Progressive Tax Reform in the Era of Globalization

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Building Consensus for Progressive Tax Reform

- Widespread dissatisfaction with tax code
  - “If you were to start from scratch, the current tax code would provide a guide on what to avoid in designing an income tax system.” – President’s Advisory Panel on Tax Reform (2005)
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- Rising inequality
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- Rising inequality
- Protectionist backlash
Lack of Broadly-Shared Growth

Productivity and Real Median Family Income Growth, 1947-2007

Productivity

Real median family income

1947=100

0% 50% 100% 150% 200% 250% 300% 350% 400%

Rise in Income Inequality

Share of Nation’s Income Going to Top 1%, 1928-2006
The Case for More Progressive Taxation

- Tax code has become less progressive
The Trend Toward Less Progressive Taxation

Average Federal Tax Rates for Selected Income Groups, 1960-2004
The Trend Toward Less Progressive Taxation

Changes in the Average Federal Tax Rate for the Top 0.1% of Households

<table>
<thead>
<tr>
<th></th>
<th>Change from 1960 to 2004 (percentage points)</th>
<th>Contribution to total change (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual income and payroll taxes</td>
<td>-2.7</td>
<td>10%</td>
</tr>
<tr>
<td>Corporate taxes</td>
<td>-14.0</td>
<td>53%</td>
</tr>
<tr>
<td>Estate taxes</td>
<td>-9.6</td>
<td>37%</td>
</tr>
<tr>
<td>All federal taxes</td>
<td>-26.4</td>
<td>100%</td>
</tr>
</tbody>
</table>
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Effects of 2001-2006 Tax Cuts Made Permanent

Percent Change in Income for Selected Income Groups When Tax Cuts are Fully in Effect in 2012

![Bar chart showing percent change in income for different income groups in 2012.]

- Lowest quintile: -21.8%
- Second quintile: -7.4%
- Middle quintile: 2.1%
- Fourth quintile: 2.3%
- Top quintile: 4.6%
- Top 1 percent: 6.8%
- Top 0.1 percent: 7.8%

a. Assumes tax cuts are financed by a reduction in government transfer payments, or an increase in lump-sum taxes, that is the same total amount for each household.
The Case for More Progressive Taxation

- Tax code has become less progressive
- Declining marginal utility of income and desire for “equal sacrifice”
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- Insurance
- Automatic stabilizer
Protectionist Backlash

Share of Americans Who Believe Free Trade is Good for their Country

Source: Pew Research Center
Protectionist Backlash

Percent of Republicans Supporting Free Trade, 2007

- Supportive (32%)
- Skeptical (59%)
- Other (9%)

Source: Wall Street Journal
Protectionist Backlash


- China
- Mexico
- Other Developing
Achieving Progressive Reform

- Individual Income Taxes
Achieving Progressive Reform

- Individual Income Taxes
  - Repeal or let expire Bush tax cuts for top earners
  - Robust tax on estates and bequests
  - Switch from deductions to credits
Achieving Progressive Reform

- Individual Income Taxes
- Corporate Taxes
Achieving Progressive Reform

- Individual Income Taxes
- Corporate Taxes
  - Complex, inefficient, fail to raise intended revenue
  - Broaden base, lower rates
  - Problems to address include:
    - Book-tax income gap
    - Treatment of foreign source income
    - Treatment of different types of investment
Achieving Progressive Reform

- Individual Income Taxes
- Corporate Taxes
- Simplification
Achieving Progressive Reform

- Individual Income Taxes
- Corporate Taxes
- Simplification
  - Consolidate subsidies with similar purposes
  - Return-free filing
  - AMT reform
Achieving Progressive Reform

- Individual Income Taxes
- Corporate Taxes
- Simplification
- Compliance
Achieving Progressive Reform

- Individual Income Taxes
- Corporate Taxes
- Simplification
- Compliance
  - Enhanced enforcement
  - Improved reporting
  - Improved withholding requirements
Conclusion

- Recession poses new challenges
- Need to address fiscal imbalances long term
- Progressive tax reform
  - Share gains of growth more broadly
  - Raise revenue
  - Shore up support for globalization policies that will boost long-term growth