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Repealing the Personal Exemption

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1 Current Policy

Under current law, taxpayers can claim a personal exemption against their taxable income. The personal exemption amount will be \$4,050 in 2017. The actual benefit depends on the taxpayers marginal tax rate and average gross income. Taxpayers can also claim a standard deduction as an alternative to itemizing one's deductions. In 2017, the standard deduction will be \$6,350 for single filers, \$9,350 for head of household filers, and \$12,700 for married couples filing jointly.

2 Reform Options

Using the open-source Tax-Calculator, I present the result of repealing itemized deductions (excluding mortgage interest, state and local, and real estate deductions), doubling the standard deduction, and repealing the personal exemption. These reforms implemented in each iteration of the model. The costs of these reforms are estimated using a partial equilibrium analysis.

Elasticity of Charitable Giving	Taxpayers Receiving Tax Hike (millions)	Itemizers (millions)	Wght. Ave. MTR on Charitable Contributions	Total Charitable Contributions (billions)	10-Year Revenue Change (billions)
Current Law	0.0	44.8	-23.84	\$210.3	\$0.0
+ Repeal Itemized Deductions	38.5	33.8	-23.84	\$0.0	\$896.7
+ Double Standard Deduction	22.3	14.6	-23.84	\$0.0	(\$387.1)
+ Repeal Personal Exemption	53.6	13.9	-23.84	\$0.0	\$1,161.2

3 Comments

- Under current law, 111.9 million taxpayers are expected to claim the standard deduction, and 44.8 million are expected to itemize their deductions in 2017.
- When the standard deduction is doubled and the personal exemption is kept in place the number of itemizers increases by 14.6 million taxpayers. When the personal exemption is repealed, the number of itemizers increases by 13.9 million taxpayers.
- When the standard deduction is increased by 200 percent, 85.1 million people receive tax cuts.
- When the standard deduction is doubled, 49.6 million people face lower marginal tax rates while 11.8 million people face higher marginal tax rates.

4 Modeling Notes

4.1 Tax-Calculator

Tax-Calculator is an open source microsimulation tax model that computes federal individual income taxes and Federal Insurance Contribution Act (FICA) taxes for a sample of tax filing units for years beginning with 2013. The model can be used to simulate changes to federal tax policy to conduct revenue scoring, distributional impacts, and reform analysis. As an open source model, Tax-Calculator is under constant development and improvement. Therefore, the results reported in this paper will change as improvements are made. The model relies on data from the 2009 IRS Public Use File (PUF). These results are generated using Tax-Calculator Version 0.8.3.

4.2 Modeling Assumptions

The simulation is a partial equilibrium analysis that uses an elasticity of taxable income of 0.4.

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