*The President's Advisory Panel on*

# Federal Tax Reform

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**Revenue Neutrality**
**Staff Presentation**
**July 20, 2005**

# Revenue Neutrality

- The Treasury Department estimates the revenue implications of our plans.

- The starting point for any revenue estimate is a "revenue baseline." The baseline serves as the benchmark for measuring the effects of proposed tax law changes.

  - Treasury uses the Administration's 10-year projection of Federal receipts as the baseline in the revenue estimates they prepare for the Panel.

  - The Administration baseline assumes that EGTRRA (2001) and JGTRRA (2003) sunsets are repealed and the temporary AMT provisions expire in 2005.

# Revenue Estimates

- Revenue estimates are reported as point estimates and are calculated in nominal dollars.
- Revenue estimates are provided over a 10-year period, often referred to as the "budget window."
- Conventional revenue estimating techniques
  - Conventional revenue estimates hold macroeconomic aggregates (e.g., gross domestic product and total employee compensation) fixed.
  - Conventional revenue estimates are not static, but micro-dynamic.
    - Taxpayers' likely behavioral responses to proposed changes in tax law are taken into account
    - Takes into account a variety of responses, including changes in the timing of transactions and income recognition, changes in entity form, shifts between business sectors, shifts in portfolio holdings, shifts between taxable and non-taxable consumption, and tax planning and avoidance strategies.