



Moving Towards a Unified Credit

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Presentation Plan

- Description of existing credit system
- Review of economics of transfer programs and optimal design
- Discussion of specific reform proposals



Part I: Description of Existing Credits

○ The EITC

- For 2008, the maximum credit amount for a married couple filing jointly with two or more qualifying children is \$4824, which equals 40 percent of the couple's first \$12,060 of income (IRS 2008)
- For joint filers, the maximum credit is reduced by 21.06 percent of earned income (or adjusted gross income, if greater) in excess of \$15,740 and is entirely phased out at \$38,646 of income
- Participation rates a real problem: only 62.5 percent of eligible households with three or more children claimed the credit in 1999, and only 44.7 percent of eligible childless households claimed it
- IRS audit data for 1999 show filers make excessive claims of earned income benefits by about 30 percent, which amounts to between \$8.5 billion to \$9.9 billion of government revenue

Description of Existing Credits...

- Child and dependent care credit
 - a non-refundable credit available to low-income workers who pay for the care of children under age 13, a disabled spouse, or other dependents
 - \$3,000 per child, and up to \$6,000 per family, adjusted by the credit rate
 - The maximum credit rate is 35 percent, dropping to 20 percent

Existing Credits...

- American Opportunity Tax Credit
 - Increases the Hope Scholarship Credit to 100 percent qualified tuition, fees and course materials paid by the taxpayer during the taxable year not to exceed \$2,000, plus 25 percent of the next \$2000 in qualified tuition, fees and course materials. The total credit does not exceed \$2500
 - 40% of the credit is refundable
 - The credit is phased out for incomes above \$80,000 (\$160,000)

Existing Credits...

- Refundable Child Tax Credit
 - In 2009, tax filers may claim a refundable credit equal to 15 percent of the excess of earnings over \$12,550, up to the \$1,000 maximum per child.
 - The American Recovery and Reinvestment Act of 2009 (ARRA) increased eligibility for the refundable portion of the child tax credit by reducing the income threshold for qualifying families from \$12,550 in 2009 to \$3000 for 2009 and 2010
 - the credit is phased out as income goes beyond \$72,000

Existing Credits...

- Making Work Pay Credit
 - equals 6.2 percent of income up to a maximum of \$400 for working individuals and \$800 for joint filers
 - The credit begins to phase out at an income of \$75,000 for individuals and \$150,000 for couples
 - President Obama's FY2010 budget proposes to make the credit permanent

Existing Credits...

○ Saver's Credit

- The nonrefundable credit helps to offset part of the first \$2000 workers voluntarily contribute to retirement savings plans by providing matching contribution for each voluntary individual contribution
- The credit is worth up to \$1000 for singles (\$2000 for married couples) and is available in addition to any other tax savings that may apply
- The saver's credit can be claimed by: (1) "Married couples filing jointly with incomes up to \$53,000 in 2008 or \$55,500 in 2009; (2) Heads of Household with incomes up to \$39,750 in 2008 or \$41,625 in 2009; and (3) Married individuals filing separately and singles with incomes up to \$26,500 in 2008 or \$27,750 in 2009."



Current Distribution of Credits

Based on 2006 Data

| | Total Credits Received (2006) | Married Returns(2006) | Single Returns(2006) | Total Returns(2006) | Average Credit per Return |
|-----------------------------------|----------------------------------|-----------------------|----------------------|---------------------|---------------------------|
| All returns, total | 99,400,426,000 | 53,294,930 | 85,099,824 | 138,394,754 | 718 |
| No adjusted gross income | 523,248,000 | 797,892 | 1,877,702 | 2,675,594 | 196 |
| \$1 under \$5,000 | 1,873,917,000 | 742,980 | 10,890,390 | 11,633,370 | 161 |
| \$5,000 under \$10,000 | 7,752,665,000 | 1,181,314 | 10,605,433 | 11,786,747 | 658 |
| \$10,000 under \$15,000 | 13,721,061,000 | 1,731,597 | 9,980,083 | 11,711,680 | 1,172 |
| \$15,000 under \$20,000 | 13,506,636,000 | 2,191,926 | 8,745,768 | 10,937,694 | 1,235 |
| \$20,000 under \$25,000 | 11,811,013,000 | 2,289,462 | 7,622,799 | 9,912,261 | 1,192 |
| \$25,000 under \$30,000 | 8,452,143,000 | 2,214,262 | 6,535,499 | 8,749,761 | 966 |
| \$30,000 under \$40,000 | 9,458,517,000 | 4,430,880 | 9,720,944 | 14,151,824 | 668 |
| \$40,000 under \$50,000 | 6,476,914,000 | 4,349,177 | 6,338,016 | 10,687,193 | 606 |
| \$50,000 under \$75,000 | 12,720,901,000 | 11,115,519 | 7,739,398 | 18,854,917 | 675 |
| \$75,000 under \$100,000 | 8,684,242,000 | 8,638,586 | 2,501,822 | 11,140,408 | 780 |
| \$100,000 under \$200,000 | 4,417,926,000 | 10,173,366 | 1,915,057 | 12,088,423 | 365 |
| \$200,000 under \$500,000 | 1,246,000 | 2,646,577 | 474,908 | 3,121,485 | 0.40 |
| \$500,000 under \$1,000,000 | 0 | 498,556 | 90,750 | 589,306 | 0 |
| \$1,000,000 under \$1,500,000 | 0 | 125,990 | 24,441 | 150,431 | 0 |
| \$1,500,000 under \$2,000,000 | 0 | 53,188 | 10,819 | 64,007 | 0 |
| \$2,000,000 under \$5,000,000 | 0 | 80,316 | 18,408 | 98,724 | 0 |
| \$5,000,000 under \$10,000,000 | 0 | 20,494 | 4,481 | 24,975 | 0 |
| \$10,000,000 or more | 0 | 12,849 | 3,107 | 15,956 | 0 |



Percentage of Filers Receiving Credits

| | All credits (includes credits outside our purview) | Child Care Credit | Child Tax Credit (non- refundable) | CTC (refundable) | Education Credits | Earned Income Credit (nonrefundable) | EITC (refundable) |
|--------------------------------|---|----------------------|--|---------------------|----------------------|--|----------------------|
| All returns, total | 33.3 | 4.7 | 18.6 | 11.3 | 5.6 | 2.1 | 14.6 |
| No adjusted gross income | 0.2 | 0.0 | 0.1 | 7.2 | 0.0 | 0.0 | 5.1 |
| \$1 under \$5,000 | 1.1 | 0.0 | 0.0 | 0.5 | 0.0 | 0.0 | 21.6 |
| \$5,000 under \$10,000 | 5.8 | 0.0 | 0.0 | 0.9 | 0.7 | 3.8 | 36.0 |
| \$10,000 under \$15,000 | 15.5 | 0.3 | 1.9 | 20.2 | 4.2 | 5.5 | 31.9 |
| \$15,000 under \$20,000 | 28.2 | 2.4 | 11.8 | 28.7 | 6.4 | 1.9 | 28.8 |
| \$20,000 under \$25,000 | 43.3 | 4.3 | 20.8 | 29.9 | 7.5 | 4.0 | 29.5 |
| \$25,000 under \$30,000 | 40.8 | 5.2 | 24.5 | 24.0 | 7.3 | 8.3 | 24.2 |
| \$30,000 under \$40,000 | 41.3 | 5.4 | 25.9 | 17.3 | 8.7 | 3.8 | 10.3 |
| \$40,000 under \$50,000 | 44.0 | 5.5 | 28.6 | 11.1 | 7.9 | 0.0 | 0.0 |
| \$50,000 under \$75,000 | 44.7 | 7.2 | 32.3 | 4.7 | 8.3 | 0.0 | 0.0 |
| \$75,000 under \$100,000 | 52.8 | 9.5 | 36.4 | 1.0 | 11.4 | 0.0 | 0.0 |
| \$100,000 under \$200,000 | 47.6 | 10.5 | 25.8 | 0.2 | 1.2 | 0.0 | 0.0 |
| \$200,000 under \$500,000 | 42.5 | 7.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| \$500,000 under \$1,000,000 | 58.2 | 6.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| \$1,000,000 under \$1,500,000 | 64.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| \$1,500,000 under \$2,000,000 | 67.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| \$2,000,000 under \$5,000,000 | 70.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| \$5,000,000 under \$10,000,000 | 75.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| \$10,000,000 or more | 81.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |



Projected Credits and Returns in 2009

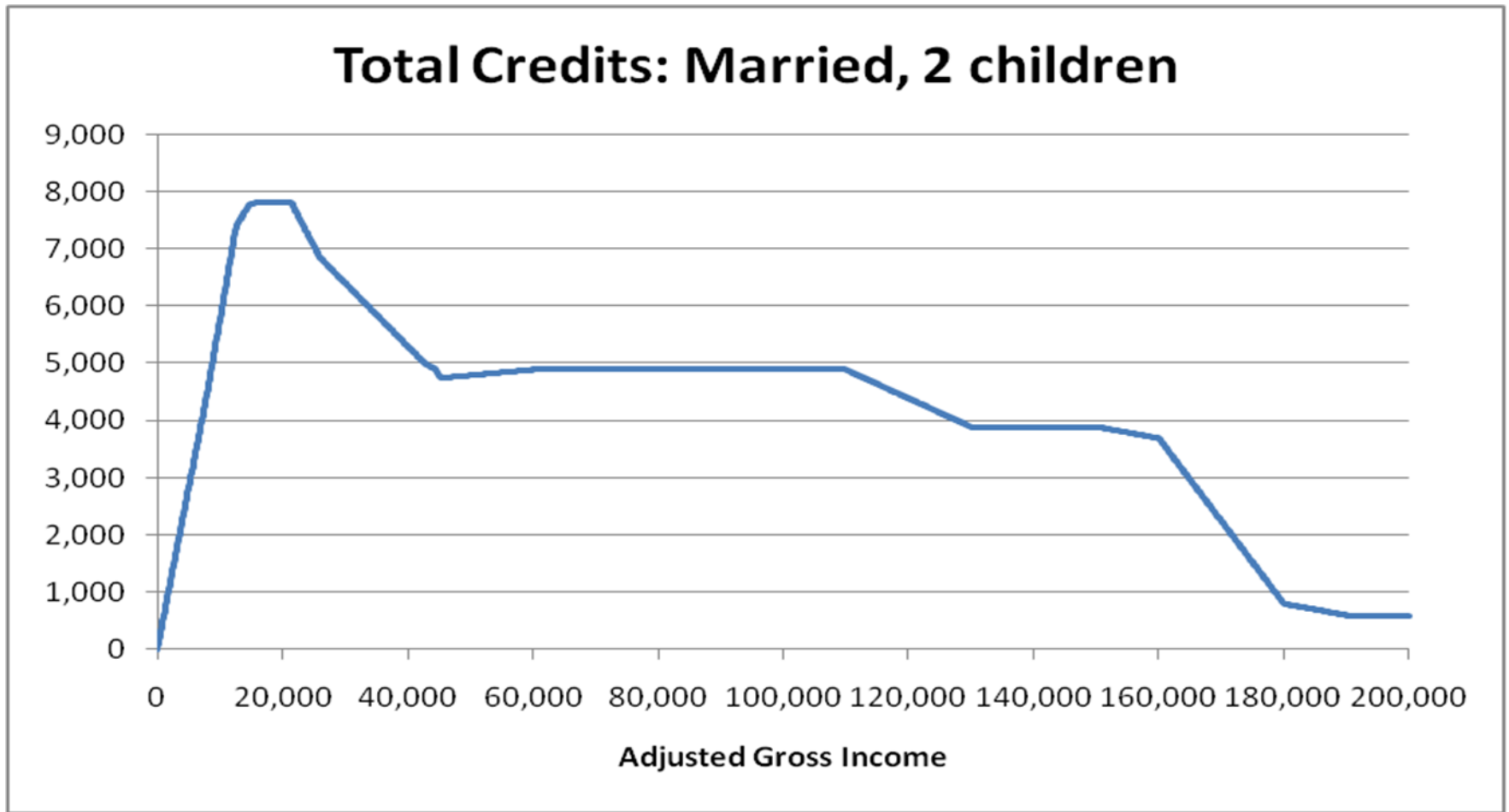
Using annual average population growth rates for returns and population and inflation annual growth rates for credits

| | Total credits (2009) Includes projections of AOTC and Making Work Pay | Married Returns(2009) | Single Returns(2009) | Total Returns(2009) |
|-----------------------------------|---|-----------------------|----------------------|---------------------|
| All returns, total | 170,484,527,274 | 54,909,820 | 87,678,434 | 142,588,253 |
| No adjusted gross income | 897,437,682 | 822,069 | 1,934,598 | 2,756,667 |
| \$1 under \$5,000 | 3,214,008,901 | 765,493 | 11,220,380 | 11,985,873 |
| \$5,000 under \$10,000 | 13,296,818,543 | 1,217,109 | 10,926,788 | 12,143,897 |
| \$10,000 under \$15,000 | 23,533,386,047 | 1,784,066 | 10,282,489 | 12,066,556 |
| \$15,000 under \$20,000 | 23,165,619,567 | 2,258,344 | 9,010,774 | 11,269,117 |
| \$20,000 under \$25,000 | 20,257,407,830 | 2,358,835 | 7,853,777 | 10,212,612 |
| \$25,000 under \$30,000 | 14,496,513,363 | 2,281,356 | 6,733,531 | 9,014,888 |
| \$30,000 under \$40,000 | 16,222,574,332 | 4,565,140 | 10,015,498 | 14,580,638 |
| \$40,000 under \$50,000 | 11,108,741,340 | 4,480,961 | 6,530,064 | 11,011,026 |
| \$50,000 under \$75,000 | 21,817,982,888 | 11,452,330 | 7,973,909 | 19,426,240 |
| \$75,000 under \$100,000 | 14,894,593,028 | 8,900,344 | 2,577,630 | 11,477,974 |
| \$100,000 under \$200,000 | 7,577,311,848 | 10,481,629 | 1,973,085 | 12,454,714 |
| \$200,000 under \$500,000 | 2,137,050 | 2,726,771 | 489,298 | 3,216,069 |
| \$500,000 under \$1,000,000 | 0 | 513,663 | 93,500 | 607,163 |
| \$1,000,000 under \$1,500,000 | 0 | 129,808 | 25,182 | 154,989 |
| \$1,500,000 under \$2,000,000 | 0 | 54,800 | 11,147 | 65,946 |
| \$2,000,000 under \$5,000,000 | 0 | 82,750 | 18,966 | 101,715 |
| \$5,000,000 under \$10,000,000 | 0 | 21,115 | 4,617 | 25,732 |
| \$10,000,000 or more | 0 | 13,238 | 3,201 | 16,439 |

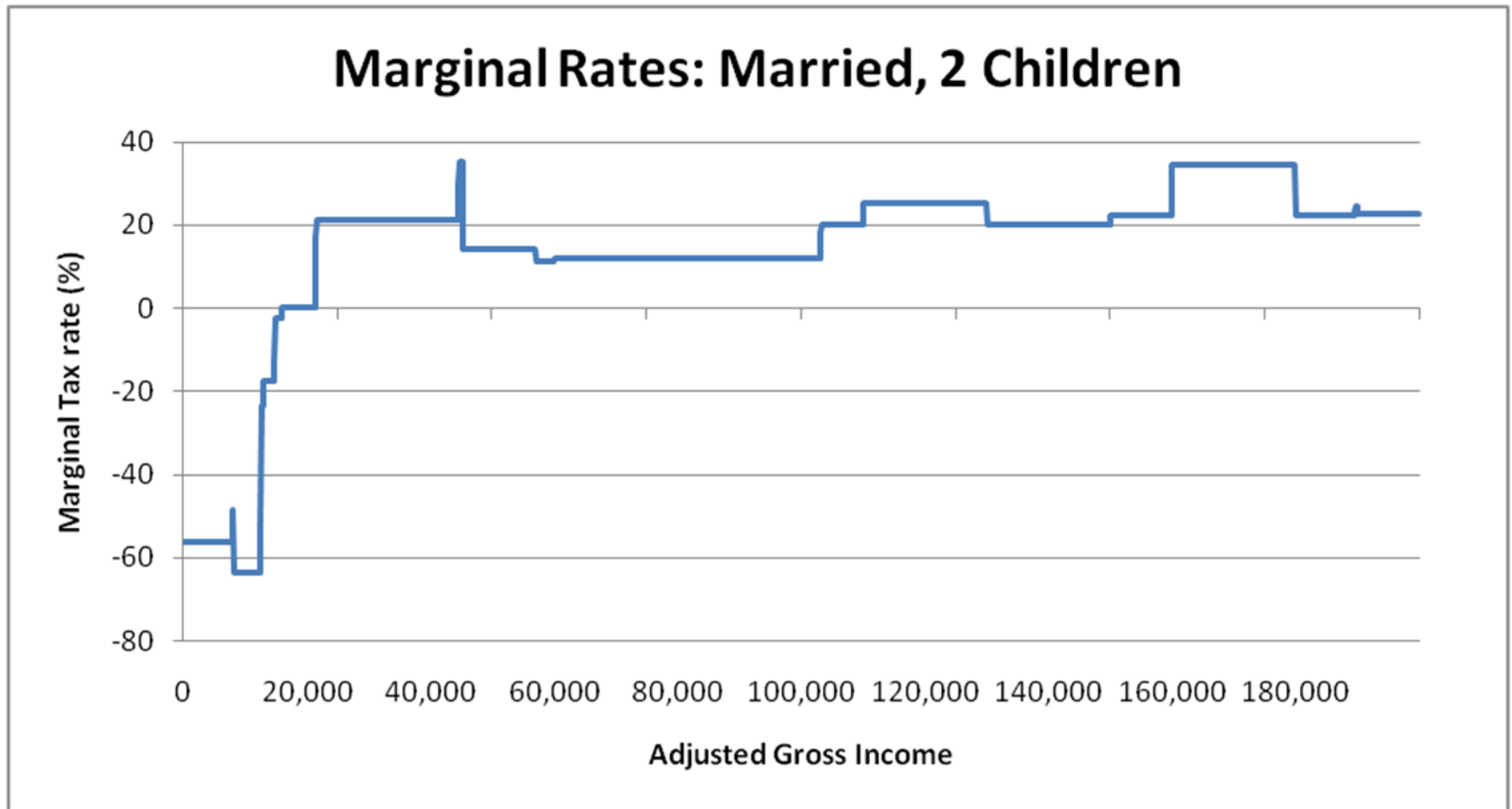
AEI Tax Calculator

- Developed a Tax Calculator at AEI
 - essentially recreates a 1040 tax form with all the relevant entries at their respective positions.
- Hypothetical Family of Four
 - Both adults work, one child is in college, the other is under 13.
 - 5% of earnings go towards child care.
 - \$4000 towards college tuition (when AGI is less than \$20,000, we cap education expenses at 25% of AGI)
 - 20% of income is deductible. Family will itemize when that becomes cheaper than standard deduction (\$57,000)
 - Marginal rates are calculated based on \$100 increments

Credit Payments Under Current Policy



Marginal Tax Rates Under Current Policy





II: The Economics of Transfer Programs

A Review of the Literature

Tax Schedule and Redistribution

- The design of the optimal income tax and the shape of the tax schedule has been an area of substantial debate among researchers and policy makers
 - Implications for work incentives and redistribution
 - Design of the tax schedule also determines the degree of inequality that remains

- In the U.S., progressive income taxation is an important instrument for redistributive policies
 - High marginal tax rates have efficiency costs since they affect the incentive to work and therefore affect the tax base

Equity versus Efficiency

- The modern set-up for analyzing this equity-efficiency trade-off was pioneered by Mirlees (1971)
 - Obtained general results about the design of the tax schedule ; should be based on the labor-consumption preferences of the population and the distribution of skills within the population
 - The marginal tax rate should be between 0 and 100 percent
- Other papers extended this analysis: Saez (2000), Roberts (2000), Piketty (1997) and Diamond (1998)

Income Transfer Programs

- More recent papers have focused on the optimal design of income transfer programs and the incentives they generate
- EITC:
 - The earned income credit is an income transfer program that provides significant financial assistance to low-income workers, especially those with children.
 - Unlike most welfare programs the earned income credit provides significant work incentives for many low-income workers and has been the subject of much research on its effect on labor supply with its gradual phase-in and phase-out ranges

Labor Supply Effects of EITC

- Several papers have estimated the impact of the EITC on employment decisions of single women all consistently finding that the EITC increased their labor force participation.
 - Dickert, Hauser and Scholz 1995; Eissa and Liebman 1996; Ellwood 2000; Grogger 2003; Hotz et al 2002; Keane and Moffitt 1998; Meyer and Rosenbaum 2000, 2001; Rothstein 2005)
- A limited set of papers have examined the impact of the EITC on the hours worked by single mothers
 - Eissa and Liebman (1996) apply their difference-in-difference model to annual hours worked (conditional on working) and find a small positive (and marginally significant) impact
 - Meyer and Rosenbaum (1999) find mixed (positive and negative) but insignificant impacts of the EITC on hours worked

Implications for Tax-Transfer Programs

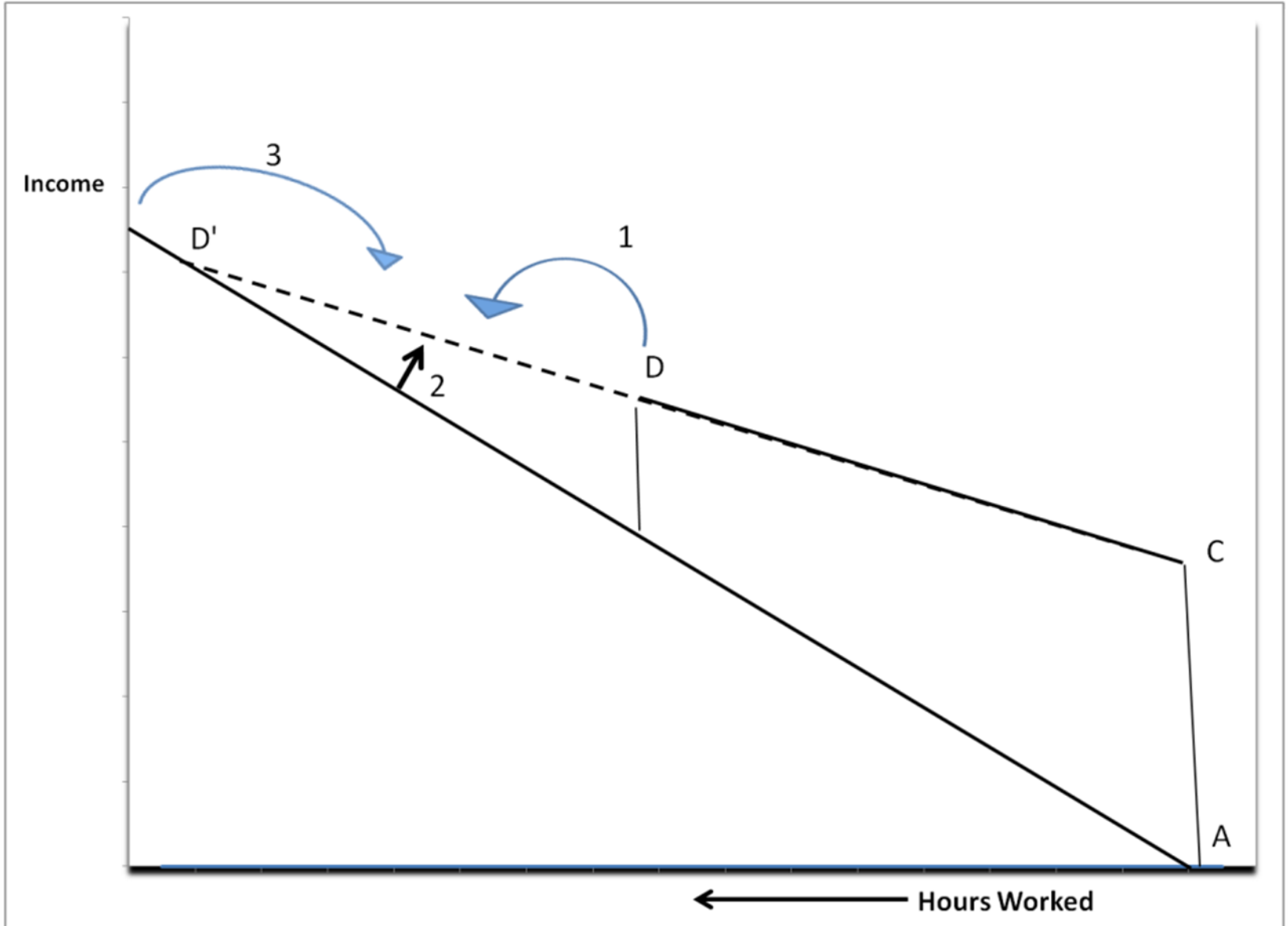
- The finding that labor force participation responses are more significant than hours worked responses has several important implications for the design of tax-transfer programs and the welfare evaluation of taxation.
 - Recent work has shown that accounting for a labor force participation response can change the optimal transfer program (Saez, 2002). More precisely, this work has shown that with sufficiently high participation elasticities, the optimal tax-transfer scheme can be similar to the EITC - with negative marginal tax rates at the bottom of the earnings distribution.
- Liebman (2002) extends on this work by examining more closely the optimal design of the EITC. He uses a micro-simulation model calibrated to 1999 CPS data to illustrate the trade-offs in the design of an EITC -including the optimal maximum credit, phase-in and phase-out rates- with fixed costs and participation effects.

Optimal Design: Liebman (2002)

- Liebman (2002) concludes that for reasonable social welfare weights, the optimal EITC would be one with a very high phase-out rate.
 - This would create something like a cliff in which the entire EITC is eliminated immediately at the end of the plateau. This is optimal because the distribution of married taxpayers is quite thick at the end of the current phase-out region.
 - As suggested by our analysis in the previous section, increasing the phase-out rate saves a significant amount of money that would go to individuals with relatively high incomes, and, accordingly, low social welfare weights.

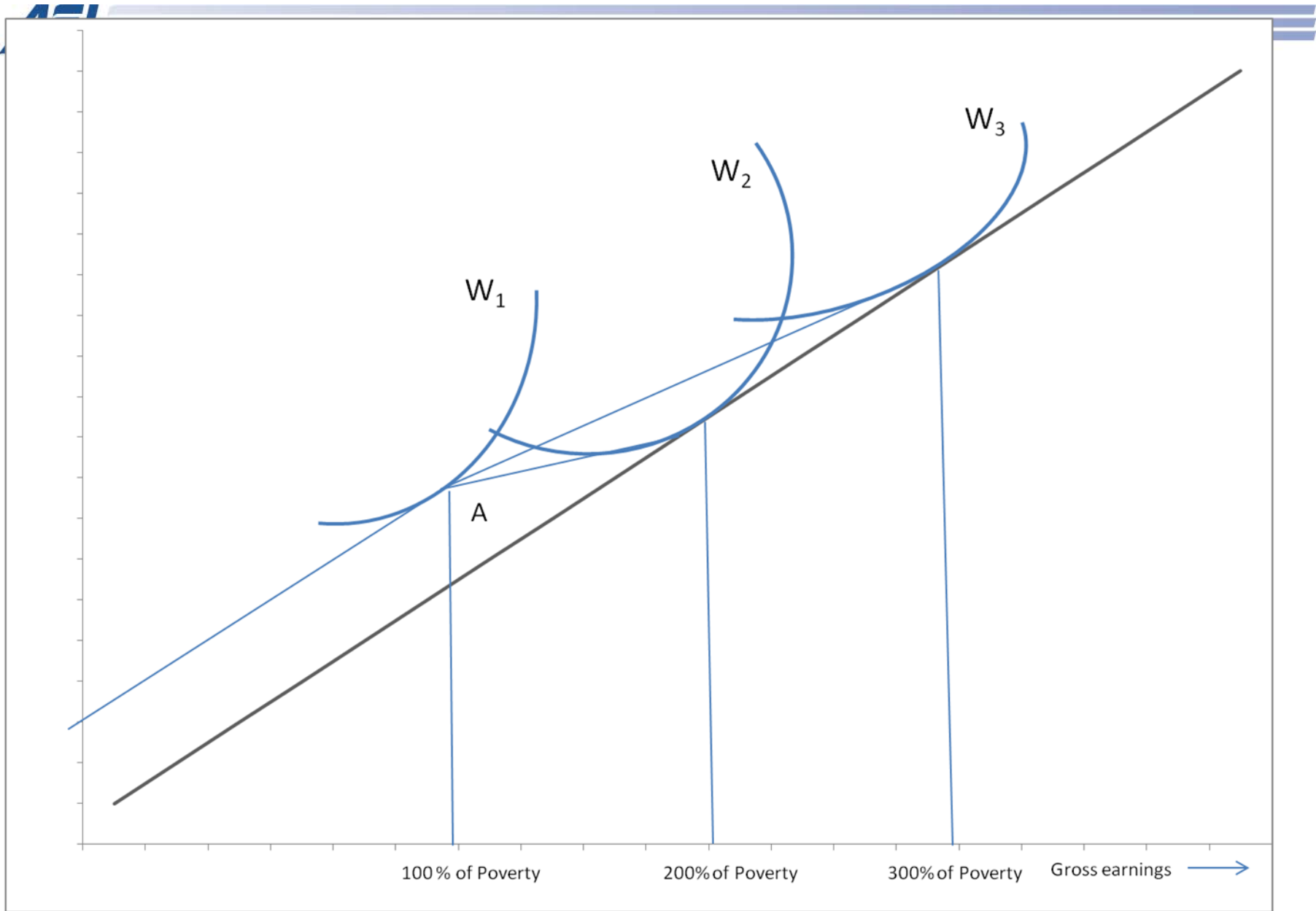
Optimal Design: Moffitt (2002)

- Moffitt (2002) reviews the economic research on the topic of welfare programs and their labor supply and work incentive effects.
 - In particular, he compares how switching from the current system of Medicaid payments, which involve a reduction in benefits to zero above a certain income level, to a system of a gradual phase-out of benefits would affect labor supply.
- Moving from a “notch” to a phase-out of benefits would cause an ambiguous effect on labor supply. While it is true that those initially at D are encouraged to work more, (arrow 1), those represented by arrows 2 and 3 experience labor supply reductions.
- With the move from a phase-out to a notch, it seems more likely that there would be an increase in labor supply due to the notch since those who are on the segment CD would be unaffected, but those on the segment DD’ may be better off increasing labor supply and income by moving back to the usual budget line.



Optimal Design: Sheiner (1994)

- This is more clearly illustrated in a paper by Sheiner (1994) though the focus of the paper is on health care reform.
- The horizontal axis represents pre-tax and transfer income, the vertical axis represents post-tax and transfer income and the 45 degree line represents the no-tax budget line. In the figure, for simplification everyone is subject to a marginal tax rate t_1 and those with income below a certain level also receive cash transfers valued at say, \$4000.
- As is clear from the indifference curves on the graph, anyone with wages at w_1 or less would prefer to be at the kink at point A. Anyone with a wage w_3 would not be affected by the cliff. Anyone with wage w_2 however, is affected by the existence of the cliff versus the phase-out range. With a cliff, individuals on w_2 would prefer to be at a point in the phase-out region since they may lower their work effort (and income) and still be on the same indifference curve. Therefore a phase-out can potentially have adverse work impacts since it induces people to move down their indifference curves.



Summary

- However, it is also important to keep in mind that these optimal work incentive effects are likely to arise only if individuals have perfect information about the shape of the credit or the marginal tax schedule. In the more likely scenario of limited information, such a rapid phase-out range may inadvertently adversely affect households who are unaware that the next dollar they earn will cause them to lose all their benefits.
- Therefore, in our discussion of alternative proposals, we include not only ones with cliffs but also ones with gradual phase-out ranges.
- In the next few slides, we offer a brief overview of some of the proposals that have already been considered to simplify the code. However, none of these have tried to replace the entire credit schedule for low income people with one credit.

Prior Unified Credit Proposals

- Simplified Family Credit
- Unified Child Credit
- 2005 President's Advisory Panel on Federal Tax Reform



Simplified Family Credit (SFC)

- Created by Brooklyn College's Robert Cherry and EPI's Max Sawicky (2000), also known as the "The Universal Unified Tax Credit (UUIC)"
- Convert dependent exemption into a credit and combine with EITC, Child Credit and Additional Child Credit
- All taxpayers eligible
- Similar to EITC structure with seven phase-out schedules depending on number of children
- Lower phase-out rates reduce marriage penalty under 1999 law
- Credit would not phase-out to zero but instead would settle at an amount equal to the dependent exemption and child credit under 28% income group (then the second lowest)
- Estimated total cost increase of \$32 billion (2000)

2005 President's Advisory Panel on Federal Tax Reform

- Both Tax Proposals (*Simplified Income Tax Plan* and *Growth and Investment Tax Plan*) proposed consolidating existing family-related tax credits into two credits: the Family Credit and Work Credit
- **Family Credit**
 - Consolidates personal exemption, Standard deduction, Child Tax Credit and head of household filing status into one credit
 - Available to all tax payers
 - \$3,300 credit for married couples, \$2,800 credit for unmarried taxpayers with child, \$1,650 credit for unmarried taxpayers, \$1,150 credit for dependent taxpayers; additional \$1,500 credit for each child and \$500 credit for each other dependent
 - Amount determined by a 'credit base' that depends on household type and increases according to number of children
 - No phase-out schedule; available regardless of whether taxpayer itemizes; effectively refundable for low-income workers through operation of the Work Credit
 - Would also simplify existing education credits by covering some full-time students
- **Work Credit**
 - Replaces EITC and refundable child tax credit
 - Builds on family credit and phases-in and out with amount of work earnings
 - refundable

Unified Child Credit

- Tax Policy Center's Adam Carasso, Jeff Rohaly, and C. Eugene Steuerle
- Consolidate EITC, Child Credit and Dependent Exemption into a Unified Child Credit (UCC)
- Standardize tax definitions of income, qualifying children, and the filers who may claim their benefits
- Compared with 2003 law, the plan would increase phase-in rates, create a standard age limit and lower phase-out rate
- Plan would also be combined with repealing the dependent exemption under the AMT as a preference item or tax shelter, thereby providing an integrated approach to reforming child-related tax provisions
- Cost is \$25.2 billion (2010)



III: Proposals for Reform



The Political History of Redistribution Through the Tax Code

- There are two main issues
 - Definition of the tax paying unit
 - Both sides have switched over time
 - Labor force participation vs. labor supply
 - Economists vs. common sense

Proposal 1: Lump Sum Credits

- This involves giving all filers a lump sum credit up until a certain income level, with the credit being double for married filers.
- Based on the current credit pay-out schedule, the maximum credit paid out is about \$7000 at incomes below \$15,000. Therefore, we analyze a lump sum credit of about \$7000 for married filers and \$3500 for single filers. We extend the credit to all households up to an income range at which the cost of the credit is just below or close to the credits that would be paid out under the current system of about \$170 billion.

Lump Sum Credits

- Column (1) shows that such a lump sum credit could be extended to all households earning less than \$15,000 in income. The total cost is about \$150 billion, suggesting that we could possibly extend the credit to people marginally above \$15,000 as well. Or the “savings” could be used to lower the marginal tax rate on those earning above \$15,000.
- Columns (2), (3) and (4) show similar policies with the credit amount varying from \$3000-\$5000. As we may expect, as the credit amount goes down, the government can target a higher base of people. So for instance, with a \$3000 credit, the system could be extended to all those with incomes below \$50,000. The cost of the policy in each case is quite close to the current system.

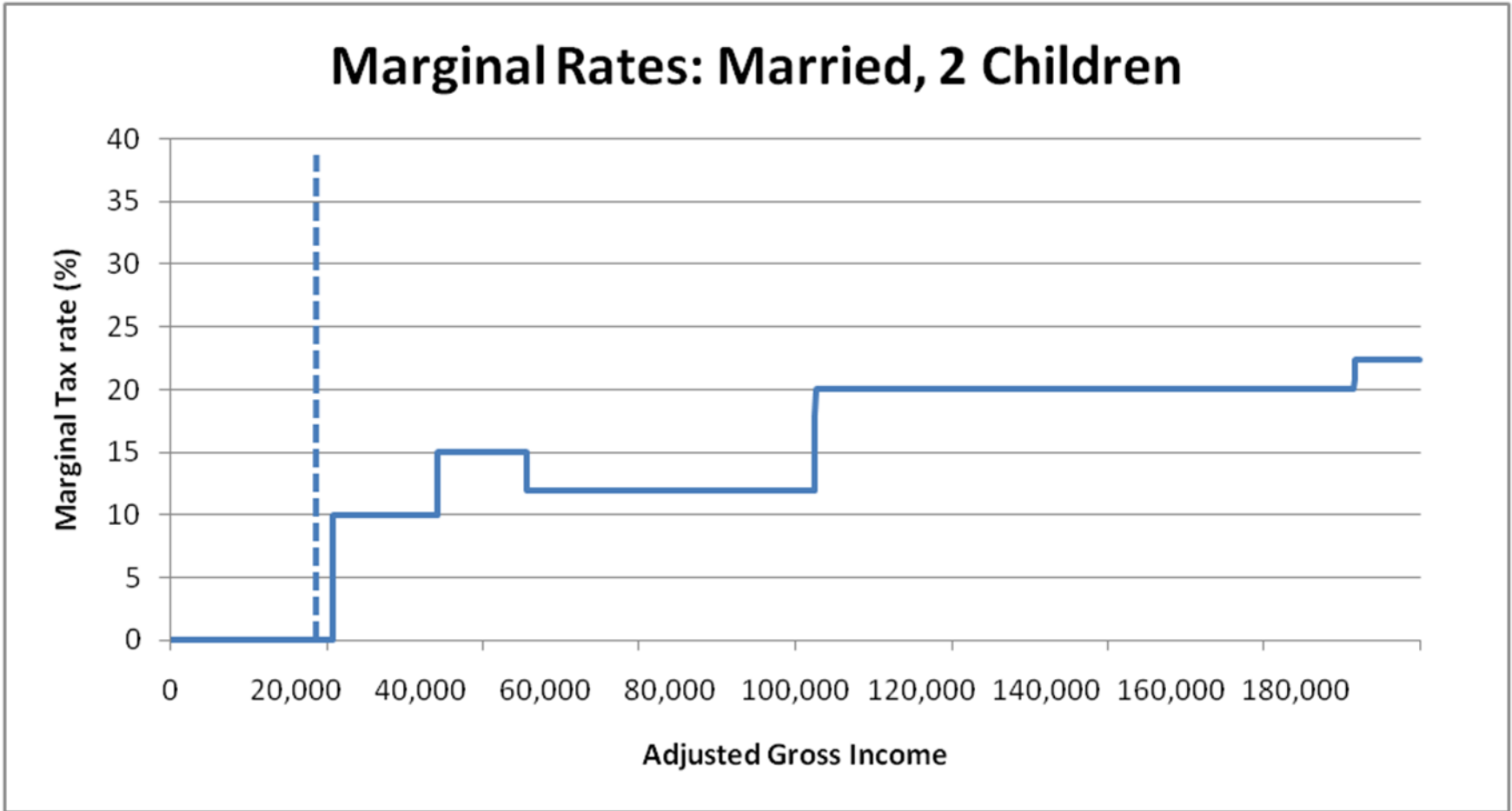


Lumpsum Credits with Cliffs

| | \$7000 for married, \$3500 for single | \$5000 for married, \$2500 for single | \$4000 for married, \$2000 for single | \$3000 for married, \$1500 for single |
|---------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| All returns, total | 691,243,255,902 | 493,745,182,787 | 394,996,146,230 | 296,247,109,672 |
| No adjusted gross income | 12,525,576,348 | 8,946,840,248 | 7,157,472,199 | 5,368,104,149 |
| \$1 under \$5,000 | 44,629,780,235 | 31,878,414,453 | 25,502,731,563 | 19,127,048,672 |
| \$5,000 under \$10,000 | 46,763,521,757 | 33,402,515,541 | 26,722,012,433 | 20,041,509,325 |
| \$10,000 under \$15,000 | 48,477,176,077 | 34,626,554,341 | 27,701,243,473 | 20,775,932,605 |
| \$15,000 under \$20,000 | | 33,818,651,539 | 27,054,921,231 | 20,291,190,923 |
| \$20,000 under \$25,000 | | 31,428,618,522 | 25,142,894,817 | 18,857,171,113 |
| \$25,000 under \$30,000 | | | 22,592,487,722 | 16,944,365,791 |
| \$30,000 under \$40,000 | | | | 28,718,667,771 |
| \$40,000 under \$50,000 | | | | 23,237,980,571 |
| | | | | |
| Total Credits | 152,396,054,417 | 174,101,594,644 | 161,873,763,437 | 173,361,970,920 |



Marginal Rates with \$5,000 Credit, Cliff at \$25,000



Why Cliffs May Not Work

- It is important to understand that the cliff-type schedules are likely to work best (in terms of work incentives) when individuals possess all the information they need to be able to claim credits correctly and make informed decisions about their location on the labor supply curve vis-à-vis the kink at the cliff.
- In the absence of full information, it is extremely likely that such policies will harm households that are unaware of the shape of the credit schedule and the fact that beyond the cliff region they will suddenly lose all the credits and face a steep marginal tax hike.
- This is not unrealistic since even under the current system, it is clear that individuals do not possess all the information they need to claim, for instance, the EITC credits.

Proposal 5: Gradual Phase-Out Region

- To account for this possibility, in the last proposal, we consider a gradual phase-out region in the credit schedule. Table 7 shows the different possibilities for such a schedule.
- In the first policy, we consider a 50 percent wage credit available up until \$5000 of income, which is then phased out so that the credit smoothly decreases by 10 percent of income for every \$5,000. In this case, the credit can be extended to all households earning about \$30,000. The total cost of this policy is approximately \$200 billion.
- In the second policy, we change the initial credit percentage to 40 percent and in the third case, we change it to 30 percent. Under the second policy, the 40 percent wage credit is available to all households earning under \$10,000 and in the third policy, the 30 percent wage credit is available to all households earning under \$15,000.
- Under both policies, the credits can be extended to households earning less than \$30,000 and the total cost of the policy is only marginally more than under the current system of credits.

Wages Based Credits with Phase-outs

| | Adjusted Gross Income (2006) | 50% wage credit for incomes up until \$5,000 and then phased out. | 40% wage credit for incomes up until \$10,000 and then phased out. | 30% wage credit for incomes up until \$15,000 and then phased out. |
|-----------------------------|---------------------------------|---|--|--|
| No adjusted gross income | | | | |
| \$1 under \$5,000 | 31,004,475,000 | 15,502,237,500 | 12,401,790,000 | 9,301,342,500 |
| \$5,000 under \$10,000 | 87,992,646,000 | 39,596,690,700 | 35,197,058,400 | 26,397,793,800 |
| \$10,000 under \$15,000 | 146,357,710,000 | 51,225,198,500 | 51,225,198,500 | 43,907,313,000 |
| \$15,000 under \$20,000 | 191,038,094,000 | 47,759,523,500 | 47,759,523,500 | 47,759,523,500 |
| \$20,000 under \$25,000 | 222,862,623,000 | 33,429,393,450 | 33,429,393,450 | 33,429,393,450 |
| \$25,000 under \$30,000 | 240,252,128,000 | 12,012,606,400 | 12,012,606,400 | 12,012,606,400 |
| | | | | |
| Total Cost of Policy | | 199,525,650,050 | 192,025,570,250 | 172,807,972,650 |



Restricting Credit Policies to Families with Children

| | Returns claiming exemptions for children at home (2006) | Adjusted Gross Income (2006) | \$5000 Lumpsum Credit | \$7500 Lumpsum Credit | 40% wage credit until \$30,00 and then phased out |
|--------------------------------|---|------------------------------|------------------------|------------------------|---|
| All returns, total | 46,497,241 | 3,496,693,785,000 | | | |
| Under \$5,000 | 1,749,532 | -25,293,542,000 | 8,747,660,000 | 13,121,490,000 | 3,499,064,000 (upper bound) |
| \$5,000 under \$10,000 | 2,568,679 | 19,917,316,000 | 12,843,395,000 | 19,265,092,500 | 7,966,926,400 |
| \$10,000 under \$15,000 | 3,487,454 | 43,513,822,000 | 17,437,270,000 | 26,155,905,000 | 17,405,528,800 |
| \$15,000 under \$20,000 | 3,399,756 | 59,470,870,000 | 16,998,780,000 | 25,498,170,000 | 23,788,348,000 |
| \$20,000 under \$25,000 | 3,334,313 | 75,007,317,000 | 16,671,565,000 | 25,007,347,500 | 28,127,743,875 |
| \$25,000 under \$30,000 | 2,899,124 | 79,464,275,000 | 14,495,620,000 | 21,743,430,000 | 25,825,889,375 |
| \$30,000 under \$35,000 | 2,484,007 | 80,604,135,000 | 12,420,035,000 | 18,630,052,500 | 22,166,137,125 |
| \$35,000 under \$40,000 | 2,106,233 | 78,851,768,000 | 10,531,165,000 | 15,796,747,500 | 17,741,647,800 |
| \$40,000 under \$45,000 | 1,958,865 | 83,213,519,000 | 9,794,325,000 | 14,691,487,500 | 14,562,365,825 |
| \$45,000 under \$50,000 | 1,773,088 | 84,225,145,000 | 8,865,440,000 | 13,298,160,000 | 10,528,143,125 |
| \$50,000 under \$55,000 | 1,732,685 | 90,942,549,000 | 8,663,425,000 | | 6,820,691,175 |
| \$55,000 under \$60,000 | 1,556,072 | 89,386,370,000 | 7,780,360,000 | | 2,234,659,250 |
| \$60,000 under \$75,000 | 4,153,365 | 279,744,082,000 | 20,766,825,000 | | |
| \$75,000 under \$100,000 | 5,176,877 | 448,345,210,000 | 25,884,385,000 | | |
| \$100,000 under \$200,000 | 6,048,805 | 804,631,504,000 | | | |
| \$200,000 under \$500,000 | 1,603,867 | 458,203,975,000 | | | |
| \$500,000 under \$1,000,000 | 299,905 | 202,341,301,000 | | | |
| \$1,000,000 under \$1,500,000 | 71,949 | 86,813,850,000 | | | |
| \$1,500,000 under \$2,000,000 | 29,684 | 50,984,258,000 | | | |
| \$2,000,000 under \$5,000,000 | 44,484 | 132,878,551,000 | | | |
| \$5,000,000 under \$10,000,000 | 11,356 | 77,656,993,000 | | | |
| \$10,000,000 or more | 7,141 | 195,790,519,000 | | | |
| Total Cost of Policy | | | 191,900,250,000 | 193,207,882,500 | 180,667,144,750 |

Conclusion

- The United States tax system uses progressive income taxation as an important instrument for achieving its objective of redistribution. In this paper, we quantify the extent of redistribution that takes place through the tax code and identify how the multitude of tax credits, with their varying phase-in rates, maximum levels and phase-out rates affect the marginal tax schedule for lower income groups.
- Our various proposals suggest that replacing all of these credits together with a simple policy, holds significant promise.
- We provide several alternatives that may allow the government to reduce the complexity of the tax code while at the same time enable it to achieve its objective of redistribution.