COUNCIL on FOUNDATIONS

SUMMARY

"DESCRIPTION AND ANALYSIS OF THE CAMP TAX REFORM PLAN"[1]

TAX POLICY CENTER AT URBAN INSTITUTE AND BROOKINGS INSTITUTION

The Tax Policy Center (TPC) has released a paper that describes and analyzes the major provisions in House Ways and Means Committee Chairman Dave Camp's (R-MI-4) "Tax Reform Act of 2014," a comprehensive tax reform discussion draft released on February 26, 2014. The paper analyzes the plan's revenue impact beyond the 10-year budget period assessed by the Joint Committee on Taxation, its distribution of the tax burden, economic incentives, and compliance costs.

OVERALL IMPACT OF THE PLAN

- ***Revenue Impact*.** The plan's long-term revenue impact is uncertain. TPC found that some of the provisions that create revenue over the 10-year budget window, and allow the plan to score as revenue-neutral in that timeframe, either expire or go away after 10 years.

- ***Individual Tax Burdens*.** Chairman Camp's proposal would reduce the average tax burden for taxpayers of all incomes, EXCEPT: 1) all top quintile taxpayers except for the top 1 percent; 2) higher-income head of household filers; 3) those with older children or who live in high-tax state; and 4) taxpayers who benefit from tax incentives that the Camp plan would eliminate.

- ***Effective Marginal Tax Rates***. For wage and interest income for all taxpayers, the effective marginal tax rates would be lower. For capital gains and dividends, they would be higher for everyone except the top quintile.

- ***Itemized Deductions***. The plan shifts about 25 percent of taxpayers from itemizers to non-itemizers who will take the standard deduction; this means that only about 5 percent of all taxpayers will continue to itemize their deductions.

- ***Tax Incentives***. The proposal eliminates numerous tax incentives for individual taxpayers and businesses—and reduces the value of several that remain, such as the charitable deduction.

[1] http://www.taxpolicycenter.org/publications/url.cfm?id=413176.

- ***Business Tax Code.*** Business tax rates would decrease, but investment incentives would also go down.

- ***Simplification and Complication*.** Chairman Camp's plan would simplify both the individual and business tax codes, while introducing new complications at the same time.

IMPACT OF CHANGES TO CHARITABLE GIVING INCENTIVES

- Charitable contributions receive ***considerably less favorable treatment*** under the Camp plan than under current law.

- The combined impact of a 2 percent of AGI floor on the charitable deduction, a dramatic increase in the standard deduction for most taxpayers, repeal of most other tax incentives that lead to itemization, and a reduction in marginal tax rates would ***increase the cost of charitable giving for all income groups***.

- TPC estimates that this increase in the after-tax cost of giving would ***discourage charitable contributions***.

Illustration:[2]

- Under current law, a $1 charitable contribution for the top 1 percent of taxpayers costs $0.67 with the impact of the charitable deduction.

- Chairman Camp's plan would increase the cost of giving for these donors to $0.76 for every dollar. For taxpayers in the top 5 to 10 percent, the after-tax cost of donating $1 would increase even further—from $0.74 to $0.90.

[2] This data can be found in Table 7, on page 25 of the report.