

# Hatch's \$550 Billion "Tax Simplification" Plan Would Mainly Benefit High Earners

A so-called "tax simplification" plan introduced by Sen. Orrin Hatch on May 25 would combine modest reductions in tax complexity for about 6 million taxpayers with \$550 billion in tax cuts over ten years, primarily targeted to wealthy taxpayers.

"Tax simplification is an excellent idea," said Robert S. McIntyre, director of Citizens for Tax Justice, which released a detailed distributional analysis of Hatch's plan. "But rather than focusing on reducing complexity, Sen. Hatch has conflated his simplification ideas with large tax cuts for the well off."

The analysis of the Hatch plan was conducted using the Institute on Taxation and Economic Policy Tax Model. It found:

- # Almost three-quarters of the \$550 billion in tax cuts proposed by Hatch over ten years will go to the best-off tenth of all taxpayers.
- # Almost half the tax cuts will go to the top one percent, whose average annual tax reduction would be almost \$16,000 a year (in today's dollars).

The key upper income tax cuts in Hatch's plan include:

- # Repeal the alternative minimum tax, which is designed to assure that taxpayers with large incomes are not able to use tax breaks to reduce their income taxes below a minimum level. Estimated Cost: \$123 billion over ten fiscal years.
- # Reduce tax rates on upper-income taxpayers by repealing implicit tax rates adopted in 1990 under President Bush, which disallow a portion of itemized deductions and phase out personal exemptions at high income levels. Estimated Cost: \$201 billion over ten years.
- # Cut income taxes on capital gains by replacing the current special capital gains tax rates with a 50 percent capital gains exclusion. Estimated Cost: \$132 billion over ten years.

In addition, in a move unrelated to tax simplification, Hatch's plan would expand the earned income tax credit for many moderate-income working families, at an estimated cost of \$94 billion over ten years.

McIntyre pointed out that all of Hatch's simplification goals could be achieved without significant revenue loss or reduction in the progressivity of the tax code. "For example," said McIntyre, "Sen. Hatch is correct that the itemized deduction disallowance and the personal exemption phase-out are clumsy ways to impose higher tax rates on the well-off. But the obvious solution is to replace these provisions with slightly higher explicit tax rates—not simply repeal them. Likewise, simplification of capital gains taxation is a fine goal. But rather than replacing the various special rates with a costly 50% exclusion, the revenue-neutral exclusion would be about 35%. And finally, while everyone recognizes that the alternative minimum tax needs adjustments to allow for inflation, there is no reason to repeal it entirely and thereby slash taxes on some wealthy tax avoiders."

Effects of Orrin Hatch's  
"Tax Simplification" Plan  
(Annual effects at 1999 income levels)

Income Group	Average Tax Cut	% of Total Tax Cut
Lowest 20%	\$ -9	0.6%
Second 20%	-144	8.8%
Middle 20%	-171	10.5%
Fourth 20%	-43	2.6%
Next 15%	-181	8.4%
Next 4%	-1,689	20.8%
Top 1%	-15,737	48.3%
ALL	\$ -323	100.0%
ADDENDUM		
Bottom 60%	\$ -108	19.9%
Top 10%	-2,387	73.4%

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**Approximate Revenue Effects of the Major Provisions of the Hatch "Tax Simplification" Plan**  
Fiscal years 2001 – 2010, \$-billions, very preliminary

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	10 yrs
Alternative minimum tax repeal	\$ -2	\$ -6	\$ -7	\$ -8	\$ -9	\$ -11	\$ -14	\$ -18	\$ -22	\$ -27	\$ -123
Reduce top tax rates (regular and capital gains) by repealing the itemized deduction disallowance and the personal exemption phase-out	-7	-18	-19	-20	-21	-21	-22	-23	-24	-26	-201
Additional capital gains tax cuts	-5	-13	-13	-13	-14	-14	-14	-15	-15	-15	-132
Earned-income tax credit expansion	-1	-9	-9	-10	-10	-10	-11	-11	-11	-12	-94
<b>TOTALS</b>	<b>\$ -15</b>	<b>\$ -46</b>	<b>\$ -48</b>	<b>\$ -50</b>	<b>\$ -54</b>	<b>\$ -57</b>	<b>\$ -61</b>	<b>\$ -67</b>	<b>\$ -73</b>	<b>\$ -80</b>	<b>\$ -550</b>

## Effects of Orrin Hatch's "Tax Simplification" Plan

(Annual effects at 1999 income levels, \$-billions)

Income Group	Income Range	Average Income	Repeal Alternative Minimum Tax	Repeal Itemized Disallowance & Personal Exemption Phase-Out	More Capital Gains Tax Cuts	Earned-Income Tax Credit Increases	Total Tax Cuts
Lowest 20%	Less than \$13,600	\$ 8,600	\$ —	\$ —	\$ -0.0	\$ -0.2	\$ -0.2
Second 20%	\$13,600–24,400	18,800	—	—	-0.1	-3.6	-3.6
Middle 20%	\$24,400–39,300	31,100	-0.0	—	-0.2	-4.2	-4.3
Fourth 20%	\$39,300–64,900	50,700	-0.1	-0.0	-0.8	-0.2	-1.1
Next 15%	\$64,900–130,000	86,800	-0.6	-0.1	-2.8	—	-3.4
Next 4%	\$130,000–319,000	183,000	-1.5	-3.7	-3.3	—	-8.6
Top 1%	\$319,000 or more	915,000	-2.3	-12.4	-5.2	—	-19.9
<b>ALL</b>		<b>\$ 50,800</b>	<b>\$ -4.5</b>	<b>\$ -16.2</b>	<b>\$ -12.4</b>	<b>\$ -8.2</b>	<b>\$ -41.2</b>
<b>ADDENDUM</b>							
Bottom 60%	Less than \$39,300	\$ 19,500	\$ -0.0	\$ —	\$ -0.3	\$ -7.9	\$ -8.2
Top 10%	\$92,500 or more	218,000	-4.2	-16.1	-9.8	—	-30.2

Figures show the effects of the following proposed tax changes in S. 2642: (1) Repeal of the individual Alternative Minimum Tax (AMT). (2) Repeal of the disallowance of some itemized deductions at high income levels. (3) Repeal of the phase-out of the personal exemptions at high income levels. (4) Replacement of the current special capital gains tax rates with a 50% exclusion of capital gains from adjusted gross income. (5) Changes to the earned-income tax credit (EITC), including (a) increases in the starting points for the phase-outs of the credit, to \$15,000 for single parents and to \$20,000 for married parents (from the current \$12,690 in 2000) and to \$10,770 for married couples without children (from the current \$5,770); and (b) an increase in the credit rate for families with three or more children from 40% to 43%. Changes are shown at 1999 income levels.

Source: Institute on Taxation & Economic Policy Tax Model, June 2000.