

The Aegis Revenue Act: Sustainability and increased Federal Tax Revenues

by

Dr. Mark DAntonio

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Introduction

- The Aegis Revenue Act (ARA) – provides an interim revenue plan for the United States government to follow while restructuring the current income tax system and Federal spending.
- The goal of this interim plan is to gradually raise revenues without raising the Federal Income tax over a 10 year period.
- This paper will not propose long term sweeping changes to the United States tax system or to the budget.
- The preparations and the time required for sweeping long term changes are large and a plan will need to be developed over time as an “emergent” strategy.

Introduction - Continued

- **The ARA is composed of 3 parts**
- The ARA increases excise taxes including “sin” taxes on alcohol, gasoline and tobacco. It also introduces new excise taxes on lottery tickets and tax credit reform.
- The ARA has a greater effort in tax collection compliance through aggressive enforcement
- The ARA emphasizes a plan to repatriate the profits of American multinational corporations earned overseas back to the United States at a reduced rate of taxation.

Rationale and Structure of ARA

- Keynesian and Free market economists agree – no new taxes during recession.
- ARA should be debated in 2014-2015 then implement 1 Jan 2016 – 31 Dec 2025.
- The nation can debate a tax and spending plan during ARA implementation.
- The new plan will be an “emergent” strategy with lots of debate.

Research Questions

- Will increased Federal excise taxes including gasoline, cigarettes, alcohol and lottery tickets increase revenues?
- Can additional enforcement resources at the Internal Revenue Service, a reduction in the value of individual tax credits and the inclusion of a greater number of taxpayers increase revenues and close the tax gap?
- Can a tax rate change in the repatriation of income earned by American based multinational corporations overseas lead to an increase in revenues?

1) Excise Taxes

- **The ARA proposes a 25% increase in all excise taxes.**
- **This is to be implemented as a 2.5% increase over the 10 year period(2.5% to 5% to 7.5% and soon).**
- **Since this increase is gradual it is not expected to have an immediate and significant effect on demand.**
- **A lottery ticket tax is also proposed (also 25% - 2.5% year).**
- **Many of these taxes can be avoided (liquor, tobacco and lottery tickets) by changing behavior.**
- **Increase in revenues is immediate.**
- **Some social goals may also be achieved by the ARA.**

2) Tax enforcement, compliance and the tax gap

- Tax Gap – The difference between what is collected and what is really owed.
- Implementation: Pick problem areas in compliance.
- Publicize results, Double penalties, Offer amnesty.
- Roll back credits (25% - 2.5% annually).
- Focus on Non-filers (low hanging fruit for IRS).
- The policy should emphasize compliance rather than enforcement.
- Engage the public to comply.

3) Corporate Tax Repatriation

- Currently US corporations pay the highest corporate income tax in the world – 35%.
- Thus there is a huge incentive for American firms to pay foreign rates and warehouse profits offshore.
- This money stays offshore and rarely returns to the US.
- If rates were lower some profits might return to the USA.
- This money could be taxed (lower rate) and used to create jobs, expand the business or be paid as dividends to shareholders.

Corporate Tax Repatriation

- The American Job Recreation Act (2004) was designed to repatriate earnings.
- Lower rates were successfully used to entice earnings repatriation.
- 324 Billion dollars returned, 17 billion in tax was collected but job creation was a disappointment.
- However, money did return and help to stimulate the economy (possibly demand). This is money that did not stay abroad stimulating another economy.
- Repatriated earnings may be used like a stimulus plan that the government does not have to finance.

Future Revenue Estimation

- First the geometric mean of growth was calculated by using the starting and ending figures of total U.S. tax receipts for 50 years from 1962 to 2012.

- The equation was as follows:

$$\begin{aligned} \text{Geometric mean revenue growth rate} &= (2012 \\ &\text{amount} / 1962 \text{ amount})^{1/\text{number of years}} \\ &= (2,524,320,134 / 99,440,839)^{.02} \\ &= .06681037 \quad \text{or} \quad 6.6681037 \% \end{aligned}$$

U.S. Revenue Projections (thousands)

Actual 2010 and Estimated Gross Collections, by Type of Tax, Fiscal Years for 2010-2025

[Money amounts are in thousands of dollars.] (See Table 5 column in Table 11)

Fiscal year	Total Internal Revenue collections [1]	Income taxes				Employment taxes [4]	Estate tax	Gift tax	Excise taxes
		Total	Business income taxes [2]	Individual income tax [3]	Estate and trust income tax [3]				
2010	2,345,055,978	1,453,926,748	277,937,220	1,163,687,589	12,301,939	824,188,337	16,930,741	2,820,095	47,190,057
2011	2,414,952,112	1,589,030,349	242,848,122	1,331,160,469	15,021,758	767,504,822	[7] 2,506,991	6,572,384	49,337,563
2012	2,524,320,134	1,669,298,095	281,461,580	1,371,402,290	16,434,225	784,396,853	12,340,655	[8] 2,109,594	56,174,937
2013	2,692,970,896	1,780,824,518	300,266,132	1,463,026,184	17,532,202	836,802,697	13,165,139	2,250,537	59,928,005
2014	2,872,889,278	1,899,802,063	320,327,024	1,560,771,505	18,703,535	892,709,795	14,044,707	2,400,896	63,931,818
2015	3,064,828,074	2,026,728,542	341,728,191	1,665,047,227	19,953,125	952,352,066	14,983,039	2,561,301	68,203,126
2016	3,269,590,371	2,162,135,026	364,559,178	1,776,289,648	21,286,200	1,015,979,060	15,984,061	2,732,422	72,759,802
2017	3,488,032,914	2,306,588,067	388,915,511	1,894,964,217	22,708,339	1,083,856,997	17,051,962	2,914,976	77,620,911
2018	3,721,069,683	2,460,692,069	414,899,100	2,021,567,477	24,225,492	1,156,269,884	18,191,210	3,109,727	82,806,793
2019	3,969,675,726	2,625,091,817	442,618,663	2,156,629,148	25,844,006	1,233,520,703	19,406,571	3,317,489	88,339,146
2020	4,234,891,230	2,800,475,172	472,190,179	2,300,714,340	27,570,653	1,315,932,678	20,703,131	3,539,132	94,241,117
2021	4,517,825,880	2,987,575,955	503,737,380	2,454,425,916	29,412,659	1,403,850,627	22,086,315	3,775,582	100,537,400
2022	4,819,663,498	3,187,177,010	537,392,261	2,618,407,020	31,377,730	1,497,642,407	23,561,910	4,027,830	107,254,341
2023	5,141,667,000	3,400,113,485	573,295,636	2,793,343,761	33,474,087	1,597,700,450	25,136,090	4,296,931	114,420,044
2024	5,485,183,675	3,627,276,325	611,597,730	2,979,968,092	35,710,503	1,704,443,408	26,815,442	4,584,011	122,064,489
2025	5,851,650,825	3,869,615,998	652,458,801	3,179,060,862	38,096,335	1,818,317,903	28,606,991	4,890,270	130,219,663

Excise and Lottery Calculations

- Excise taxes –Amounts are projected to increase by the 6.68% annually from 2013-2015. Then the 6.68% + 2.5% amount (for the ARA) from 2016-2025.
- See Table 6 column of Table 11 in handout.
- Lottery – The assumption was the use of the base amount of tickets sold in 2004. This was $\$52,327,630,000 \times .025$ increasing by 2.5% annually.
- See Table 7 column of Table 11 in handout.

Tax Gap(in thousands)

Additional amounts recovered by the IRS
See Table 8 column of Table 11 in handout

	ENFORCEMENT (Estimated)	
	IRS Revenue	Tax Gap
2016	\$3,269,590,371	\$65,391,807
2017	\$3,488,032,914	\$69,760,658
2018	\$3,721,069,683	\$74,421,394
2019	\$3,969,675,726	\$79,393,515
2020	\$4,234,891,230	\$84,697,825
2021	\$4,517,825,880	\$90,356,518
2022	\$4,819,663,498	\$96,393,270
2023	\$5,141,667,000	\$102,833,340
2024	\$5,485,183,675	\$109,703,674
2025	\$5,851,650,825	\$117,033,017
		\$889,985,016

Tax Credit reductions

- Tax credits have been increasing at 3.98% from 2004-2006.
- The 3.98% increase was reflected in 2016-2025.
- This increase was reduced by 25% (2.5% per year) from 2016-2025
- This savings is the difference saved by the ARA plan.
- See Table 9 column of Table 11 in handout

Repatriation of profits

- There is \$2 Trillion of un-repatriated profits from American multinational corporations abroad.
- The ARA allows 20% of this number to be repatriated at a tax rate of 5% per year.
- Front weighted
- The ARA assumes firms would want to repatriate at 5%.
- The ARA also has a provision for firms to pay 0% tax.
- See Table 10 column of Table 11 in handout.

ARA estimated revenue calculation

$$ARA = ((REV) + (EXC) + (LOT) + (GAP) + (CRE) + (REP)) / (1+I)^N$$

ARA = Sum of Overall revenue during the 1 year period adjusted for present value

REV = Present value of projected non-ARA earnings for the year

EXC = Present value of ARA excise revenue for the year

LOT = Present value of ARA lottery revenue for the year

GAP = Present value of ARA tax gap revenue for the year

CRE = Present value of ARA tax credit revenue for the year

REP = Present value of ARA repatriation revenue for the year

I = Discount rate

N = Discount period (1 – 10)

$$ARA_{PV} = ((REV) + (EXC) + (LOT) + (GAP) + (CRE) + (REP)) / (1+I)^N$$

ARA_{PV} = Sum of Overall revenue during the 1 year period adjusted for present value¹⁶

Estimated ARA Revenues by Category

Table 1 1 - Summary of ARA estimated revenues and total revenue (000's) not adjusted for PV

	From Table 5	From Table 6	From Table 7	From Table 8	From Table 9	From Table 10	Total estimated
Year	IRS Revenue (est)	Excise (estimated)	Lottery (estimated)	Tax Gap (estimated)	Tax credit savings (estimated)	Repatriation Tax (estimated)	ARA Revenue (estimated)
2016	\$3,269,590,371	\$1,705,078	\$1,308,191	\$65,391,807	\$2,176,614	\$20,000,000	\$3,360,172,061
2017	\$3,488,032,914	\$5,542,239	\$2,616,382	\$69,760,658	\$4,526,425	\$16,000,000	\$3,586,478,618
2018	\$3,721,069,683	\$12,149,754	\$3,924,572	\$74,421,394	\$7,059,769	\$12,800,000	\$3,831,425,172
2019	\$3,969,675,726	\$22,457,139	\$5,232,763	\$79,393,515	\$9,787,530	\$10,240,000	\$4,096,786,673
2020	\$4,234,891,230	\$37,807,044	\$6,540,954	\$84,697,825	\$12,721,168	\$8,192,000	\$4,384,850,220
2021	\$4,517,825,880	\$60,140,171	\$7,849,145	\$90,356,518	\$15,872,748	\$6,553,600	\$4,698,598,061
2022	\$4,819,663,498	\$92,276,733	\$9,157,335	\$96,393,270	\$19,254,967	\$5,242,880	\$5,041,988,683
2023	\$5,141,667,000	\$138,347,990	\$10,465,526	\$102,833,340	\$22,881,189	\$4,194,304	\$5,420,389,349
2024	\$5,485,183,675	\$204,463,878	\$11,773,717	\$109,703,674	\$26,765,477	\$3,355,443	\$5,841,245,863
2025	\$5,851,650,825	\$299,756,277	\$13,081,908	\$117,033,017	\$30,922,625	\$2,684,354	\$6,315,129,005
	\$44,499,250,802	\$874,646,303	\$71,950,491	\$889,985,016	\$151,968,512	\$89,262,581	\$46,577,063,705

Present Value Calculations

$$\text{Total ARA} = \left(\sum_{I=1}^{10} \text{ARA}_{\text{PV}} \right)$$

Total ARA = Sum of present value for 2016-2025 revenues (in 2016 dollars)

ARA_{PV} = Each year present value for 2016-2025 revenues (in 2016 dollars)

I = Discount period (1-10)

Estimated Tax receipts vs. ARA (in thousands)

ESTIMATED TAX RECEIPTS			ARA ESTIMATED TAX RECEIPTS		
	From Table 11	Present		From Table 11	Present
Year	IRS Revenue	Value	Year	IRS Revenue	Value
	(est)	at 3.98% Discount		(est)	at 3.98% Discount
2016	\$3,269,590,371	\$3,144,441,595	2016	\$3,360,172,061	\$3,231,556,127
2017	\$3,488,032,914	\$3,226,123,199	2017	\$3,586,478,618	\$3,317,176,804
2018	\$3,721,069,683	\$3,309,926,604	2018	\$3,831,425,172	\$3,408,088,853
2019	\$3,969,675,726	\$3,395,906,930	2019	\$4,096,786,673	\$3,504,645,521
2020	\$4,234,891,230	\$3,484,120,724	2020	\$4,384,850,220	\$3,607,494,666
2021	\$4,517,825,880	\$3,574,626,004	2021	\$4,698,598,061	\$3,717,657,842
2022	\$4,819,663,498	\$3,667,482,294	2022	\$5,041,988,683	\$3,836,658,768
2023	\$5,141,667,000	\$3,762,750,667	2023	\$5,420,389,349	\$3,966,723,951
2024	\$5,485,183,675	\$3,860,493,779	2024	\$5,841,245,863	\$4,111,091,743
2025	\$5,851,650,825	\$3,960,775,914	2025	\$6,315,129,005	\$4,274,487,936
		\$35,386,647,711			\$36,975,582,212

Yearly ARA difference

(2016 Dollars in thousands)

Year	Difference
2016	\$87,114,532
2017	\$91,053,605
2018	\$98,162,249
2019	\$108,738,591
2020	\$123,373,942
2021	\$143,031,838
2022	\$169,176,475
2023	\$203,973,284
2024	\$250,597,964
2025	\$313,712,022
	\$1,588,934,501

Takeaways of the ARA

- The ARA affords politicians and the voting public 10 years to debate and decide fiscal and tax policy.
- The ARA provides immediate increases in revenues without increasing Income taxes.
- The ARA allows gradual increases in excise taxes enabling people to adjust their behavior to avoid paying the new tax.
- The ARA will help to close the Tax Gap.
- The ARA should have a minimal effect on business growth because it leaves corporate and individual income taxes unchanged.

QUESTIONS?

Thank you