Camp Is Hiding the True Effects of His Tax Plan

By Robert S. McIntyre

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McIntyre argues that the tax overhaul plan proposed by House Ways and Means Committee Chair Dave Camp, R-Mich., will be hugely expensive and unfair in the long term.

How can House Ways and Means Committee Chair Dave Camp, R-Mich., claim that his tax overhaul proposal is both revenue and distributionally neutral? The answer is both interesting and malign.

Camp has a revenue estimate from the Joint Committee on Taxation staff finding that over its first decade, his plan would almost precisely break even. He also touts JCT tables showing that his plan would not make significant changes in how much people in various income groups pay in taxes. There is little reason to doubt the JCT's estimates, as far as they go. But the first decade of Camp's plan is quite the opposite of what will happen later.

The JCT reports that from fiscal 2015 through fiscal 2023, Camp's plan would reduce personal income taxes by about $800 billion. Offsetting that revenue loss would be about $800 billion in tax increases, mostly on corporations and other businesses.

As for distributional neutrality, Camp's personal income tax cuts would be regressive. The Institute on Taxation and Economic Policy ran those tax cuts, fully phased in, through its microsimulation tax model (similar to the JCT's) and found that, on average, the plan would cut personal income taxes for all income groups except the poorest 20 percent. People in that lowest fifth, however, would pay an average of $185 more a year.

Within income groups, the biggest losers under Camp's personal income tax plan would be single-parent families. Two-thirds of those families would face tax increases, averaging $1,100 a year each.[1]

The biggest winners are who you'd expect. The top 1 percent would save an average of $18,000 a year in income taxes. The super-super-rich, with incomes of more than $10 million, would save an average of $201,000 a year.

But Camp has a solution of sorts for this distributional problem, albeit only in the short term. Here the plot thickens.

Last October, as Camp's tax plan was being honed, the JCT staff reversed its long-standing policy and announced that it will now include corporate tax changes in its distributional analyses — with most of those changes attributed to high-income shareholders. This is actually a fine idea, in and of itself. But it's a happy coincidence for Camp (a co-chair of the JCT). Under the JCT's new rules, Camp can cite official estimates to show that over a decade, his plan's business tax increases will largely offset the regressivity of his personal income tax cuts.[2]

You might be thinking there is something fishy about this. How can a Republican politician who

[1]Why is Camp's plan so tough on single-parent families? There are three reasons:

First of all, Camp would mostly scrap the long-established rule that gives a bigger standard deduction to single parents than is allowed for childless singles, and he eliminates personal exemptions for all taxpayers and dependents. That means that the vast majority of single parents will be taxed on significantly more of their income than they are now. (Camp does offer a small extra standard deduction for some single parents, but it is phased out at quite low income levels, using an income concept for the phaseout that includes employer-paid health insurance and other types of untaxed income.)

Second, Camp would make the head-of-household tax brackets the same as the single brackets, abandoning a longtime policy of setting those brackets in between the brackets for childless singles and married couples. That will mean higher marginal tax rates for many single parents.

Third, Camp proposes to sharply reduce the earned income tax credit, which is especially important to single-parent families. Although he does increase another tax break, the per-child tax credit, from $1,000 per child to $1,500 per child, it isn't enough to offset the cuts in the EITC for most single parents.

[2]Of course, Camp's business tax increases can't eliminate his proposed tax increases on single mothers and the poor. But he argues that his tax increases on the poor should not be counted, because they stem from reductions in refundable tax credits, which he considers spending subsidies.

can't utter the words "corporations" or "businesses" without adding "the job creators" be proposing a major tax increase on business? Your suspicion is warranted.

The truth is that after its first decade, Camp's tax plan changes dramatically. That's because Camp front-loads his business revenue raisers and back-loads his business tax cuts. As a result, while his personal income tax cuts will continue to grow in the second decade, his business tax increases will disappear, and in fact will probably turn into tax cuts. As a result, I calculate that his plan turns into a regressive $1.7 trillion net tax cut over its second decade.

Camp is zealous in trying to hide the permanent effects of his tax plan. For example, he slowly phases in his reduction in the corporate tax rate down to 25 percent, which won't take full effect until 2019. To his credit, he proposes some useful business reforms, such as curbs on accelerated depreciation; repeal of last-in, first-out inventory accounting; and a requirement that advertising and research expenses be amortized over time rather than written off immediately. But as is well known, the revenue gained from these timing changes will fall significantly over time.

Camp's game playing is particularly egregious in the international area, where he claims to increase taxes on multinational firms by $68 billion in the first decade. But this revenue gain is more than fully explained by the $170 billion he would collect through a tiny one-time transition tax on the trillions of dollars in profits that corporations have shifted into tax havens in the past. To count this giveaway to multinationals (who worry that they may someday owe real taxes on their offshore cash) as a tax increase is preposterous on its own terms. In any event, when Camp's international tax cuts take full effect, his plan would reduce taxes on multinational corporations by about $300 billion over 10 years — and make our international tax system even more of a mess than it is now.

Another of Camp's gimmicks involves changing the rules for well-off taxpayers who make voluntary extra contributions into their retirement plans. Camp would encourage or force a large share of these contributions to be put into nondeductible Roth IRAs. These lost tax deductions are estimated to raise $230 billion over the first decade. But in the second decade, as totally tax-free withdrawals from the Roth accounts begin, the change will lose almost that much in revenue.

So if you were wondering why corporate America isn't complaining about Camp's plan to raise its taxes, or if you're confused about why a tax-hating Republican would propose a revenue-neutral tax overhaul that doesn't favor the rich, now you know the answer: Camp's tax plan does neither of these things.

Table 1. How the Camp Tax Plan Goes From Revenue Neutral in Its First Decade to a Huge Revenue Loss in Its Second Decade

Dollars in Billions	First Decade	Second Decade
Personal income tax changes, total*	-$819	-$1,420
All other tax changes:		
Corporate and other business tax changes:		
Corporate rate cut (phased in)	-$680	-$1,180
International		
Foreign dividends deduction	-$212	-$360
Transition tax on offshore profits	+$170	—
Other international changes	+$110	+$60
International total	+$68	-$300
Major timing differences		
Accelerated depreciation reforms (phased in)	+$270	+$230
Research amortization	+$193	+$120
Advertising amortization	+$169	+$130
Repeal LIFO	+$79	+$40
Major timing differences, total	+$710	+$520
Other business tax changes**	+$509	+$840
Total corporate and other business tax changes	**+$607**	**-$110**
Roth IRA expansions	**+$230**	**-$180**
Excise taxes, etc.* **	**-$16**	**-$20**
All other tax changes, total	**+$822**	**-$310**
Total tax changes	**+$3**	**-$1,730**

Sources: JCT (JCX-20-14) for the first decade; Citizens for Tax Justice for the second decade.
*Includes small employment tax changes; excludes Roth IRA expansions shown below.
**Includes tax on assets of very large banks as a business tax.
***Excludes tax on assets of very large banks (treated in this table as a business tax).

Revenue neutrality and distributional neutrality are extremely limited goals for tax reform, given our government's desperate need for revenues and the highly connected and frightening growth in income inequality. But Camp not only fails to achieve his asserted paltry goals, he would make things much worse than they are now. He would sharply reduce revenues in the long term, increase taxes on lower-income Americans, and cut taxes a lot on those at the top of the income scale.

Table 2. Effects of the Camp Individual Tax Change Proposals
All Tax Units, Fully Phased In, at 2015 Levels, Compared to Current 2015 Law

Income Group	Percentage With		Average Tax Changes		
	Tax Cut	Tax Increase	With Tax Cut	With Tax Increase	All
Lowest 20%	24%	38%	-$188	+$606	+$185
Second 20%	46%	28%	-$497	+$752	-$20
Middle 20%	65%	20%	-$897	+$693	-$441
Fourth 20%	74%	25%	-$1,543	+$1,327	-$813
Next 15%	61%	38%	-$1,892	+$2,073	-$369
Next 4%	65%	34%	-$6,140	+$3,560	-$2,766
Top 1%	80%	19%	-$29,936	+$32,580	-$17,870
All	54%	29%	-$1,786	+$1,391	-$554

Source: Institute on Taxation and Economic Policy Microsimulation Tax Model.

Table 3. Effects of the Camp Individual Tax Change Proposals
By Filing Status, Fully Phased In at 2015 Levels Versus Current 2015 Law

Income Group	Average Tax Changes by Family Type and Income					
	All	Single Parents	Married Couples	Not Married	All Returns With Kids	All Returns Without Kids
Less than $10,000	+$136	+$255	+$120	+$138	+$231	+$115
$10,000 - $20,000	+$217	+$731	+$323	+$201	+$722	+$51
$20,000 - $30,000	+$52	+$517	+$75	+$48	+$440	-$94
$30,000 - $50,000	-$267	+$417	-$128	-$331	+$119	-$435
$50,000 - $75,000	-$550	+$278	-$757	-$362	-$543	-$554
$75,000 - $100,000	-$981	+$1,350	-$1,636	+$322	-$1,225	-$796
$100,000 - $200,000	-$412	+$1,997	-$729	+$929	-$400	-$424
$200,000 - $500,000	-$2,294	-$2,708	-$2,146	-$3,109	-$2,718	-$1,910
$500,000 - $1 million	-$11,811	-$6,499	-$12,355	-$8,808	-$12,691	-$11,006
$1 million - $5 million	-$17,130	-$14,987	-$17,290	-$16,264	-$18,500	-$16,009
$5 million - $10 million	-$66,521	-$79,976	-$67,116	-$63,699	-$74,309	-$60,373
$10 million or more	-$200,524	-$107,961	-$213,532	-$143,509	-$230,969	-$176,996
All	-$554	+$537	-$1,185	-$91	-$629	-$515
Percentage with tax cut	54%	26%	65%	45%	54%	54%
Percentage with tax increase	29%	69%	22%	34%	43%	22%

Source: Institute on Taxation and Economic Policy Microsimulation Tax Model.