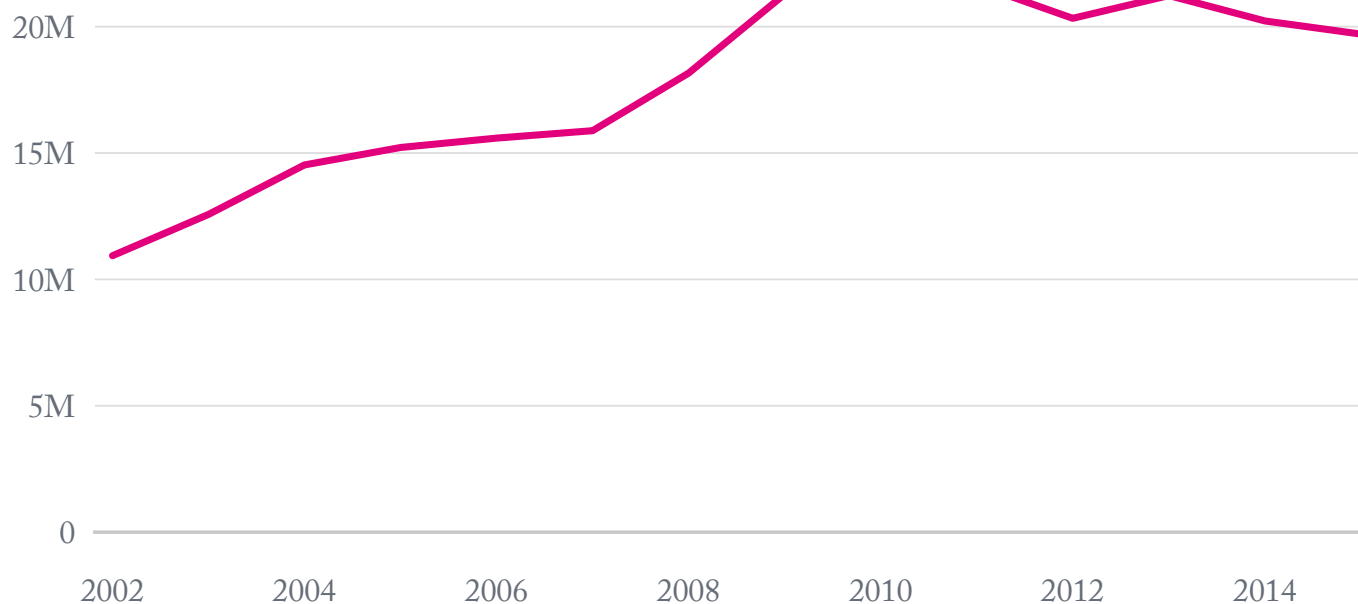
**...and receive about \$27 billion in credits:**



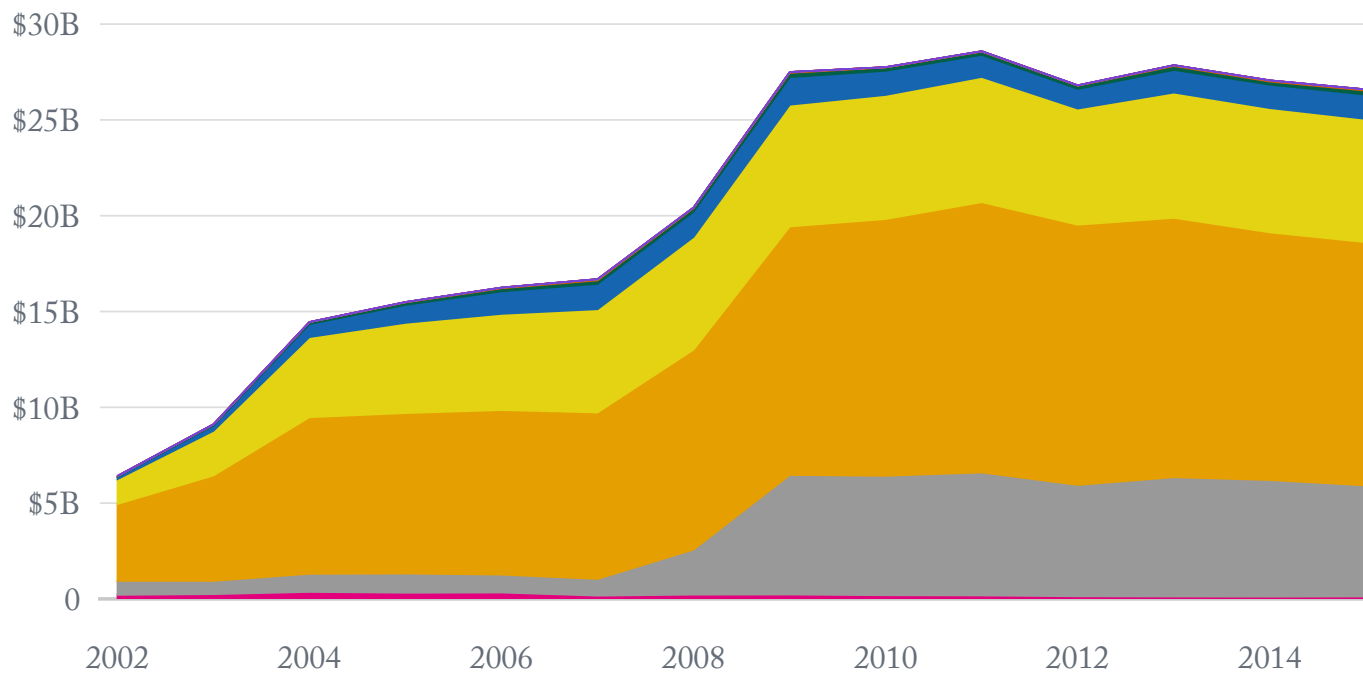
**Income brackets:**



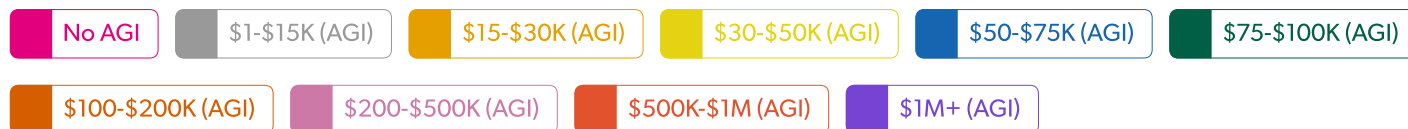
## Nearly 20 million taxpayers claim the additional child tax credit...



## ...and receive more than \$26 billion in credits:



## Income brackets:

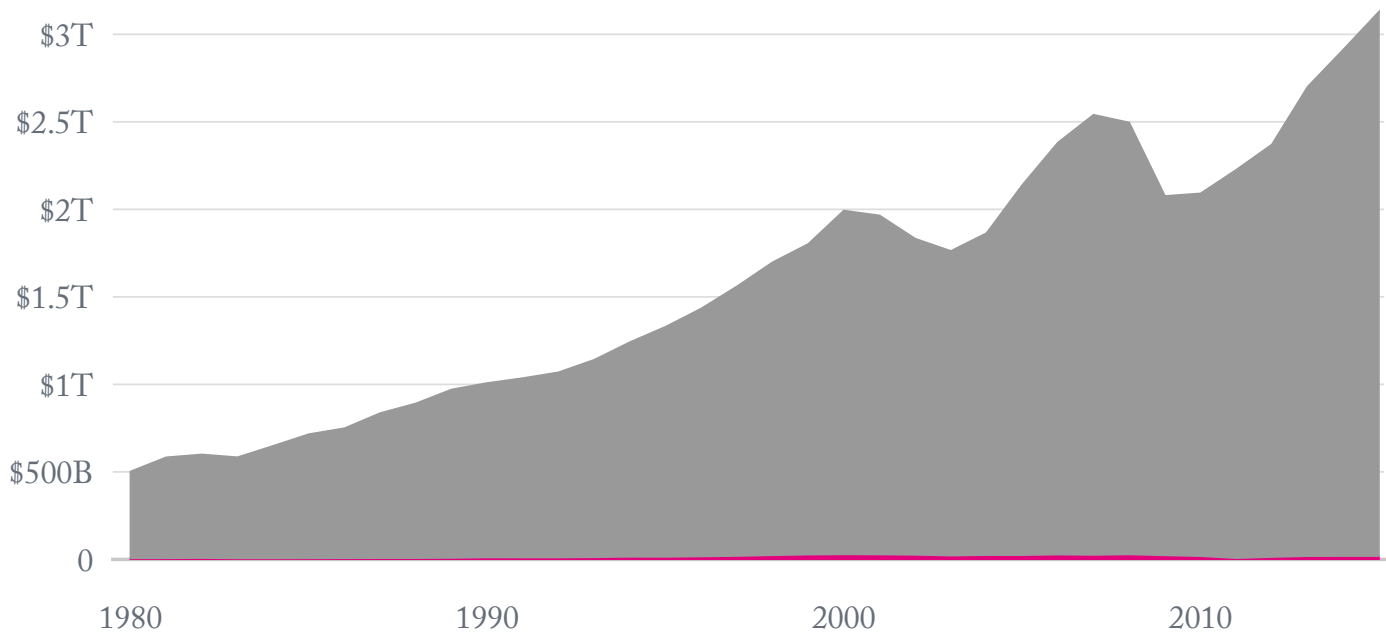


## 5. Repeal estate taxes

The estate tax is a tax on inherited wealth. Starting in 2001, the tax was set to be phased out by 2010. This accounts for the gradual decrease in estate tax revenue during that decade, culminating in temporary repeal in 2011. The tax was reinstated in 2012, but only on estates larger than \$5.5 million, or \$11 million for a married couple.

The legislation would raise the threshold to \$10 million (\$20 million for a married couple) in 2018, and eliminate the estate tax entirely by 2024.

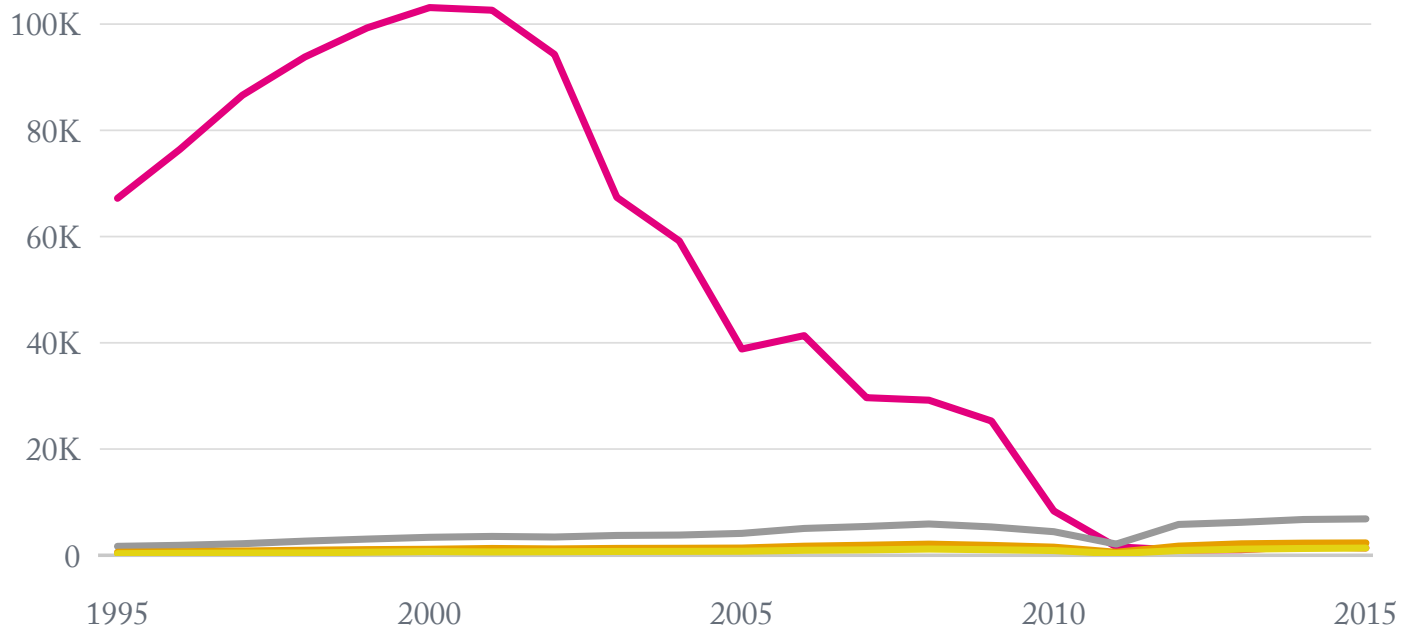
### Estate taxes paid as portion of all federal taxes:



\*Note: Totals are from the Treasury and may differ from total IRS data shown elsewhere in this report



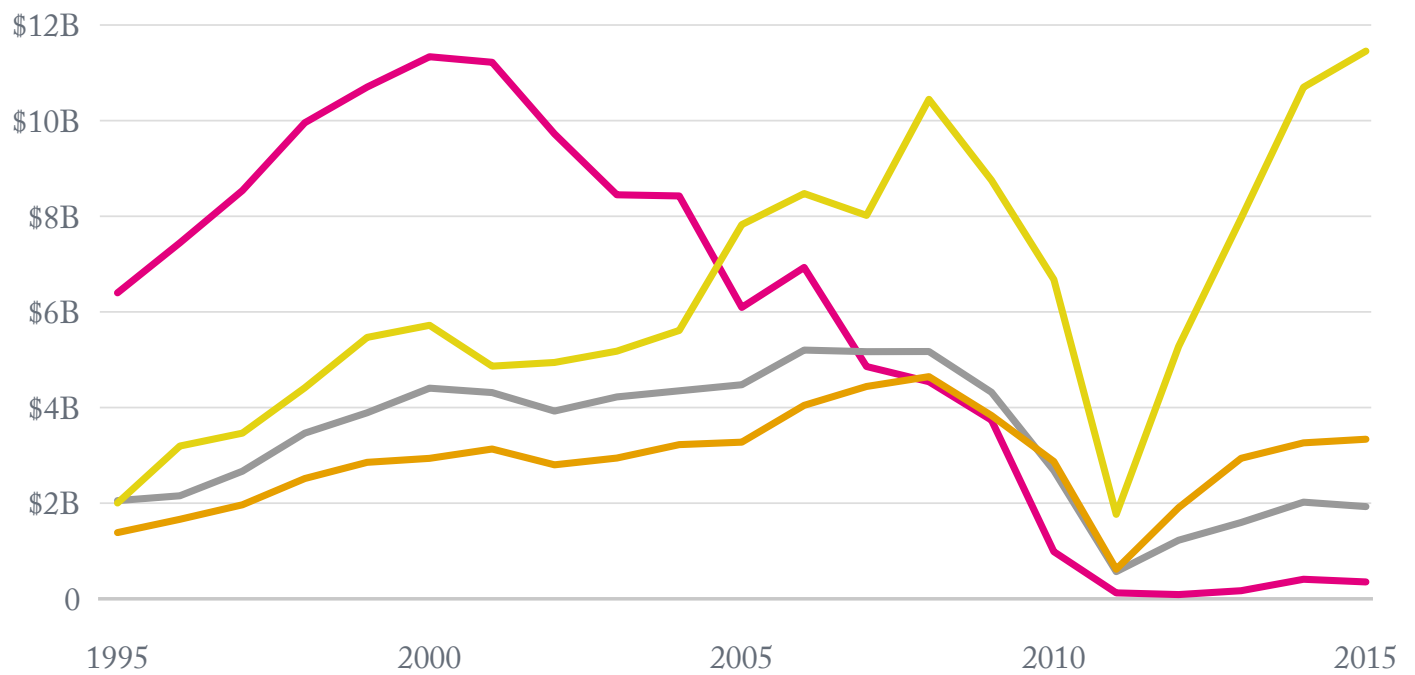
**Roughly 12,000 returns were subject to the estate tax in 2015...**



Estate Size:



...resulting in \$17 billion in taxes paid.



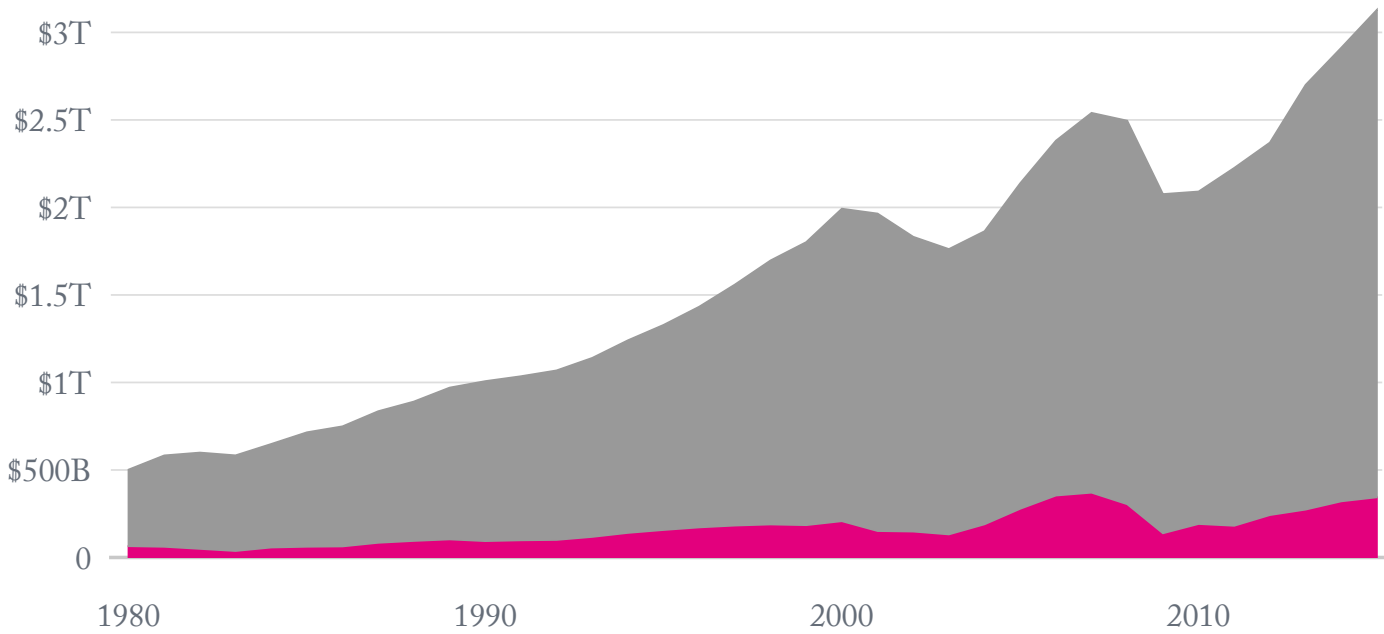
Estate Size:



## 6. Lower the corporate tax rate

The legislation would reduce the corporate income tax rate to 20%.

### Corporate income taxes paid as portion of all federal taxes:

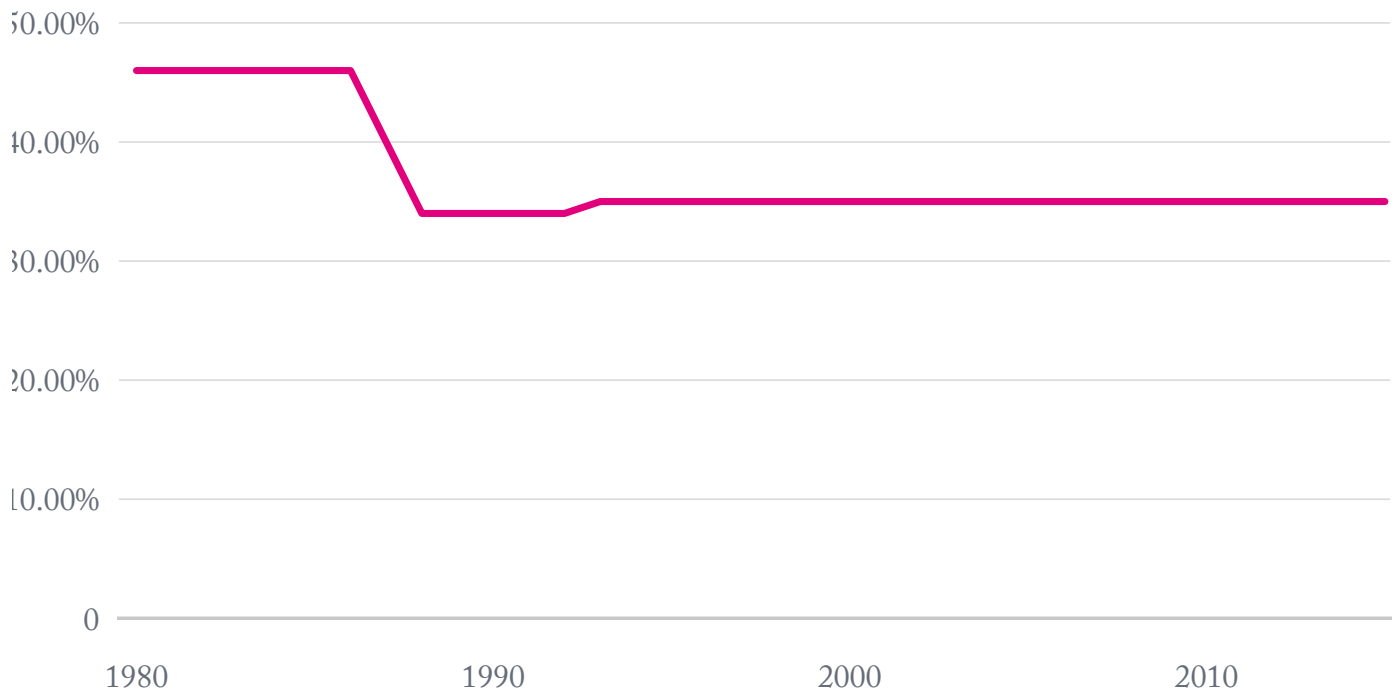


\*Note: Totals are from the Treasury and may differ from total IRS data shown elsewhere in this report

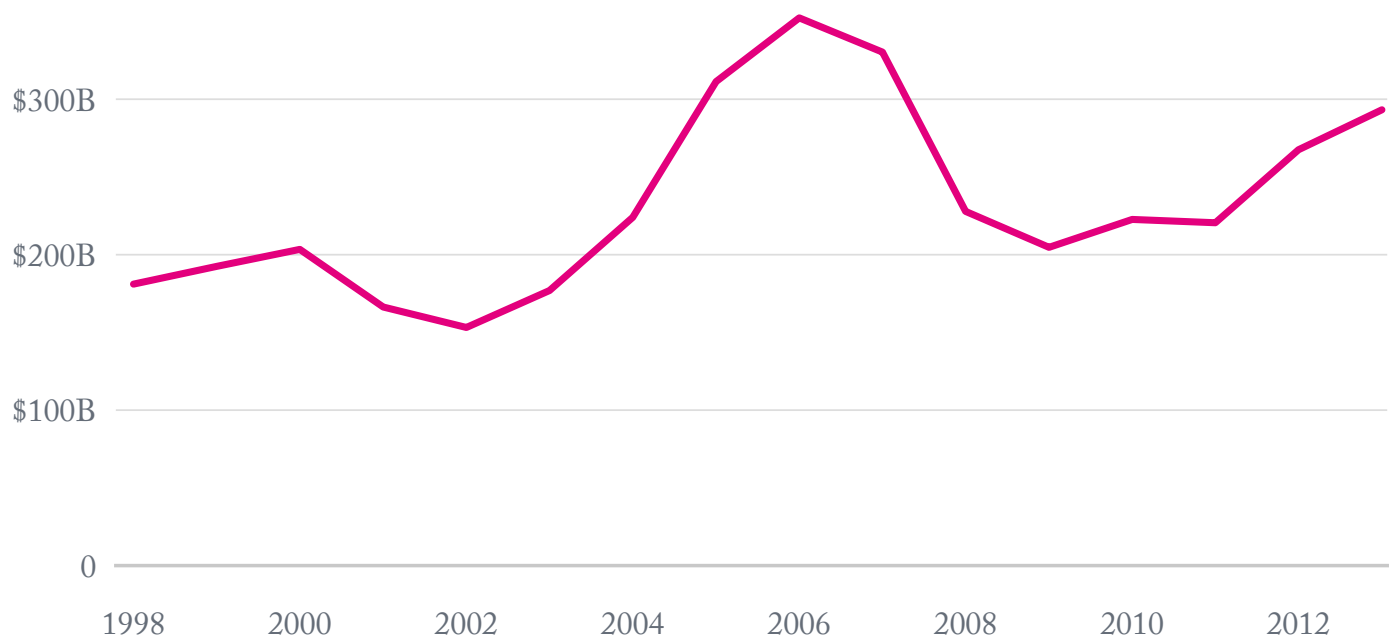


The corporate tax rate (on the last dollar of income) is currently 35%...





**...and corporations paid nearly \$300 billion in income taxes in the most recent year of data:**



\*Data for corporations refers to those businesses registered as “C-Corporations.” For data on other business types, see the following section.

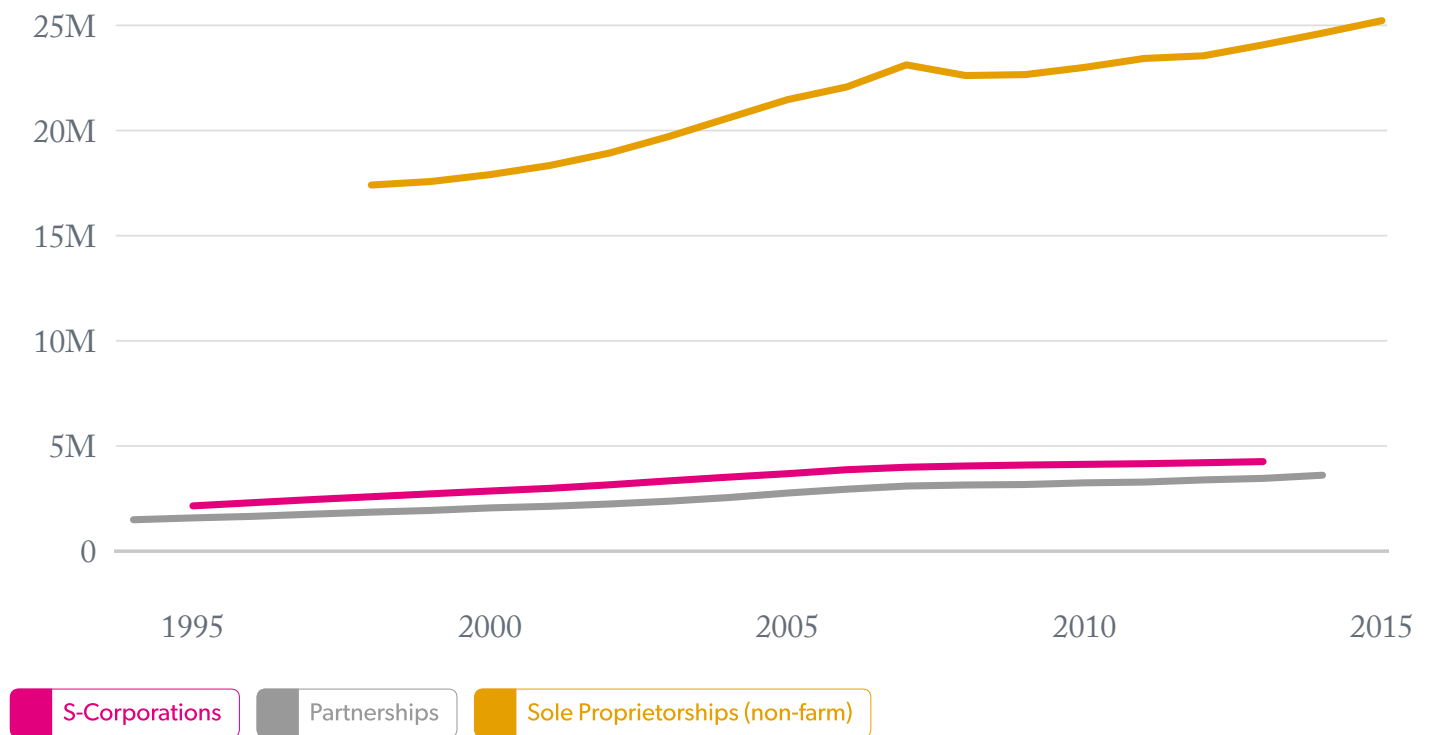
## 7. Lower the tax rate on other business types

“Pass-through” businesses include S-corporations, sole proprietorships, and partnerships. Income from these businesses is “passed-through” to the business owner’s personal tax return

and taxed as ordinary individual income.

The legislation would reduce the tax rate on these business types to a maximum of 25%. However, the new tax rate would not apply to all income. 70% of income for these business types would be taxed according to individual income tax rates, with the remaining 30% taxed at the new 25% rate.

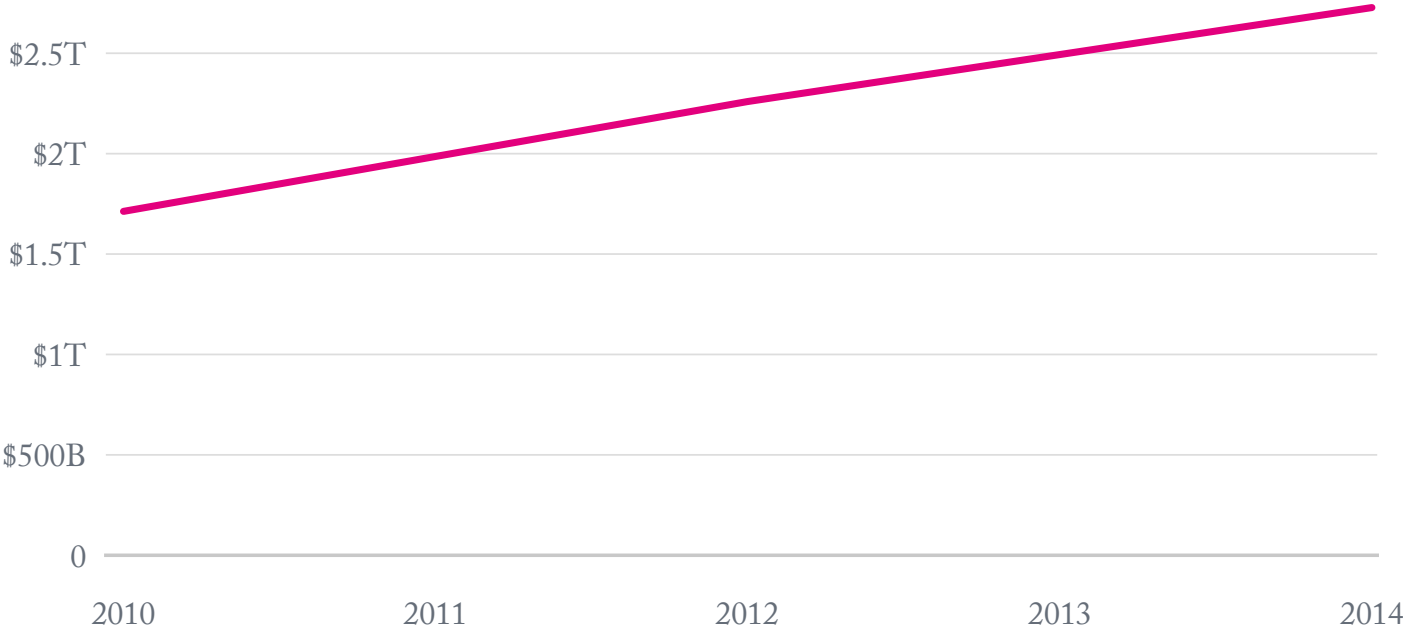
### Total pass-through businesses by type:



## 8. Reduce taxes on income held abroad

The legislation would enact a one-time reduction of the tax rate on profits earned outside the US to 12% for liquid assets and 5% for non-liquid assets, if those profits are brought back onshore, or “repatriated.” In future years, foreign income would not be taxed.

### Untaxed income held overseas:



**Sources**

Internal Revenue Service

Treasury

Office of Management and Budget