

Typical Taxpayers and the Tax Reform Discussion Draft

Tens of Millions of Low- and Middle-Income Households Will See Big Increases in Take-Home Pay

Below are six typical taxpayers and the total increase in take-home pay they would see under the discussion draft. The estimates are based on inflation-adjusted tax parameters for tax year 2013 (i.e., as if the discussion draft applied to the year for which most taxpayers currently are filing returns), and assume that each taxpayer takes the standard deduction both under current law and under the draft. All income is wage income. A taxpayer’s “tax cut” represents the difference between what that taxpayer pays in Federal income and payroll taxes under current law and what that taxpayer would pay under the discussion draft.

A taxpayer’s “after-tax wage increase” is based on the projected economic (GDP) growth in the Joint Committee on Taxation (JCT) macroeconomic analysis of the discussion draft (using JCT’s OLG model). Using statistical correlations between GDP growth and wage growth in various income quintiles, pre-tax wage growth is calculated for each taxpayer. Pre-tax wage growth is then reduced by the amount of Federal income and payroll taxes the taxpayer would pay on those additional wages using the tax rules of the discussion draft. A taxpayer’s tax cut and after-tax wage increase are then added together to project the “additional take-home pay” the taxpayer would receive as a result of the policies in the discussion draft.

Income	Tax Cut	+	After-tax Wage Increase	=	Additional Take-home Pay
1. Family of four earning about 300% of Federal poverty level:					
\$72,000	\$1,738	+	\$630	=	\$2,368
2. Family of four earning average household income:					
\$51,000	\$688	+	\$585	=	\$1,273
3. Single parent with two children earning about 250% of Federal poverty level:					
\$49,000	\$455	+	\$436	=	\$891
4. Married couple with one child earning about 150% of Federal poverty level:					
\$29,000	\$659	+	\$186	=	\$845
5. Recent college graduate (single, no children) earning an entry-level salary:					
\$25,000	\$404	+	\$208	=	\$612
6. Single parent with one child working full-time at minimum wage:					
\$15,000	\$250	+	\$139	=	\$389