

02/16/16
Congressperson A
United States House of Representatives
1600 Pennsylvania Ave
NW, Washington, DC 20500

Dear Mr. Congressperson A,

I am the chairman of the Mathematica Policy Research and I am writing you in regards to your position to close the federal budget deficit. You have argued that we should close the budget deficit by raising personal income taxes on the wealthy. Assuming that you agree with “wealthy” being a household income of \$200,000 or more per year as, according to the New York Times, most middle class Americans agree with, then I must say that I disagree with you. First of all, increasing taxes for the wealthy to a reasonable 15-20% more would not bring enough money to close the federal deficit. Although I agree that it would help, this will not suffice. Therefore, this approach is not a well-rounded plan to achieve the goal of closing the budget deficit.

According to the census, the USA has approximately 125 million households. If we break these households in 6 groups according to their income, these would be the household groups and their respective income:

Table 1

| | | |
|----------|-----------------------|----------------|
| Group A: | 25,000,000 households | \$12,000 each |
| Group B: | 25,000,000 households | \$31,000 each |
| Group C: | 25,000,000 households | \$54,000 each |
| Group D: | 25,000,000 households | \$88,000 each |
| Group E: | 18,750,000 households | \$148,000 each |
| Group F: | 6,250,000 households | \$332,000 each |

This means that approximately 6,250,000 households in the USA would be considered wealthy. Thus if your plan is followed, these would be the households to which income taxes would be increased. In order to calculate the approximate amount that would be gathered in personal income taxes if we increase the taxes of the wealthier to approximately 15-20% more and to prove that this action would not suffice, similar tax brackets to those of 2015 reported by the IRS are to going to be used.

Tax Brackets:

| <i>Income</i> | <i>Tax due</i> |
|------------------------------------|----------------|
| 0 - \$18,450 | 10% |
| \$18,451 - \$74,900 | 15% |
| \$74,901 - \$151,200 | 25% |
| \$151,201 - \$199,999 ¹ | 28% |

¹ Original amount was \$230,450 but was changed for the purpose of defining the \$200,000 in income that is considered a wealthy income.

| | |
|------------------------------------|-------------------|
| \$200,000 ² - \$411,500 | *50% ³ |
| \$411,501- and up ⁴ | *60% ⁵ |

According to the IRS 2014 fiscal year, outlays were \$3.506 trillion while taxes of personal income attributed for 40% of outlays and 14% was borrowed to cover the rest of the outlays. This 14% corresponds to the deficit amount of \$485,000,000,000. Table 2 below illustrates the percentages of taxes and outlays.

Table 2

| Federal taxes | | Federal outlays | |
|------------------------|-----|-------------------|-----|
| Retirement | 29% | Retirement | 42% |
| Borrowing | 14% | Defense | 22% |
| Corporate income | 9% | Social programs | 22% |
| Estate, Customs, other | 8% | Human development | 5% |
| Personal income | 40% | Net interest | 6% |
| | | Law enforcement | 2% |

Thus in order to close the deficit as was suggested by your plan, \$1,893,240,000,000 have to be raised in personal income taxes because 54% (proportion of 40% personal income tax plus 14% borrowing) of the total 3.506 trillion in outlays is \$1,893,240,000,000. If we calculate taxes according to the household income and tax brackets above, as is your plan, we get the following results.

| Group: | Income per Household | Tax per household | Number of Households | Total Tax |
|--------|----------------------|---|----------------------|--------------------------|
| A | \$12,000 | $(12000 * 0.1) = \mathbf{\$1,200}$ | 25,000,000 | \$30,000,000,000 |
| B | \$31,000 | $(18450 * 0.1) + [(31000 - 18450) * 0.15] = \mathbf{\$3,727.50}$ | 25,000,000 | \$93,187,500,000 |
| C | \$54,000 | $(18450 * 0.1) + [(54000 - 18450) * 0.15] = \mathbf{\$7,177.50}$ | 25,000,000 | \$179,437,500,000 |
| D | \$88,000 | $(18450 * 0.1) + [(74900 - 18450) * 0.15] + [(88000 - 74900) * 0.25] = \mathbf{\$13,587.50}$ | 25,000,000 | \$339,687,500,000 |
| E | \$148,000 | $(18450 * 0.1) + [(74900 - 18450) * 0.15] + [(148000 - 74900) * 0.25] = \mathbf{\$28,587.50}$ | 18,750,000 | \$536,015,625,000 |

² Original amount was \$189,301.

³ Original percentage was 33% but was changed for the purpose of increasing taxes for the wealthy.

⁴ One bracket was eliminated.

⁵ Original percentages were 35% and 39.6%

| | | | | |
|----------|-----------|---|-------------------------------|----------------------------|
| <i>F</i> | \$332,000 | $(18450 \cdot 0.1) + [(74900 - 18450) \cdot 0.15] + [(151200 - 74900) \cdot 0.25] + [199999 - 151200] \cdot 0.28 + [(332000 - 199999) \cdot .50] = \mathbf{\$109,051.72}$ | 6,250,000 | \$681,573,000,000 |
| | | | <i>Total Money Collected:</i> | \$1,859,901,125,000 |

Therefore, a total of \$1,859,901,125,000 is going to be collected according to the tax brackets above. This amount is not enough since \$1,893,240,000,000 needs to be collected in order to close the budget deficient, as was previously mentioned. Following these tax brackets leaves us with a deficit of \$33,338,875,000. Although the current deficit would be much less than the previous deficit of \$485,000,000,000, increasing taxes for personal income of wealthy households would not suffice to close the deficit as you previously argued.

In order to improve your plan, we need to know what percentage of the total outlays would correspond to the new deficit. To do this we need to divide \$33,338,875,000 by \$3,506,000,000,000 and multiply times 100. This will indicate that the deficit is .95091% of the total outlays. Thus, apart from increasing taxes for the wealthy as indicated above, we can increase other taxes by 0.95091% or decrease some of the spending by 0.95091%. I believe that the best way to go is to raise the estate tax to 0.95091% more which would gain the \$33,338,875,000 needed in revenue to close the budget deficit. According to the article “Estate Tax Increase Would Add Billions in revenue, Say Wealthy Progressives” from the Huffpost Politics, increasing estate tax would have little effect on the economy, however, it can greatly help to close the budget deficit. As indicated by table 2 above, federal taxes in estate is 8% of the 3.506 trillion in outlays. This means that estate taxes are \$280,480,000,000 ($3,506,000,000,000 \cdot .08$). If we increase this taxes to 8.95091% then the estate taxes would be \$313,818,904,600 ($3,506,000,000,000 \cdot .0895091$). This will be an increase in revenue of \$33,338,904,600 ($313,818,904,600 - 280,480,000,000$) which is more than enough to close the deficit of \$33,338,875,000 that was previously mentioned.

Therefore, I urge you to modified your plan to close the budget deficit and to consider the plan that has been explained above.

Sincerely,

Monica Munoz
 Mathematica Policy Research Chairman
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 Bloomington, IL 61701