U.S. SENATOR BEN CARDIN

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HOW IS THE PCT PROGRESSIVE?

A cornerstone of the Progressive Consumption Tax Act (PCTA) is its progressivity. An often-heard criticism of goods and services tax systems is that they are inherently regressive—low- to middle-income households spend a greater percentage of their income than high-income households do, and so a consumption tax hits them harder.

The Progressive Consumption Tax Act directly counters this regressivity in two ways: a significant income tax exemption, called a “family allowance,” that covers most American households, and rebates to make up for the loss of tax benefits found in our current system that provide essential support for low- and moderate-income families.

The Act’s new family allowances are set at $100,000 for joint filers, $50,000 for single filers, and $75,000 for head of household filers. The family allowances are indexed for inflation.

PCT rebates would counteract the new consumption tax burden and would offset the loss of tax benefits like the Earned Income Tax Credit (EITC), the Child Tax Credit (CTC), and the Additional Child Tax Credit (ACTC). The goal of this legislation is to ensure a new system that is at least as progressive as our current tax system, so maintaining these resources is essential. The PCT rebates are based on earned income or adjusted gross income, family size, and filing status. As with benefits like the EITC, CTC, and ACTC, individuals and families that do not have an income tax liability would still be able to receive rebates.

How is the rebate calculated?

As introduced, the rebate is based on a calculation estimated by the Tax Policy Center in its analysis of a similar plan by Professor Michael Graetz. Specifically, the rebate is split into three categories: an earned income amount, a child benefit amount, and an additional child benefit amount.

(1) The earned income amount works much like the current law EITC. The amount is based on a percentage of earnings that will phase in at varying rates depending on filing status and then phase out at a rate of 5 percent once earned income or adjusted gross income (AGI) exceeds a

set amount, again depending on filing status. The earned income amount will phase out completely before the taxpayer becomes liable for the individual income tax.

(2) The child benefit amount is meant generally to replace the CTC and ACTC. The child benefit amount is phased in with earnings at a 15 percent rate; it would be capped at a maximum amount of $1,590 per child; and it would phase out with earned income or AGI at $75,000 or $110,000 for married filing jointly taxpayers at a rate of 5 percent.

(3) Finally, the additional child benefit amount is meant to replace the EITC for children. Like the current EITC for children, the additional child benefit amount phases in as a percentage of earnings at a rate that depends the number of children and then phases out once earned income or AGI exceeds a certain amount.

Tables on the rates and amounts related to earned income amount and the additional child benefit amount are below.

Earned income amount

Single filer				Joint filers				Head of Household filers			
Earnings	Base Rebate	Phase in Rate	Phase out Rate	Earnings	Base Rebate	Phase in Rate	Phase out Rate	Earnings	Base Rebate	Phase in Rate	Phase out Rate
0	0	25.1%	0%	0	0	25.1%	0%	0	0	25.1%	0%
6,100	1,530	17.1%	0%	12,200	3,059	17.1%	0%	9,150	2,294	17.1%	0%
9,000	2,025	0%	5%	18,000	4,049	0%	5%	13,500	3,037	0%	5%
49,494	0	0%	0%	98,988	0	0%	0%	74,241	0	0%	0%

Additional child benefit amount

One Child				Two Children				Three or More Children			
Earnings or AGI	Base Rebate	Phase in Rate	Phase out Rate	Earnings or AGI	Base Rebate	Phase in Rate	Phase out Rate	Earnings or AGI	Base Rebate	Phase in Rate	Phase out Rate
0	0	11%	0%	0	0	17%	0%	0	0	19%	0%
20,000	2,200	0%	0%	20,000	3,400	0%	0%	20,000	3,800	0%	0%
25,000	2,200	0%	15%	25,000	3,400	0%	15%	25,000	3,800	0%	15%
39,667	0	0%	0%	47,667	0	0%	0%	50,333	0	0%	0%

Rebate examples

Rebates are determined based on a variety of factors: family size, filing status, earnings, and adjusted gross income. Below are a few simple examples. In all examples, there would be no income tax liability due to family allowances mentioned above.

Single taxpayer with no children who earns $20,000 per year. A single taxpayer with no children who earns $20,000 per year would receive a PCT rebate of approximately $1,475 (covering the first $14,750 of consumption that year).

Head of household filer who earns $40,000 per year with one child. A head of household filer who earns $40,000 per year would receive a PCT rebate of approximately $3,302 (covering the first $33,020 of consumption that year).

Married two-earner couple that earns $75,000 per year with three children. A married two-earner couple who earn $75,000 per year with three children would receive a PCT rebate of $5,969 (covering the first $59,690 of consumption that year).

How do taxpayers get their rebate?

The rebate is meant to be issued *before purchases are made*, in order to prevent rebate-receivers from paying PCT out-of-pocket. To avoid any complications related to "clawing back" rebates, the rebate will be issued based on prior year information.

In order to receive a rebate, taxpayers must file a form with the IRS that provides all prior year information necessary to compute the rebate. For ease of administration, this filing occurs once a year when all taxpayers who are subject to the income tax also file their tax returns.

How do I submit a question or comment about the rebate system?

Comments on all aspects of the PCTA, including the rebate, are welcome. To submit a comment or make us aware of other suggestions, please email PCT@cardin.senate.gov.