

PERSONAL EVALUATION OF THE CLINTON TAX PLAN

CLiNTon_TaX RELEASE 2.0

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New in Release 2.0

Now that Congress has passed a tax plan and it has been signed into law, I have updated CLiNTon_TaX to reflect the provisions in the new law. Since some provisions become effective immediately and affect 1993 taxes while others do not start until 1994, this version estimates total income taxes and changes in social security taxes for 1993 and 1994. The major features (concerning income and social security taxes) of the new tax law are:

<u>FEATURE</u>	<u>Change in 1993</u>	<u>Change in 1994</u>
New marginal tax rates for "high income" taxpayers.	36% & 39.6%	Same
Continue cap on capital gains tax rate for high income taxpayers (those with incomes above \$250K).	Cap at 28%	Same
Uncap base for Medicare portion of Soc. Sec. taxes for both salary earners and self-employed.	No changes for '93.	1.45% tax for salary earners & 2.9% tax for self-employed.
Increase in portion of Soc. Sec. benefits that are taxable.	Stays at 50%.	85% in 1994.
Increase income threshold for Soc. Sec. benefits to be taxed.		\$34K for ind.; \$44K for couples

Overview

CLiNTon_TaX is a model that calculates the effects of President Clinton's proposed changes in the structure of the personal income tax system on the estimated income and social security taxes of an individual or family for 1993 and 1994. It was created to answer the question "How will my taxes be affected by the changes in the tax law?" After you enter data on your 1992 income, exemptions, deductions, tax credits, etc., the model calculates four sets of income taxes: your 1992 tax bill, an estimate for 1993 using changes built into the old tax code, and estimates of the effects of the changes in the new tax code on your 1993 and 1994 taxes.

Version 2.0i was developed, in part, to try Lotus Improv (Release 2.0 for Windows). Version 2.0e has spreadsheets for Excel for Windows (XLS & XLC format) and for Lotus 1-2-3 (WK1 format). The Excel version should also work on Macintoshes.

CLiNTon_TaX covers many, but not all, tax situations. In particular, the Earned-Income Tax Credit (EIC) is not calculated, so benefits proposed for families with incomes below \$30,000 are ignored. Similarly, the Alternate Minimum Tax (AMT) is not calculated. Other limitations are described in the "Data Entry" worksheet (of the Improv version) or near the data entry range of the spreadsheet (for the Excel and Lotus 1-2-3 versions). Additionally, users should note that tax brackets and exemption amounts are likely to change for 1994 following the indexing provisions of the tax laws. These new bracket and exemption amounts have not yet been determined and are NOT included in the calculations.

Requirements

Depending on the version, you need either:

- Windows and Improv. (I used Windows 3.1 and Improv 2.0; compatibility with earlier versions is unknown.)
- Excel 4.0 or Lotus 1-2-3, version 2.01 or higher. (Other spreadsheets that read the WK1 file format may work.)

You need to provide aggregate data similar to that needed for the following personal income tax forms and schedules:

- Form 1040
- Schedules A, B, C, D, SE
- Other forms and schedules to determine adjustments, credits, etc.

Instructions

The "Data Entry" area (a separate worksheet in Improv) follows approximately the layout of Form 1040. Enter your data in the shaded ranges of the "Input" column. These areas are labeled "Your Input" and colored or shaded. If you wish, you are able to change any formula (for example, if one individual has both salary income and self-employment income). In Improv, these values are carried over to the "Main Sheet;" many are used as inputs into the work areas and tables that mirror those that accompany the Form 1040 instructions. For the Excel/1-2-3 version, calculations are in ranges to the right of the input column. The calculation of your 1992 taxes can be compared to your existing return (if you have one) to insure that nothing is missing or entered erroneously.

(Optionally, instead of or after using your own data, Improv users can copy the income and deductions data from the Input column of the "Clinton Data" worksheet to the matching column of the "Data Entry" sheet and see the effects of the proposed changes on a family in the same situation as that of the Clintons in 1992. The Clinton data has been entered directly into the Excel/1-2-3 version.)

The tax calculations for 1993 and 1994, both under the old and new tax laws, use your 1992 data. However, it is easy to change any entry to reflect changes in filing status (if you plan to get married, divorced, or have more children), income (if you expect a raise), or any other item. In any case, the scenarios of 1993 taxes are calculated from the same data set in order to provide a relevant comparison.

Sources

Now that the tax provisions of the Clinton Economic Plan are law, it has been rather easier to find out exactly what they are. The specifics in these models come from the *Washington Post* of August 8 and 15 and from Jane Bryant Quinn's *Newsweek* article of August 16, 1993. The following table indicates which of the changes have been included in the spreadsheet:

<u>Change</u>	<u>Included</u>	<u>Not Included</u>
Increase top marginal tax rate to 36%	x	
Add "surtax" on high incomes	x	
Keep 28% maximum capital gains tax	x	
Increase base for Medicare portion of social security tax	x (*)	
Increase percentage of social security benefits taxed	x	
Energy tax		x
Further limit deduction for business meals & entertainment		x
Eliminate deductions for lobbying & club dues		x
Increase Earned-Income Credits (EIC)		x
Special capital gains tax break for small businesses		x
Special investment tax credit for small businesses		x
Increased write-offs of losses from real estate		x
Change in deduction of appreciated property to charities		x
Increase in maximum estate tax		x (+)

NOTES: * Although the OASDI and Medicare portions of social security taxes are withheld from salaries and wages, the spreadsheet counts the reduction in take-home pay from the increase in the salary base for the Medicare portion as a tax increase.

+ Not included in this spreadsheet; unclear if in the new tax law.

Version History

Release 1.0 was developed for Excel and Lotus 1-2-3 and estimated 1993 taxes based on President Clinton's original proposal. Release 1.0c is the same, except it has sample income and deductions data

based on that of the Clintons in 1992. Release 1.0i was a rather straight-forward port of 1.0 to Improv. Release 1.2i makes use of Improv's linked worksheets to have separate worksheets for data entry and output. This version also has graphical output (a "Presentation" in Improv-speak) and a sample set of income and deductions data--that of the Clinton family--on a separate worksheet. Release 1.3i includes calculations based on the plan proposed by the Senate Finance Committee on June 16 & 17, 1993. All version of Release 2.0 incorporate the provisions as finally passed by Congress and estimate taxes for both 1993 and 1994.

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