Understanding the Personal Income Tax Reform Simulation Runs

The following narrative is intended to help users of the Personal Income Tax Reform Simulation Runs understand the output that is produced. A Personal Income Tax Reform Simulation Run compares the personal income tax reform that went into effect on January 1, 2011 to the personal income tax system that would have been in place on January 1, 2011 had the law not been changed. The latter is termed “Current Law with Capital Gains Taxed as Ordinary Income” and assumes that the alternative flat rate income tax system would have been available with a flat tax rate of 5.5 percent. Each Personal Income Tax Reform Simulation Run is based on a particular tax year, the most recent being Tax Year 2008.

Page 1: Resident Filers

The first page of a Personal Income Tax Reform Simulation Run contains aggregate tax information on Resident tax filers by various federal adjusted gross income categories. The upper half of the page displays the assumptions concerning standard deduction and exemption amounts, the tax rates and taxable income brackets, the credits that can be used under the personal income tax reform, the state earned income tax credit as a percentage of the federal earned income tax credit and the alternative flat tax rate used under the current law income tax with capital gains taxed as ordinary income.

The lower half of the output shows 15 federal adjusted gross income (FAGI) ranges. For each FAGI range the following information is provided:

- The total tax paid under the Current Law with Capital Gains Taxed as Ordinary Income
- The total tax paid under the Personal Income Tax Reform
- The total number of tax filers
- The nominal difference between the total tax paid under the Current Law with Capital Gains Taxed as Ordinary Income and the total tax paid under the Personal Income Tax Reform
- The average tax change (i.e., the nominal difference / the number of tax filers)
- The median tax change

The totals across all FAGI ranges are displayed at the bottom of the table. The very bottom of the page shows the amount Historic Structures Tax Credits that were used by tax filers that are
reimbursed from the Historic Structures Tax Credit Fund and the net change in total taxes paid after accounting for this reimbursement.

Page 2: Non-Resident Filers
The second page of a Personal Income Tax Reform Simulation Run contains aggregate tax information on Non-Resident tax filers by various federal adjusted gross income categories. The information presented on the second page is identical to that presented on the first page except that the results are for Non-Resident vs. Resident tax filers.

Page 3: All Filers
The third page of a Personal Income Tax Reform Simulation Run contains aggregate tax information on combined Resident and Non-Resident tax filers by various federal adjusted gross income categories. The information presented on the third page is identical to that presented on the first and second pages except that the results are for combined Resident and Non-Resident vs. tax filers.

Page 4: Effective Tax Rates
The fourth page of a Personal Income Tax Reform Simulation Run contains the effective tax rates by federal adjusted gross income (FAGI) categories for resident and non-resident tax filers. The effective tax rate is defined as the total tax paid by all tax filers in a given FAGI range divided by the total federal adjusted gross income of all tax filers in a given FAGI range.

For each FAGI range and for both resident and non-resident taxpayers the following information is provided:

- The total number of tax filers
- The effective tax rate under the Current Law with Capital Gains Taxed as Ordinary Income
- The effective tax rate under the Personal Income Tax Reform

Page 5: Incidence Analysis
The fifth page of a Personal Income Tax Reform Simulation Run displays the incidence analysis of the change in the personal income tax system by federal adjusted gross income (FAGI) category for resident tax filers only. The incidence analysis shows only those resident filers who had either an increase or a decrease in tax paid as a result of the Personal Income Tax Reform vis-à-vis the Current Law with Capital Gains Taxed as Ordinary Income.

For each FAGI range and for both resident filers with a tax decrease and resident filers with a tax increase the following information is provided:

- The total number of returns filed
- The total amount of the tax decrease/tax increase
- The average amount of the tax decrease/tax increase
- The median amount of the tax decrease/tax increase

In addition to this information, information by FAGI range on the total number of returns filed, the net change in the total tax amount, and the average net tax change is displayed.