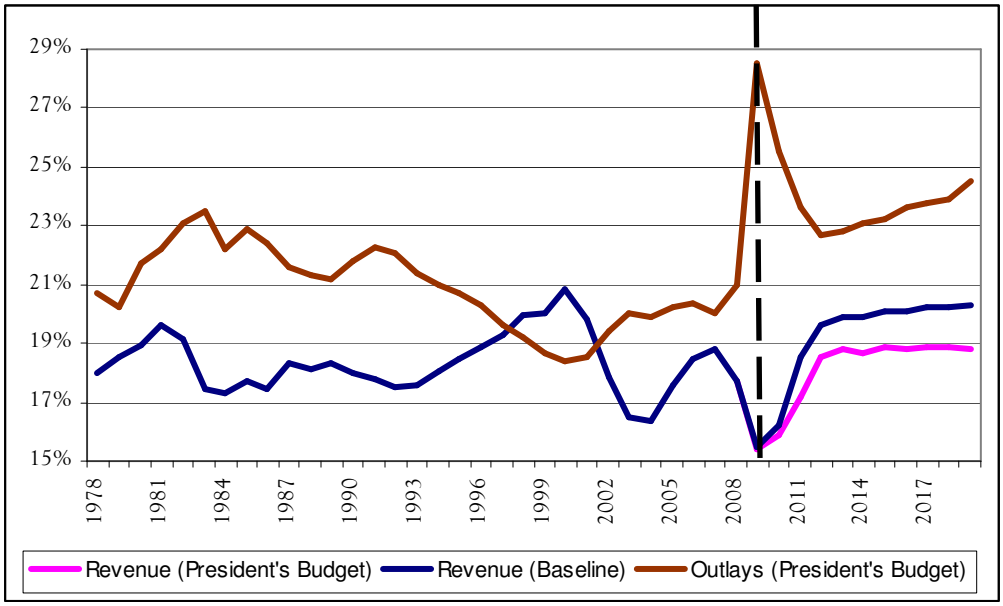
# CRFB Urges Tax Reform on Tax Day
## April 13, 2009

As the United States approaches "Tax Day" this Wednesday, the Committee for a Responsible Federal Budget (CRFB) urges politicians to begin thinking about comprehensive and fundamental tax reform.

"As people finish up their taxes this week, they understand that the system is in many ways broken," said Marc Goldwein, policy director of CRFB. "The average taxpayer spends over 24 hours and $200 a year preparing his or her taxes; the code is so dense that the instructions for the basic 1040 form alone are 161 pages long."

"Yet the problems with the tax code go well beyond complexity. With record deficits projected out as far as the eye can see, it's pretty clear we aren't raising enough revenue to pay for the policies the Administration and Congress are proposing," Goldwein continued. "Moreover, the tax code is littered with expensive and ineffective tax expenditures, it distorts economic decision making and long-term growth, and it contains a number of major expiring tax provisions that we haven't figured out how to deal with."

**Fig. 1: Historical and Projected Revenue and Spending (percent of GDP)**




Source: Congressional Budget Office, Office of Management and Budget

Among the expiring provisions is nearly every tax cut signed into law by President Bush in 2001 and 2003, including a decrease in marginal tax rates, an expansion of the child tax credit, a phase-down and eventual phase-out of the estate tax, and cuts to the capital gains and dividends rate. Also expiring is an annual "patch" to the Alternative Minimum Tax (AMT), and a number of other provisions included in the recent stimulus bill such as the Making Work Pay tax credit and the American Opportunity Tax Credit.

"Given our current fiscal picture, we're going to have to think carefully about which of these provisions we want to renew, which we want to reform, and which we should abandon. And to pay for the ones we are keeping, we need to find appropriate spending cuts – or alternative sources of revenue – at least over the long run," said Goldwein.

**Fig. 2: Major Expiring Provisions (costs in billions over ten years)**

| | Current Policy | After Expiration | President's Plan | Cost |
|---|---|---|---|---|
| **Income Tax Rates** | Rates of: 10%, 15%, 25%, 28%, 33%, 35% | Rates of: 15%, 28%, 31%, 36%, 39.6% | Maintain current policy for family income under $250,000 a year only | $1,011 |
| **Making Work Pay Tax Credit** | $400 per person ($800 per family) tax credit for most individuals | no tax credit | Maintain current policy | $537 |
| **Alternative Minimum Tax** | AMT "patch" exempts many middle-class taxpayers | More middle-class taxpayers subject to AMT | Maintain current policy, indexed for inflation | $447 |
| **Child Tax Credit** | $1,000 per child, refundable for most families | $500 per child, not refundable for most families | Maintain current policy | $317 |
| **Marriage Penalties** | Penalties mitigated though Standard Deduction and 15% bracket twice as large for couples as for single taxpayers | Partial restoration of marriage penalties, as written in the law before 2001 | Maintain current policy | $308 |
| **Estate Tax** | $3.5 million exemption and top rate of 45% in 2009; no tax in 2010 | $1 million exemption and top rate of 55% | Maintain 2009 policy, indexed for inflation | $256 |
| **Dividends Tax Rates** | Rates of: 0%, 15% | Rates of: 15%, 28%, 31%, 36%, 39.6% | Maintain current policy for family income under $250,000 a year; impose 20% rate on additional income | $226 |
| **Capital Gains Tax Rates** | Rates of: 0%, 15% | Rates of: 10%, 20% | | |
| **American Opportunity Tax Credit** | $2,500 partially-refundable college tax credit available for four years | $1,800 non-refundable "Hope credit" available for two years | Maintain current policy | $49 |

Source: Joint Committee on Taxation

CRFB urges policymakers to use the debate over the renewal of expiring tax provisions to make broader changes to the tax code. We believe that it is important for the United States to have a tax system that raises sufficient funds in a fair, simple, and equitable way, while minimizing economic distortion.