THE BUSH SAVINGS PLAN

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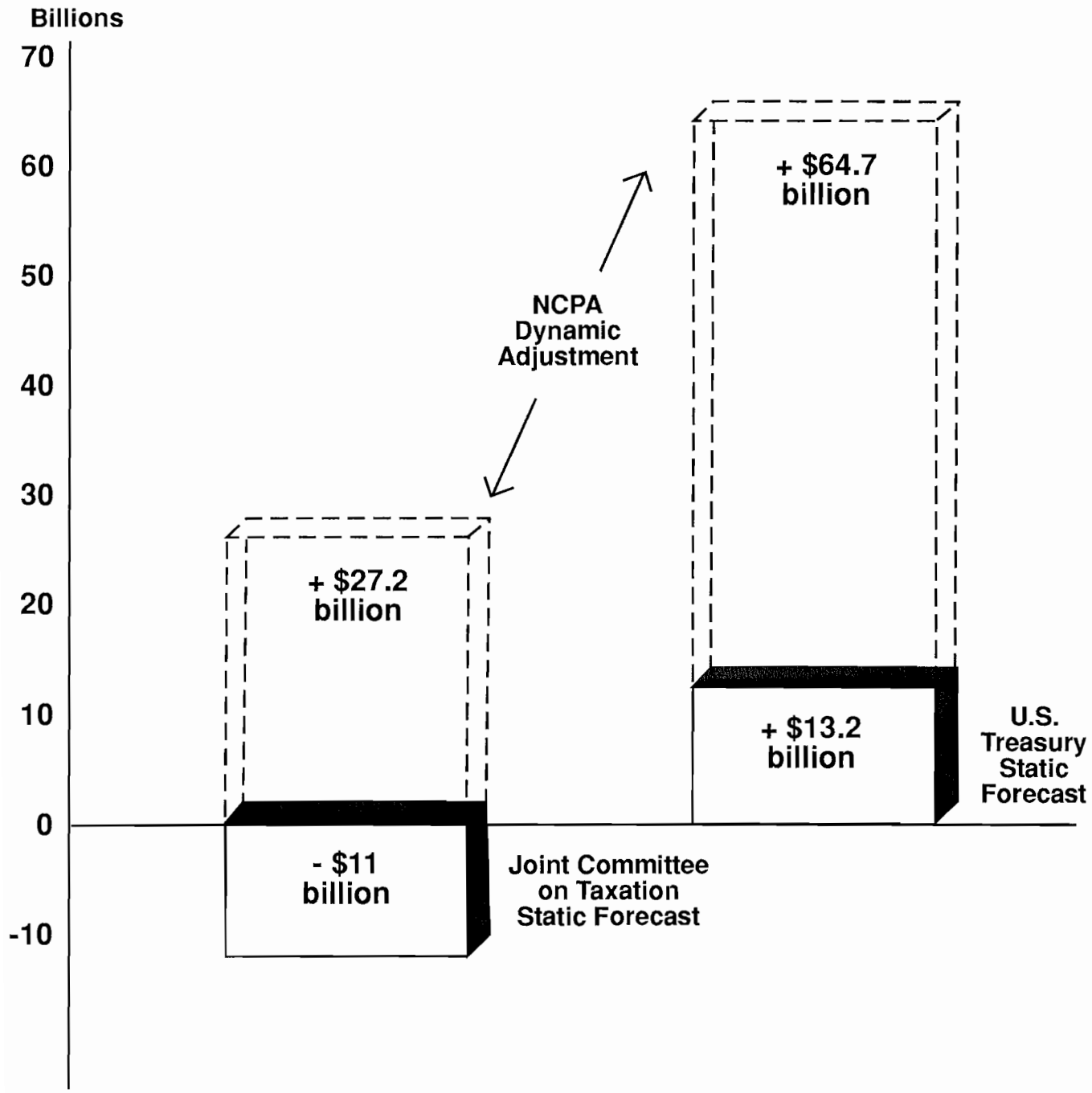
THE BUSH CAPITAL GAINS PROPOSAL

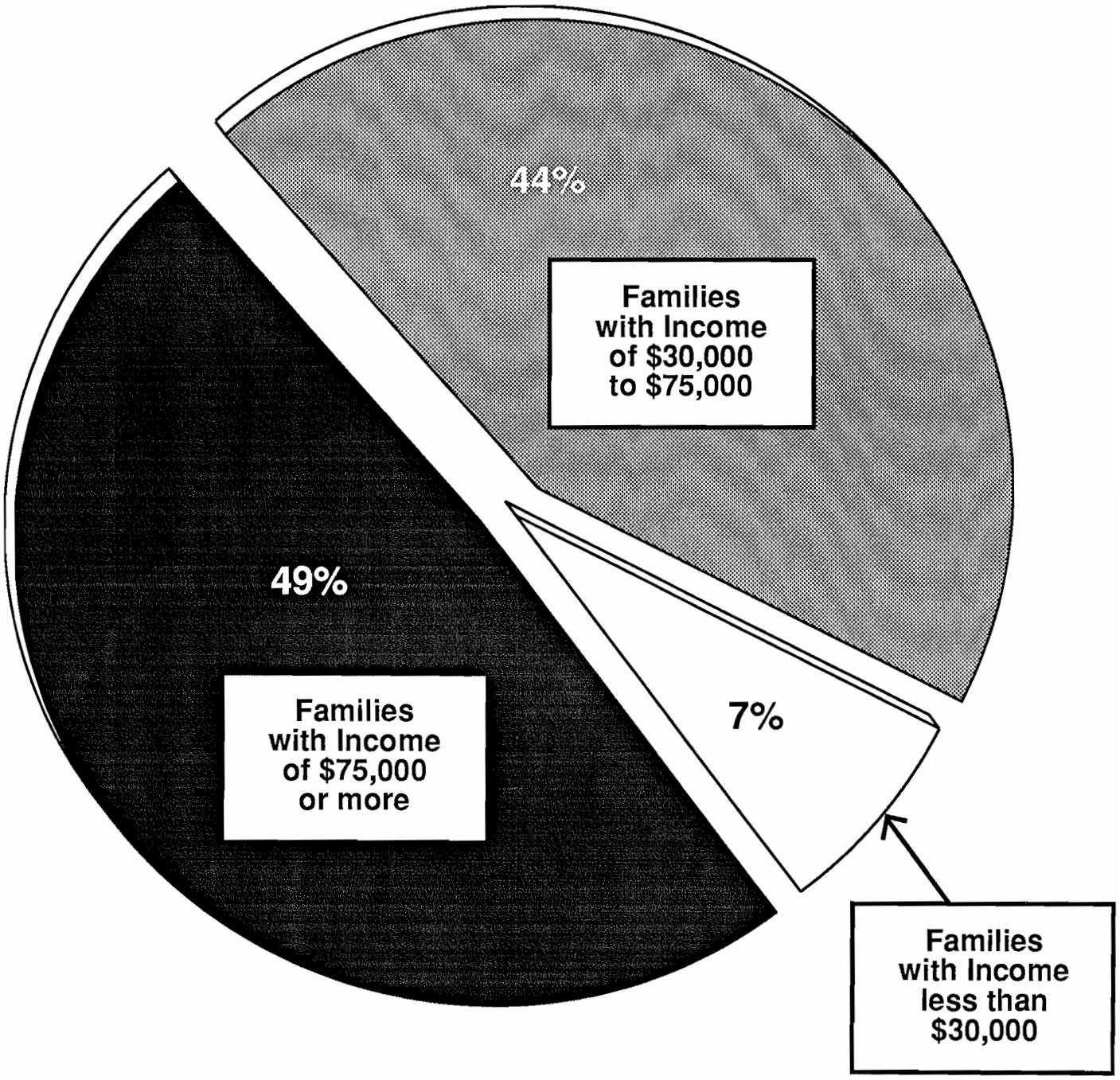
EFFECTS ON FEDERAL REVENUE
1990-1995



Note: Two government forecasting agencies have ignored the effects of a capital gains tax cut on new investment — even though the purpose of the tax cut is to encourage investment.

THE PRESIDENT'S CAPITAL GAINS PROPOSAL WILL INCREASE GOVERNMENT REVENUE

WHO WILL PAY THE NEW TAXES?



Distribution of new tax payments in 1995.

Note: Taxpayers pay additional taxes only to the extent that they have increased income. New income arises because of new economic growth as well as the sale of capital assets. About 9.2 percent of taxpayers have income of $75,000 or more, 32.7 percent have income between $30,000 and $75,000, and 56.1 percent have income less than $30,000.

EXECUTIVE SUMMARY

Almost everyone agrees that the current method of taxing capital gains is harmful and unfair. Although personal income tax rates are inflation-indexed, there is no similar protection for people who make long-term investments. The holder of an asset can face substantial taxes if inflation causes an increase in the asset's price, even though the real value of the asset may not have changed.

Almost everyone also agrees that the United States must adopt policies designed to encourage more savings and more investment. Moreover, history shows that *every reduction in the capital gains tax rate not only caused investment to increase, it also led to an increase in total revenue from capital gains taxes.*

Given widespread agreement on the goals and given our past experience, it is surprising that capital gains tax reform is controversial at all. That it *is* controversial partly reflects the fact that economic forecasting is becoming less of a science and more of a political football.

The primary purpose of President Bush's capital gains tax cut is to stimulate new savings and new investment. The Joint Committee on Taxation (JCT) of the U.S. Congress admits that this result would occur. Yet the JCT refuses to include this effect in its forecasts of the economic effects of the Bush proposal. The U.S. Treasury, which is supposedly sympathetic to the Administration's proposal, also ignores new investment in making its forecasts. As a result, these major forecasting agencies are ignoring the main reason why the proposal was made in the first place.

- If the dynamic effects of new investment are added to the JCT forecast, the Administration's proposal will increase federal revenue by $27.2 billion through 1995 and by $85.6 billion through the year 2000.

- If the dynamic effects are added to the Treasury forecast, the Administration's proposal will increase federal revenue by $64.7 billion through 1995 and by $184.8 billion through the year 2000.

- For every dollar of additional income to the federal government, state and local governments will receive an additional sixty cents in new taxes.

- The new federal revenue will primarily come from increased taxes paid by wealthier taxpayers; for example, about one-half of the increase in personal income taxes will come from families earning more than $75,000.

Everyone will gain from the Administration's capital gains tax proposal. Not only will the federal deficit be lower, but aftertax income will increase for all American workers. Specifically:

- If the President's capital gains tax cut is adopted, the aftertax personal income of all Americans will be $129 billion higher by 1995.

- Almost one-third of this increase in income will go to families earning less than $75,000 and almost one-half to families earning less than $150,000.

The President also has proposed a Family Savings Account — designed to encourage all Americans to save more and consume less. Like the capital gains proposal, this proposal will lead to an increase in federal revenue and a reduction in the federal deficit.

INTRODUCTION

The Bush Administration has proposed two significant tax changes aimed at increasing the U.S. savings rate. These proposals reflect a general concern that the U.S. savings rate is too low to sustain long-term growth and relative prosperity in the world community.[1]

The Administration is proposing a reduction in the tax rate on long-term capital gains relative to that paid on "ordinary" income. Prior to the Tax Reform Act of 1986, 60 percent of long-term capital gains was excluded from taxation. This exclusion was consistent with 65 years of tax law practice which recognized an important economic distinction between capital gains and other income.[2]

The Administration also has proposed a Family Savings Plan similar to Senator William Roth's (R-DE) individual savings plan, introduced last year. The new savings plan would be similar to the Individual Retirement Account which was limited by the 1986 Tax Reform Act. Like the IRA, the new savings plan would allow tax-free earnings accumulation in the account. Unlike the IRA, the new savings plan would allow tax-free withdrawals but no deduction at the time of deposit.

THE PRESIDENT'S CAPITAL GAINS PROPOSAL

A capital gain is the difference between the sale price and the purchase price of an asset. Under current law, this gain is taxed at the same rate as ordinary income. The President's 1990 capital gains tax reduction proposal would reduce the effective tax on capital gains depending on the length of time an asset is held. Specifically:

- Taxpayers would have to include only a portion of the capital gain in taxable income — the remainder of the gain would be excluded.
- The exclusion would be available only to individual taxpayers who held "qualified assets" for more than one year.
- The exclusion rate in 1992 would be 10 percent for those assets held one to two years, 20 percent for those held two to three years and 30 percent for those held more than three years.
- The definition of qualified assets would exclude "collectibles," such as works of art, antiques, precious metals, gems, vintage alcoholic beverages, and stamps and coins.
- Corporations would be denied any exclusion for capital gains.

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[1]The Budget and other support materials provided by the Treasury Department offer this as the basic reason for the proposed tax changes. See *Budget of the United States Government, Fiscal Year 1991,* Office of Management and Budget, January 1990, Washington, DC; and "General Explanations of the President's Budget Proposals Affecting Recipients," Department of the Treasury, January 1990, Washington, DC.

[2]The Revenue Act of 1921 introduced a differential rate of tax on long-term capital gains which was maintained to some degree until the dramatic change in 1986.

The new exclusion rates would be phased in over a three-year period. A transition period is not uncommon in tax changes, such as the five-year phase-in used for the 1981 income tax rate reductions. This phase-in, however, is unusual in that the tax relief in the early years is larger than in the later years. In 1990, the full 30 percent exclusion would be available for assets held one year or more. In the second year, assets held one to three years would be eligible for a 20 percent exclusion, while those held for three or more years would receive the full 30 percent. The plan would take full effect in the third year. Table 1 summarizes the exclusion rates.

TABLE 1

CAPITAL GAINS EXCLUSIONS[1]
Under the President's 1990 Plan

Years Asset is Held	Tax Year 1990	1991	1992
1	30%	20%	10%
2	30%	20%	20%
3	30%	30%	30%

[1]Percent of capital gains income excluded from taxable income in calculating personal income taxes.

THE PRESIDENT'S PROPOSAL FOR FAMILY SAVINGS ACCOUNTS

The President's proposal for a Family Savings Account (FSA) would create a new tax-favored savings account to allow tax-free accumulation of investment earnings and a tax exemption for withdrawals. Specifically:

- The proposal would allow taxpayers to make contributions of up to $2,500 per person ($5,000 per couple) per year to FSAs.
- Contributions to FSAs would not affect allowed contributions to other tax-deferred savings accounts such as Individual Retirement Accounts (IRA), 401(k) plans and retirement plans.

- Just as current IRAs are denied to some taxpayers, FSAs would not be available to taxpayers with incomes above $60,000 ($120,000 for couples filing joint returns).[3]

- Withdrawals made after the seventh year would be completely tax free.

The incentives provided by the FSA are similar to those provided by the IRA. First, funds deposited in either account are allowed to accumulate tax free. Second, the amount deposited is given a tax preference. In the case of the IRA, the preference is awarded initially in the form of an immediate income tax deduction. In the case of the FSA, the preference is awarded at the time of withdrawal in the form of tax-free income. FSA funds withdrawn within three years of deposit are taxable and subject to a 10 percent penalty. Funds withdrawn between years three and seven are taxable but not subject to penalty. The IRA has similar penalties for early withdrawals made before the taxpayer reaches age 59-1/2.[4]

The tax incentives created by the FSA and the IRA are exactly equal if a person's tax rate stays constant over time. The value of the immediate tax deduction (IRA) is exactly equal to the value of the future tax-free withdrawal (FSA) after all taxes have been paid.[5] If tax rates are expected to increase, however, the FSA option is more valuable.

The President's Family Savings Plan is less generous than a similar proposal made last year by Senator Roth. First, it would limit eligibility on the basis of income. Second, it does not adjust the maximum contribution for inflation. Finally, it contains less liberal early withdrawal exemptions.

ESTIMATING THE REVENUE EFFECTS OF A CAPITAL GAINS EXCLUSION

Almost everyone agrees that the current method of taxing capital gains is harmful and unfair. Although personal income tax rates are inflation-indexed, there is no similar protection for people who make long-term investments. The holder of an asset can face substantial taxes if inflation causes an increase in the asset's price, even though the real value of the asset may not have changed.

Almost everyone also agrees that the United States must adopt policies designed to encourage more savings and more investment. Moreover, history shows that *every reduction in*

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[3]Working taxpayers who do not participate in a qualified retirement plan can deduct up to $2,000 for an IRA deposit. For those who do participate in a retirement plan, the deduction is limited if their income is above $45,000 ($35,000 for single taxpayers).

[4]The President's proposal also would allow up to $10,000 to be withdrawn from an IRA without penalty for first-time home buyers.

[5]For example, assume that P is the initial sum of money, r is the rate of interest and t is the tax rate. Then the contribution to an IRA account will be P. After n years this sum will grow to $P(1+r)^n$. Upon withdrawal, taxes must be paid and the aftertax sum will equal $P(1+r)^n(1-t)$. In the case of an FSA account, taxes must be paid initially, so the amount of the deposit will be $P(1-t)$. After n years this sum will grow to $P(1-t)(1+r)^n$. This amount can be withdrawn tax-free and is identical to the aftertax withdrawal from the IRA account.

the capital gains tax rate not only caused investment to increase, it also led to an increase in total revenue from capital gains taxes.

Given widespread agreement on the goals and given our past experience, it is surprising that capital gains tax reform is controversial at all. That it *is* controversial demonstrates that economic forecasting has become less a science than a political football.

- Last year, both the Joint Committee on Taxation (JCT) and the Congressional Budget Office (CBO) predicted that a capital gains tax cut eventually would cause federal revenues to fall — contrary to past experience and contrary to most academic studies.

- In an effort to circumvent the issue, the Bush Administration's current proposal was designed so that JCT's forecasting methods would show an increase in federal revenue in future years — in other words, the proposal was shaped to fit the JCT forecasting method.

- After the Bush proposal was made, the JCT changed its forecasting method and predicted the *new* Bush proposal eventually would cause a loss of federal revenue!

- These forecasts allow opponents of capital gains tax reform to argue that such reform would increase the federal deficit — hurting the general taxpayer in order to benefit the wealthy.

Even ignoring the dynamic effects of new investment, the Treasury and the Joint Committee on Taxation paint vastly different pictures of the consequences of President Bush's capital gains proposal. The Treasury, with the more optimistic forecast, estimates that the President's plan would raise revenues over the next 10 years. The JCT estimates that the President's plan would lose about as much revenue as the Treasury believes it would raise. These differences have raised questions of political pressures to slant the forecasting.

In what follows, we show that the forecasting techniques of either agency will predict an increase in revenues from the Bush proposal so long as the dynamic effects of new investment and economic growth are included.

FIGURE 1

HAS CAPITAL GAINS FORECASTING BECOME A POLITICAL FOOTBALL?

Political Event	Date	Forecasting Method[1]
Capital Gain Tax Cut (Steiger Amendment)	1978	Treasury predicts revenue losses based on the exclusion effect alone. (First Effect)
Debate Over Tax Reform	1985	Treasury adds the effect of induced asset sales, suggesting a total revenue gain from the 1979 tax cut. (First and Second Effect)
Tax Reform Eliminates Special Treatment of Capital Gains	1986	JCT predicts revenue gains by adding the effect of conversions. (First Three Effects)
Bush Capital Gains Tax Cut Proposal/ Jenkins-Archer bill	1989	Treasury predicts revenue gains. (First Two Effects) JCT predicts eventual revenue losses. (First Three Effects)
Second Bush Capital Gains Tax Cut Proposal (Proposal is designed to satisfy JCT forecast method)	1990	Treasury predicts revenue gains by adding countermeasures. (First Four Effects) JCT also includes countermeasures, but changes its estimating methods and predicts eventual revenue losses. (First Four Effects)

[1]The five revenue effects of a capital gains tax cut on federal revenues are explained in the next section.

Note: A forecast of the revenue effects of a capital gains tax rate change can be made positive or negative if forecasters include some effects and ignore others. Neither government agency has ever included the effect on new investment (the dynamic effect). Yet this effect swamps all others and is by far the most important consequence of changing the tax rates.

FIVE EFFECTS OF CAPITAL GAINS TAX REFORM ON FEDERAL REVENUES

Treasury and the JCT use the same general method to estimate the effects of a capital gains tax cut on federal revenues. In this report we will take a closer look at the components of their calculations in order to understand why their estimates differ from each other and from our own final estimates. In general, there are five ways in which a capital gains tax reduction will affect personal income tax revenues.

Loss of Revenue From the Exclusion. The exclusion of part of capital gains income from taxable personal income means lower personal income tax revenues in the absence of any other adjustments. The Treasury starts with the volume of capital gains income that would occur in the absence of a tax change. This income is projected in the President's Budget over the next five years under current law.[6] The loss of revenue is the amount of capital gains income excluded times the tax rate on ordinary income. The first column of Table 2 shows the estimated loss of revenue under the Treasury method. By the year 2000, the proposed capital gains exclusion would reduce personal income tax revenues by $29.5 billion annually if investors never changed their behavior and if there were no economic growth.

The Joint Committee on Taxation starts with the Congressional Budget Office baseline, which forecasts capital gains income to be as much as 20 percent higher than the forecast in the President's Budget. As a result, the projected loss of revenue is 20 percent higher. These results are shown in the first column of Table 3. Under this scenario, the federal government would lose $32 billion annually in revenue by the year 2000 if investors never changed their behavior and if there were no economic growth.

Gain in Revenue From Induced Sales. The ability to exclude part of capital gains income from personal income taxes makes the sale of assets more attractive. For this reason, there will be more asset sales and purchases. In addition, because the restored capital gains tax exclusion will itself make assets more valuable, when assets are sold they will be sold for a higher price. As a result, there will be increased personal income and increased personal income taxes.[7] The revenue effect of this change using the Treasury method is shown in the second column of Table 2. By the year 2000, the increase in capital gains income from this effect would generate an additional $31.2 billion of revenue annually, more than offsetting the $29.5 billion revenue loss due to the capital gains exclusion.

Last year, the JCT and Treasury estimates of this effect were very close. This year, however, the JCT has dramatically revised its method of forecasting. The new JCT response estimates are at the extreme low end of those found in the economic literature.[8] They are close to assuming that asset owners do not respond to the greater attractiveness of asset sales.[9]

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[6]The President's Budget forecasts capital gains income for the next five years. We have extrapolated the President's Budget assumptions to provide a 10-year forecast.

[7]The 1985 Treasury Capital Gains study found that there is a significant behavioral response. See "Report to Congress on the Capital Gains Tax Rate Reductions of 1978," U.S. Department of the Treasury, September 1985.

[8]See "Statement of Kenneth W. Gideon, Assistant Secretary (Tax Policy), Department of the Treasury, before the Committee on Finance, United States Senate," Washington, DC, March 6, 1990, Table 1.

[9]The capital gains cut itself would cause the value of assets subject to the tax to rise by approximately one-half the amount of revenue loss from the exclusion. (See Gary Robbins, "Taxing Capital Gains," NCPA Policy Report No. 143 and IPI Policy Report No. 102, October 1989, Appendix B, for examples.) This means that about one-half of

The revenue effect of the increase in the frequency of asset sales, using the JCT method, is shown in the second column of Table 3. Combining the first two effects, the Treasury estimates show a five-year revenue gain of $10 billion and a positive annual pickup thereafter. The JCT estimates imply an absolute loss, contradicting actual experience from capital gains rate cuts in 1978 and 1981.

Loss of Revenue Because Ordinary Income is Converted to Capital Gains.[10] If capital gains are taxed at a lower effective rate than ordinary income (because of the exclusion), investors will want to hold a greater share of their investment portfolios in assets which yield capital gains.[11] To the extent possible, investors will "convert" ordinary income into capital gains income. For example, shareholders could vote to have the corporation retain a greater share of current profits, pay lower dividends and reinvest those profits for future capital gains. To the degree that taxpayers can convert ordinary income to capital gains income, personal income tax revenue will be reduced. The projected loss of revenue from this conversion effect under the Treasury method is presented in the third column of Table 2.

The JCT provides a combined estimate of the second and third effects.[12] For convenience of comparison, we have separated this combined estimate into its two components. The projected revenue loss from the conversion effect using the JCT method is presented in the third column of Table 3.

Gain in Revenue from Conversion Countermeasures. The President's proposal this year highlights three complementary tax code provisions — the alternative minimum tax, a limitation on investment interest deductions and some recapture provisions. These measures are designed to offset the revenue losses due to the conversion of ordinary income to capital gains income. First, the excluded portion of capital gains will be added back into total taxable income under the alternative minimum tax. Second, the excluded part of gains will be subtracted from investment income for the purpose of limiting the investment interest deduction. Third, depreciation deductions taken with respect to all depreciable property will be recaptured (added back into income at the time of sale) in full as ordinary income. The fourth column of Table 2 shows the revenue effect of these countermeasures using the Treasury estimating method.

The JCT shows about the same relative revenue increase from the countermeasures. The fourth column of Table 3 shows the effect of these countermeasures using the JCT method.

the revenue loss from the first effect will be regained simply because of the increase in the sales price of assets. Thus, the theoretical minimum "response" (i.e., no change in behavior) implies an elasticity of 0.5 compared to the JCT parameter of 0.66. The Treasury uses a more plausible estimated response also at the low end of those possible - an elasticity of 0.8. The new JCT estimate implies that increasing the capital gains tax rate to a level above the top rate on other income, such as 34 percent, would increase total net revenue to the government. This contradicts empirical evidence on the behavior of capital gains revenue after the rate cuts in 1978 and 1981.

[10]This forecasting adjustment was developed for the Tax Reform Act of 1986 in order to justify raising the capital gains tax rate. (See Figure 1). The adjustment allowed the forecasters to predict an increase in revenue from a higher tax rate.

[11]This calculation requires knowing what portion of gains resulted from assets purchased to convert ordinary income to capital gains — information not provided on tax returns. Because there is little or no empirical evidence for this calculation, forecasters have a wide latitude in choosing assumptions.

[12]We split columns (2) and (3) for the purpose of comparability, using the Treasury ratio of column (three) to column (two).

Gain in Revenue From Economic Growth. The fifth columns of Tables 2 and 3 presents the sum of the previous four revenue changes before any adjustment is made for increased investment and economic growth. Both the JCT and the Treasury acknowledge that the capital gains proposal would increase investment and boost economic growth, although neither attempts to estimate its magnitude. A lower capital gains tax makes investment more attractive relative to consumption. It also makes investment in the United States more attractive relative to investment in other countries. The sixth column of Table 2 shows the results of this (dynamic) effect, following the Treasury method of estimating the static changes.[13] The sixth column of Table 3 shows a similar adjustment, following the JCT method.[14]

Over the decade of the 1990s we estimate the following dynamic effects on the U.S. economy:[15]

- Using the Treasury static assumptions, we estimate that the U.S. Gross National Product will be $96.1 billion higher by the year 2000.
- By the end of the decade, the economic growth will create 342,000 new jobs.
- Using the Joint Committee on Taxation static assumptions and a more pessimistic dynamic response, we estimate that GNP will be $59.6 billion higher and 209,000 new jobs will be created by the year 2000.

[13]To estimate the dynamic effects of a reduction in the capital gains tax rate, we calculate the decrease in the cost of capital, or its service price. The largest portion of the change in the cost of capital is a result of the reduction in the tax rate applied to the owners of corporate stock. See Robbins, "Taxing Capital Gains" for a discussion of how capital gains taxes affect the cost of capital. We calculate that the President's capital gains proposal would reduce the cost of capital by 1.6 percent. The Appendix contains the increase in output, capital, and employment that would result from cutting capital gains taxes.

[14]In place of the 1.6 percent reduction in the cost of capital used in Table 2, we assume only a 0.9 percent reduction. Even under this less robust economic response, the capital gains proposal still raises revenue under the JCT method. See the Appendix for the increase in output, capital and employment from cutting capital gains taxes.

[15]See Appendix B

TABLE 2

PERSONAL INCOME TAX REVENUE CHANGES
Using the Treasury Static Assumptions
($ billions)

Year	(1) Revenue Loss from the Exclusion[1]	(2) Revenue from Induced Sales	(3) Ordinary Income Converted to Capital Gains	(4) Conversion Counter-Measure Gains	(5) Total Static Personal Income Tax Change	(6) Plus Dynamic Personal Income Tax Change[2]
1990	-18.3	22.0	0.0	-0.2	3.5	4.0
1991	-18.7	20.3	-0.1	0.0	1.4	2.9
1992	-19.2	20.3	-0.8	0.5	0.7	3.3
1993	-19.0	19.9	-2.7	5.1	3.3	6.9
1994	-20.5	21.5	-1.9	3.1	2.2	6.9
1995	-21.9	23.2	-3.2	4.0	2.1	7.5
1996	-23.3	24.6	-3.2	4.1	2.1	8.2
1997	-24.8	26.1	-3.3	4.2	2.2	8.9
1998	-26.3	27.6	-3.4	4.2	2.2	9.6
1999	-27.8	29.2	-3.5	4.3	2.3	10.3
2000	-29.5	31.2	-4.2	5.3	2.7	11.4
Cumulative[3]	-249.4	266.0	-26.5	34.5	24.7	79.9

[1]Revenue loss due to capital gains exclusions shown in Table 1.

[2]NCPA adjustment assuming the President's proposal lowers the cost of capital by 1.6 percent.

[3]Cumulatives may not add exactly due to rounding.

Note: This table takes the actual Treasury estimate (columns one through five for the years 1990 through 1995), converts them to a calendar year basis and extends them through the year 2000. Column six is our own addition.

TABLE 3

PERSONAL INCOME TAX CHANGES
Using the Joint Committee on Taxation Static Assumptions
($ billions)

Year	(1) Revenue Loss from the Exclusion[1]	(2) Revenue from Induced Trades	(3) Ordinary Income Converted to Capital Gains	(4) Conversion Counter-Measure Gains	(5) Total Static Personal Income Tax Change	(6) Plus Dynamic Personal Income Tax Change
1990	-21.7	23.4	0.0	1.3	3.0	3.5
1991	-21.3	21.5	-0.2	1.3	1.3	2.8
1992	-21.5	17.0	-0.3	0.0	-4.8	-2.2
1993	-20.7	16.5	-0.8	1.3	-3.7	-0.1
1994	-21.6	17.2	-1.2	2.1	-3.4	1.2
1995	-23.0	17.5	-2.2	4.3	-3.4	2.0
1996	-24.6	18.4	-2.4	4.8	-3.8	2.3
1997	-26.3	19.4	-2.7	5.4	-4.2	2.6
1998	-28.0	20.6	-2.9	5.8	-4.5	2.9
1999	-29.9	22.0	-3.1	6.2	-4.8	3.2
2000	-32.0	23.7	-3.3	6.5	-5.1	3.5
Cumulative[3]	-270.6	217.2	-19.1	39.0	-33.5	21.7

[1]Revenue loss due to capital gains exclusions shown in Table 1.

[2]NCPA adjustment assuming the President's proposal lowers the cost of capital by 0.9 percent.

[3]Cumulatives may not add exactly due to rounding.

Note: The JCT did not make separate estimates for columns two and three. The separation is made here for convenience of comparison. This table takes the actual JCT estimates (columns one through five for 1990 to 1995), converts them to a calendar year basis and extends them through the year 2000. Column six is our own addition.

TOTAL EFFECTS ON ALL FEDERAL, STATE AND LOCAL REVENUES

Just as the federal personal income tax receipts would increase as a result of economic growth due to a reduction in capital gains tax rates, so other government revenues would increase due to increased income from labor and capital employed in the economy.

Federal Social Security Taxes. Because of increased income from labor, there would be additional Social Security (FICA) receipts. Column one of Tables 4 and 5 shows our estimate of the dynamic impact of the capital gains proposal on Social Security collections.

Federal Corporate Income Taxes. Higher levels of corporate capital, employment and output would mean more corporate income taxes, as shown in column two of Tables 4 and 5.

Federal Personal Income Taxes. The dynamic adjustment of personal income taxes reflected in column six of Tables 2 and 3 is reported separately in column three of Tables 4 and 5.

Other Federal Taxes. Other miscellaneous federal government receipts would also increase. The increased level of economic activity would mean higher levels of foreign trade and customs duties. Other federal excise taxes would also increase. The fourth column of Tables 4 and 5 shows the aggregate estimate of these miscellaneous collections.

State and Local Taxes. The increase in the revenues collected by state and local governments would be more than half as large as the total federal government revenue change. The sixth column of Tables 4 and 5 contains the estimated increase in state and local taxes.

The total dynamic changes produced by a capital gains tax reduction are quite significant. By the year 2000, the total dynamic effects are larger than the estimated static revenue loss due to the rate reduction (the first columns of Tables 1 and 2). This indicates the inefficiency of the capital gains tax provisions in general. Even without the large, offsetting increase in capital gains realizations, the tax cut would be self-financing. Although we have not estimated the revenue effect of a complete repeal of the capital gains tax, existing data indicate that its total elimination probably would raise revenue in the long run.

Table 6 summarizes the estimated net revenue gains for the federal government and for all levels of government using the Treasury method. As the Table shows, the overall change in government revenue is large and positive once all the revenue effects are considered.

Table 7 recaps the revenue changes under the JCT method. Even under what must be characterized as unfavorable assumptions, the revenue gain from the Bush proposal is positive in all years and is growing in the out-years. The JCT forecast a net revenue loss of $11 billion between 1990 and 1995, or about $7 billion in net present value terms, with losses growing in the out-years. Using our dynamic estimates for personal income taxes, we show an entirely different picture. The federal government picks up $7 billion over the same period, or nearly $6 billion in present value terms. When other federal revenues are added to the dynamic personal income tax changes, the total impact is a positive $27 billion, or a present value of $19 billion. The present value of state and local taxes over the period adds another $21 billion.[16]

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[16]The economic growth underlying our estimates under these pessimistic assumptions is only 0.059 percent over the decade. That is, instead of the baseline growth of about 3 percent for the decade, these estimates use a growth rate of 3.059 percent. This is about 2 percent faster than it otherwise would have been. Because federal revenues are still positive by the year 2000, an even slower rate of growth would still produce positive revenue gains.

TABLE 4

TOTAL DYNAMIC REVENUE CHANGES
Using the Treasury Static Assumptions
($ billions)

Year	(1) Federal Soc. Sec. Tax	(2) Federal Corporate Inc. Tax	(3) Federal Personal Inc. Tax	(4) Other Federal Taxes	(5) Federal Total	(6) State and Local	(7) Total Gov't
1990	0.5	0.2	0.5	0.1	1.3	0.9	2.2
1991	1.4	0.7	1.5	0.3	3.9	2.7	6.5
1992	2.4	1.4	2.6	0.5	6.9	4.7	11.6
1993	3.6	2.3	3.6	0.7	10.3	7.0	17.3
1994	4.7	3.2	4.7	0.9	13.4	9.1	22.5
1995	5.4	3.9	5.4	1.0	15.7	10.5	26.2
1996	6.0	4.5	6.1	1.1	17.8	11.8	29.6
1997	6.6	5.2	6.7	1.2	19.8	13.0	32.8
1998	7.1	5.8	7.4	1.3	21.6	14.1	35.7
1999	7.7	6.5	8.0	1.5	23.6	15.3	39.0
2000	8.3	7.3	8.7	1.6	25.7	16.6	42.3
Cumulative[1]	53.5	41.2	55.2	10.2	160.1	105.7	265.8

[1]Cumulatives may not add exactly due to rounding.

Note: This table reports the results of dynamic changes only and ignores the static revenue change. Column three in this table (the dynamic increase in personal income tax revenue) is equal to column six minus column five in Table 2.

TABLE 5

TOTAL DYNAMIC REVENUE CHANGES
Using the Joint Committee on Taxation Static Assumptions
($ billions)

Year	(1) Federal Soc. Sec. Tax	(2) Federal Corporate Inc. Tax	(3) Federal Personal Inc. Tax	(4) Other Federal Taxes	(5) Federal Total	(6) State and Local	(7) Total Gov't
1990	0.3	0.1	0.5	0.1	1.0	0.6	1.6
1991	0.9	0.5	1.5	0.2	3.0	1.7	4.6
1992	1.5	0.9	2.6	0.3	5.3	2.9	8.2
1993	2.1	1.4	3.6	0.4	7.6	4.2	11.7
1994	2.8	1.9	4.7	0.5	9.8	5.4	15.2
1995	3.2	2.3	5.4	0.6	11.5	6.3	17.8
1996	3.6	2.7	6.1	0.7	13.1	7.1	20.2
1997	4.0	3.2	6.7	0.8	14.7	7.9	22.5
1998	4.4	3.6	7.4	0.8	16.2	8.7	24.8
1999	4.7	4.0	8.0	0.9	17.7	9.4	27.1
2000	5.1	4.5	8.7	1.0	19.3	10.2	29.5
Cumulative[1]	32.6	25.1	55.2	6.2	119.1	64.3	183.4

[1]Cumulatives may not add exactly due to rounding.

Note: This table reports the results of dynamic revenue changes only and ignores the static revenue change. Column three in this table (the dynamic increase in personal income tax revenue) is equal to column six minus column five in Table 3.

TABLE 6

CHANGE (STATIC PLUS DYNAMIC) IN TOTAL GOVERNMENT REVENUES
Using the Treasury Static Assumptions
($ billions)

Year	Increase in Revenue for the Federal Government	Increase in Revenue for All Governments
1990	4.8	5.7
1991	5.3	8.0
1992	7.7	12.3
1993	13.6	20.6
1994	15.6	24.7
1995	17.7	28.3
1996	19.9	31.7
1997	21.9	34.9
1998	23.8	37.9
1999	25.9	41.2
2000	28.5	45.1
Cumulative[1]	184.8	290.5

[1]Cumulatives may not add exactly due to rounding.

Note: This table reports the total change (static plus dynamic) in government revenue. Column one is the sum of the total dynamic revenue increases (column five of Table 4) plus the static revenue increase (column five of Table 2). Similarly, column two in this table is the sum of column seven of Table 4 and column two of Table 2.

TABLE 7

CHANGE (STATIC PLUS DYNAMIC) IN TOTAL GOVERNMENT REVENUES
Using the Joint Committee on Taxation Static Assumptions
($ billions)

Year	Increase in Revenue for the Federal Government	Increase in Revenue for All Governments
1990	4.0	4.5
1991	4.3	6.0
1992	0.5	3.4
1993	3.9	8.0
1994	6.4	11.7
1995	8.1	14.4
1996	9.4	16.5
1997	10.5	18.4
1998	11.7	20.3
1999	12.8	22.3
2000	14.1	24.4
Cumulative[1]	85.6	149.9

[1]Cumulatives may not add exactly due to rounding.

Note: This table reports the total change (static plus dynamic) in government revenue. Column one is the sum of the total dynamic revenue increases (column five of Table 5) plus the static revenue increase (column five of Table 3). Similarly, column two of this table is the sum of column seven of Table 5 and column five of Table 3.

WHO WINS? WE ALL DO!

If the President's capital gain proposal is enacted, all levels of government will receive more revenue. The owners of capital will find greater domestic investment opportunities. Workers will have more jobs and higher pay. As a nation, we will have more goods and services and more resources available to pursue our private and public objectives.[17] Using the Treasury's static assumptions, we predict that personal income will be $140 billion higher by 1995.

Table 8 shows the distribution of the change in income and the change in personal income taxes for 1995. An appropriate measure of who wins from the capital gains tax reduction is the change in aftertax income — shown in the last column. Lower income groups will experience a strong increase in aftertax income because of an increase in labor income due to higher levels of capital stock. In general, labor receives about $12 in aftertax income for every $1 in aftertax income received by the owners of capital. Thus the major share of the induced growth accrues to workers.

Table 9 contains the percentage distribution of the change in aftertax income using the Treasury's static assumptions. About one-third of the net benefits of capital gains tax reform goes to taxpayers with incomes of $75,000 or less. Our measure of the distributional effects under the JCT's static assumptions shows the same pattern of change. These effects along with the distribution in the year 2000 are shown in Appendix B.[18]

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[17]See Appendix A for tables showing the increase in output, capital, and employment for cutting capital gains taxes.

[18]Beyond the difference in revenue estimates, the Treasury and JCT have a technical dispute over which income groups would benefit. The JCT asserts that most of the benefits would accrue to the highest income classes due solely to excluded capital gains — column 1 on our Table 3. Both Treasury and JCT, however, expect a significant increase in capital gains realizations. The Treasury suggests that a more accurate measure of winners would include the added taxes due to the behavioral response, column 2 in Table 4. Unfortunately, this measure is also flawed because the increased taxes are due to an increase in income. The Treasury attempts to finesse the point by changing the definition of income to include capital gains which may or may not be realized. This is like adding the price of a person's home to his wages to arrive at his income on the theory that the home might be sold and could represent income. The Treasury has to employ this "trick" in order to avoid reinforcing the JCT case. Tables 8 and 9 are precisely the type that the Treasury would have liked to provide in their support of the President's proposal but could not — since to do so would require incorporating growth in their analysis. They describe the process in their supporting text, however. See "General Explanations of the President's Budget Proposals Affecting Recipients," Department of the Treasury, January 1990, Washington, DC.

TABLE 8

INCREASE IN PERSONAL INCOME AND PERSONAL INCOME TAXES IN 1995
Using the Treasury Static Assumptions[1]
($ billions)

Income[2]	Increase in Income[3]	Increase in Income Tax	Increase in Aftertax Income
Less than $7,500	$ 4.7	$ 0.0	$ 4.7
$7,500 to $15,000	3.2	0.0	3.2
$15,000 to $30,000	10.0	0.7	9.3
$30,000 to $45,000	11.5	1.3	10.3
$45,000 to $60,000	11.6	1.8	9.8
$60,000 to $75,000	10.2	1.5	8.7
$75,000 to $150,000	23.1	2.6	20.5
$150,000 to $300,000	14.9	1.0	13.9
$300,000 to $750,000	13.3	0.5	12.8
$750,000 or more	36.9	1.0	35.9
All returns, total [4]	139.6	10.4	129.2

[1]Static analysis used by the Treasury plus NCPA estimates of the dynamic effects.

[2]Size of adjusted gross income plus excluded capital gains in 1990 dollars.

[3]Refers to personal income only.

[4]Cumulatives may not add exactly due to rounding.

TABLE 9

INCREASE IN AFTERTAX INCOME IN 1995
Using the Treasury Static Assumptions[1]

Income[2]	Increase in Aftertax Income[3]	Cumulative from Top	Cumulative from Bottom
Less than $7,500	3.63%	100.00%	3.63%
$7,500 to $15,000	2.10	96.37	5.73
$15,000 to $30,000	6.22	94.27	11.95
$30,000 to $45,000	6.94	88.05	18.89
$45,000 to $60,000	6.84	81.11	25.73
$60,000 to $75,000	6.14	74.27	31.87
$75,000 to $150,000	15.61	68.13	47.48
$150,000 to $300,000	11.54	52.52	59.02
$300,000 to $750,000	10.63	40.98	69.65
$750,000 or more	30.35	30.35	100.00
All returns, total	100.00%		

[1]Static analysis used by the Treasury plus NCPA estimates of the dynamic effects.

[2]Size of adjusted gross income plus excluded capital gains in 1990 dollars.

[3]Refers to personal income only.

STRENGTHENING THE CAPITAL GAINS PROPOSAL: INDEXING CAPITAL GAINS

In 1989, the President proposed a more generous capital gains tax cut with a single exclusion rate of 30 percent. During last year's legislative consideration, the House passed a variant of the President's plan (the Jenkins/Archer proposal) which coupled the Bush exclusion with a provision to index the original cost of the asset to account for the effects of inflation. This would exempt the inflation portion of a capital gain from taxation. The remarkable thing about dropping this provision in the President's plan is that he must begin again in the House to get the new plan adopted. Further, the need to adjust capital gains for inflation is almost universally accepted, by Republicans and Democrats. The restrictions and elaborate phase-in proposed this year appear to have been added to "optimize" government revenues collected on capital gains. The inflation adjustment appears to have been deemed "too expensive."

Inflation Indexing. We estimate that the incentive effect of indexing is more than that of the exclusions proposed. Indexing capital gains provides a greater incentive than arbitrary exclusions because it is more neutral with respect to time. It reduces the risk that inflation will suddenly increase the tax rate and make an investment uneconomical. More of the gains realized on tax returns are due to inflation than are due to tax planning (i.e., conversion of ordinary income into capital gains). Only a small portion of total U.S. assets, such as timber, will benefit less from indexing than a fixed exclusion.[19]

Long-Term Planning. Although the Treasury scheme of a sliding scale of rate reductions may work to increase revenues in their crude models of capital gains realizations, it will provide investors with considerable uncertainty. Since the value of a potential investment depends on its expected taxes, every trade will now have three prices — for investments held one year, two years and three years. The Treasury argues that this will provide an incentive for investors to make long-term commitments. Yet the opposite result may well occur.

Many politicians and businessmen have spoken of the need to increase America's business planning horizon. They argue that other countries, especially Japan, undertake investments with a much longer payout than those of the U.S. As the cause, they usually cite some vague character flaw which moves U.S. investors to "go for short-term profits" rather than a long-term objective (presumably unrelated to profits).

While this paper does not explore this highly unlikely proposition, we must point out that the President's proposal works *against* a lengthening of the planning horizon. First, one must conclude from the highly synthetic nature of the scheme that the objective is to maximize government revenues and that the rate might be changed any time a rate change is predicted to raise revenue. The prospect of varying tax rates in the future adds to an investor's perceived risk and reduces the incentive to make longer-term investments. Second, the fact that there are three tax rates will cause uncertainty as to what one could sell assets for in the future. Will the subsequent purchaser value an acquired asset in terms of a one, two or three year holding period?

More fundamentally, the sliding scale reduces the value of long-term investments relative to a single 20-percent exclusion rate. Consider the following scenario. A firm wishes to finance

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[19]Even these assets could be accommodated as a special case of indexing by allowing them to deflate the current price back to the original purchase date rather than inflating the original price to the sales date. The problem with certain assets in the "natural deferral" industries is that the purchase price is virtually zero compared with the final sales price. Reversing the order of indexing allows the inflation adjustment to be applied to the much larger ending price.

an investment. It goes to the financial market to offer equity in the investment. Potential investors determine the amount they will pay for the equity shares. If both sides are satisfied with the equity price, the firm issues the shares and purchases the real capital goods. At this point the firm is not particularly concerned if the original investor sells his interest or not. What is critical is the initial evaluation of the new enterprise, not its subsequent value. The fact that the investor must hold the original equity share for three years actually reduces the value of the investment to the investor.

Uncertainty creates risk, and taxes magnify the impact of risk in planning. High rates of tax on U.S. capital income are the fundamental cause of shortened U.S. planning horizons. Reducing U.S. capital tax rates to levels consistent with those in the countries held up as models of comparison would do much more to lengthen the business planning horizon than the artificial holding period in the President's plan.

THE FAMILY SAVINGS PLAN

The Treasury and the JCT estimate that the Family Savings Plan will be a revenue loser. The JCT estimates it will lose $5 billion through fiscal year 1995, while the Treasury estimates the loss at $4.7 billion. Neither estimate allows for any change in savings behavior or economic activity as a result of the proposal. Yet, as the capital gains proposal showed, minimal growth will change the plan from a revenue loser to a permanent winner.

The issue is: What fraction of the funds placed in FSAs represents "new savings"? The JCT maintains that most, if not all, of the deposits in FSAs would come from other savings deposits — just as they assert has happened with IRAs. Until this year the Treasury staff would have agreed. A number of competent studies, however, refute this position — finding instead that as much as 80 percent of IRA deposits represents savings which would not have occurred without the IRA account.[20] The most recent of these studies found that the primary reason given for IRA contributions was the up-front tax deduction.[21] The JCT has somewhat retreated from their original assertion by claiming that even if IRAs did work, the new FSAs would not because they do not provide an up-front deduction. To address, we will look at how the incentives of the two plans compare.

The 1986 IRA Changes. The 1986 Reform Act changed the IRA in two significant ways. First, the Act limited the deduction for IRA contributions for those taxpayers who participate in a qualified employer pension plan and have more than $45,000 ($35,000 for single taxpayers) of annual income. Second, and perhaps more important, the Act dramatically reduced marginal tax rates. The decrease in tax rates reduced the tax advantage of IRAs relative to ordinary savings by about one-half. Thus, even without a limitation of eligibility, one would predict a significant fall in IRA participation.

The new rate structure also presents a dilemma to potential participants. Should people defer taxes today at the present rates and face the possibility that the future rates will be higher?

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[20]See Norman B. Ture and Stephen J. Entin, *Save, America,* Institute for Research on the Economics of Taxation, Washington, DC., 1989, for a review of the recent literature on the influence of IRAs on savings.

[21]Daniel Feenberg and Jonathan Skinner, "Sources of IRA Savings," National Bureau of Economic Research, Working Paper No. 2845, February 1989.

If they are higher, participants could find themselves worse off than if they had simply invested in a savings account. This effect is compounded by the fact that IRA investments are "locked up" with penalties for early withdrawal.

The combined effect of the lower rates and reduced eligibility for the initial deduction has been that participation has fallen to about one-third of its previous high level. Does the FSA provide any hope to overcome the 1986 changes? The Treasury asserts that allowing earlier withdrawal will counteract some of the adverse effects of the lengthy IRA lock-in and early withdrawal penalties.[22] This is certainly true. But committing funds for up to seven years to achieve a tax advantage roughly equivalent to the value of the tax deduction for IRA contributions may not be viewed by investors as a great bargain. There are better reasons for contributing to an FSA.

Incentives to Contribute to an FSA. As Table 10 shows IRAs and FSAs are equally attractive if future tax rates do not rise. But as Table 11 shows, FSAs are more attractive than IRAs if a person will be in a higher tax bracket at the time of withdrawal. The tax advantage depends on the tax rates at the time of deposit and withdrawal. For example, if IRA contributors receive a deduction when their tax rate is 15 percent and make the withdrawal at a time when their rate is 28 percent, the value of the IRA is greatly reduced. They will have avoided a 15 percent rate in order to pay a 28 percent rate. Deposits in FSA accounts, however, would reverse this trade. Taxpayers would pay a 15 percent rate today but avoid a 28 percent rate in the future.

With no change in the tax law, we estimate that over half of today's workers will face higher tax rates in the future than they do today.[23] The primary cause of this rate increase is the expansion in pension coverage, greater personal savings and growing Social Security benefits. On average, today's workers will find that their retirement income equals or exceeds their working-age income. Since Social Security benefits are taxed in a manner which increases the marginal tax rate on investment and pension income, future tax rates on retirement income from today's saving can be higher than the current tax rate on today's wages. The FSA is an ideal solution for this situation. Workers can pay taxes at today's lower rates and receive the proceeds later while avoiding the higher future rates.

A second reason for participating in an FSA is the treatment of capital gains income. Upon withdrawal, all IRA income is taxed as if it were ordinary income. Even an exclusion for capital gains will not apply to the IRA withdrawals. In the case of the FSA, all income is tax free at withdrawal. This provides an additional FSA investment opportunity in growth assets, which would otherwise be subject to an additional capital gains tax.

A third advantage of FSAs is that the maximum contribution is greater. The President's plan allows $2,500 compared to $2,000 for the IRA. Unfortunately, the President's proposal limits the program based on income, and the maximum contribution will not be indexed for inflation.

Effects on Government Revenues. We will not offer a formal revenue estimate here. Rather, we will point out that the smallest increase in growth will offset any of the supposed revenue losses due to the program. If as little as half of the funds invested in FSAs represent new savings, the program will more than pay for itself through the federal personal tax system.

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[22]Funds in IRAs cannot be withdrawn without penalty until the individual is 59-1/2 years old.

[23]This is based on wage growth projections made by the actuaries for the Social Security Administration. See Aldona Robbins and Gary Robbins, "Taxing the Savings of Elderly Americans," NCPA Policy Report No. 141, National Center for Policy Analysis, September 1989.

TABLE 10

IRAs AND FSAs ARE EQUALLY ATTRACTIVE IF THE INITIAL CAPITAL IS THE SAME AND IF TAX RATES DO NOT CHANGE

	IRA	FSA
Initial Principal	$1,000	$1,000
Initial Taxes[1]	0	-150
Amount Contributed	1,000	850
Value of Account After Nine Years[2]	2,000	1,700
Taxes at the Time of Withdrawal	-300[3]	0
Aftertax Withdrawal[4]	1,700	1,700

[1]Assumes a 15 percent tax rate.

[2]Assumes an 8 percent rate of interest.

[3]Assumes individual is at least 59-1/2 years of age.

[4]Assumes a 15 percent tax rate.

TABLE 11

FSAs ARE MORE VALUABLE THAN IRAs IF FUTURE TAX RATES RISE OR IF PEOPLE MAKE THE MAXIMUM CONTRIBUTION

	IRA	FSA	FSA
Initial Principal	$2,000	$2,000	$2,941
Initial Taxes (15 percent rate)	0	-300	-441
Initial Deposit	2,000	1,700	2,500
Value of Account After 18 Years[1]	8,000	6,800	10,000
Taxes at Withdrawal (28 percent rate)	-2,240	0	0
Aftertax Withdrawal	5,760	6,800	10,000

[1]Assumes an 8 percent rate of interest.

CONCLUSIONS

The President's savings proposals will cause federal revenues to increase. As a result, the federal deficit will be smaller, not larger. Yet these proposals could be improved. Capital gains should be indexed to exclude inflationary gains. Artificial holding periods should be removed along with the differential tax rates applied to those holding periods.

Income limits on the availability of the Family Savings Plan are counterproductive. If the objective is to encourage savings, the opportunity should be extended to families at all income levels. Indexing the maximum contribution, would maintain the value of savings account contributions over time.

APPENDIX A

EFFECT OF THE CAPITAL GAINS TAX CUT ON THE U.S. ECONOMY

TABLE A-1

INCREASE IN ECONOMIC GROWTH[1]

Using the Treasury Assumptions

Year	Change in Output ($bil.)	Change in Employment (mil.)	Change in Capital Stock ($bil.)
1990	5.7	0.013	52.9
1991	16.2	0.042	148.6
1992	28.4	0.089	253.0
1993	42.1	0.171	358.8
1994	54.3	0.220	456.9
1995	62.4	0.260	516.5
1996	69.6	0.288	568.8
1997	76.4	0.307	619.6
1998	82.4	0.318	662.8
1999	89.2	0.331	711.4
2000	96.1	0.342	761.0

TABLE A-2

INCREASE IN ECONOMIC GROWTH[1]

Using the Joint Committee on Taxation Assumptions

Year	Change in Output ($bil.)	Change in Employment (mil.)	Change in Capital Stock ($bil.)
1990	3.5	0.008	33.2
1991	10.2	0.026	93.0
1992	17.8	0.055	158.4
1993	25.0	0.088	216.6
1994	32.1	0.121	272.0
1995	37.2	0.149	309.0
1996	42.0	0.168	344.2
1997	46.5	0.182	377.1
1998	50.8	0.193	409.0
1999	55.2	0.201	440.2
2000	59.6	0.209	472.0

APPENDIX B

OTHER DISTRIBUTIONAL EFFECTS OF THE CAPITAL GAINS TAX CUT

TABLE B-1

CHANGE IN INCOME AND PERSONAL INCOME TAXES IN 2000
Using the Treasury Static Assumptions[1]
($ billions)

Income[2]	Change in Income[3]	Change in Tax	Change in Aftertax Income
All returns, total[4]	$198.0	$15.8	$182.3
Less than $7,500	6.3	0.0	6.3
$7,500 to $15,000	4.8	0.0	4.8
$15,000 to $30,000	15.0	1.1	13.9
$30,000 to $45,000	17.2	1.9	15.3
$45,000 to $60,000	17.2	2.7	14.5
$60,000 to $75,000	15.1	2.4	12.8
$75,000 to $150,000	33.1	4.0	29.2
$150,000 to $300,000	20.7	1.4	19.2
$300,000 to $750,000	18.3	0.8	17.5
$750,000 or more	50.2	1.5	48.8

[1]Static analysis used by the Treasury plus NCPA estimates of the dynamic effects.

[2]Size of adjusted gross income plus excluded capital gains in 1990 dollars.

[3]Refers to personal income only.

[4]Cumulatives may not add exactly due to rounding.

TABLE B-2

CHANGE IN INCOME AND PERSONAL INCOME TAXES IN 1995
Using the Joint Committee on Taxation Static Assumptions[1]
($ billions)

Income[2]	Change in Income[3]	Change in Tax	Change in Aftertax Income
All returns, total[4]	$ 97.1	- $0.1	$97.1
Less than $7,500	3.5	0.0	3.5
$7,500 to $15,000	2.0	0.0	2.0
$15,000 to $30,000	6.4	0.3	6.0
$30,000 to $45,000	7.3	0.6	6.7
$45,000 to $60,000	7.5	0.8	6.6
$60,000 to $75,000	6.6	0.7	6.0
$75,000 to $150,000	15.7	0.5	15.2
$150,000 to $300,000	10.8	-0.5	11.2
$300,000 to $750,000	9.8	-0.5	10.3
$750,000 or more	27.5	-2.0	29.5

[1]Static analysis used by the JCT plus NCPA estimates of the dynamic effects.

[2]Size of adjusted gross income plus excluded capital gains in 1990 dollars.

[3]Refers to personal income only.

[4]Cumulatives may not add exactly due to rounding.

TABLE B-3

CHANGE IN INCOME AND PERSONAL INCOME TAXES IN 2000
Using the Joint Committee on Taxation Static Assumptions[1]
($ billions)

Income[2]	Change in Income[3]	Change in Tax	Change in Aftertax Income
All returns, total[4]	$138.8	$ 0.3	$138.5
Less than $7,500	4.8	0.0	4.8
$7,500 to $15,000	3.1	0.0	3.1
$15,000 to $30,000	9.7	0.5	9.2
$30,000 to $45,000	11.2	1.0	10.2
$45,000 to $60,000	11.3	1.3	10.0
$60,000 to $75,000	10.0	1.1	8.9
$75,000 to $150,000	22.8	0.9	21.9
$150,000 to $300,000	15.0	-0.7	15.6
$300,000 to $750,000	13.5	-0.8	14.3
$750,000 or more	37.5	-3.0	40.5

[1]Static analysis used by the JCT plus NCPA estimates of the dynamic effects.

[2]Size of adjusted gross income plus excluded capital gains in 1990 dollars.

[3]Refers to personal income only.

[4]Cumulatives may not add exactly due to rounding.

TABLE B-4

CHANGE IN AFTERTAX INCOME IN 2000
Using the Treasury Static Assumptions[1]

Income[2]	Change in Aftertax Income[3]	Cumulative From Top	Cumulative from Bottom
All returns, total	100.00%		
Less than $7,500	3.47	100.00%	3.47%
$7,500 to $15,000	2.64	96.53	6.10
$15,000 to $30,000	7.64	93.90	13.74
$30,000 to $45,000	8.38	86.26	22.12
$45,000 to $60,000	7.96	77.88	30.08
$60,000 to $75,000	7.00	69.92	37.08
$75,000 to $150,000	16.01	62.92	53.09
$150,000 to $300,000	10.56	46.91	63.64
$300,000 to $750,000	9.61	36.36	73.25
$750,000 or more	26.75	26.75	100.00

[1]Static analysis used by the Treasury plus NCPA estimates of the dynamic effects.

[2]Size of adjusted gross income plus excluded capital gains in 1990 dollars.

[3]Refers to personal income only.

TABLE B-5

INCREASE IN AFTERTAX INCOME IN 1995
Using the Joint Committee on Taxation Static Assumptions[1]

Income[2]	Change in Aftertax Income[3]	Cumulative From Top	Cumulative from Bottom
All returns, total	100.00%		
Less than $7,500	3.63	100.00%	3.63%
$7,500 to $15,000	2.10	96.37	5.73
$15,000 to $30,000	6.22	94.27	11.95
$30,000 to $45,000	6.94	88.05	18.89
$45,000 to $60,000	6.84	81.11	25.73
$60,000 to $75,000	6.14	74.27	31.87
$75,000 to $150,000	15.61	68.13	47.48
$150,000 to $300,000	11.54	52.52	59.02
$300,000 to $750,000	10.63	40.98	69.65
$750,000 or more	30.35	30.35	100.00

[1]Static analysis used by the JCT plus NCPA estimates of the dynamic effects.

[2]Size of adjusted gross income plus excluded capital gains in 1990 dollars.

[3]Refers to personal income only.

TABLE B-6

INCREASE IN AFTERTAX INCOME IN 2000
Using the Joint Committee on Taxation Static Assumptions[1]

Income[2]	Change in Aftertax Income[3]	Cumulative From Top	Cumulative from Bottom
All returns, total	100.00%		
Less than $7,500	3.44	100.00%	3.44%
$7,500 to $15,000	2.25	96.56	5.70
$15,000 to $30,000	6.66	94.30	12.35
$30,000 to $45,000	7.39	87.65	19.74
$45,000 to $60,000	7.21	80.26	26.96
$60,000 to $75,000	6.43	73.04	33.38
$75,000 to $150,000	15.79	66.62	49.17
$150,000 to $300,000	11.29	50.83	60.46
$300,000 to $750,000	10.32	39.54	70.78
$750,000 or more	29.22	29.22	100.00

[1]Static analysis used by the JCT plus NCPA estimates of the dynamic effects.

[2]Size of adjusted gross income plus excluded capital gains in 1990 dollars.

[3]Refers to personal income only.