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Study: CPI change would net $60 billion

By Bernie Becker - 07/06/11 06:34 PM ET

Tying a slower measure of inflation to what individuals pay in income taxes would bring in close to $60 billion of new revenue over a decade, a new government estimate **finds**.

But the lion's share of those revenues would come from taxpayers making $100,000 a year or under, the Joint Committee for Taxation also reported.

Some congressional Democrats had already expressed skepticism about the so-called "chained" consumer price index because it would lead to lower benefit payouts for Social Security recipients, and one key House Democrat pointed to the JCT study as another reason for concern.

"A change to a chained CPI would place new burdens mainly on the backs of seniors, middle-income, and low-income Americans," said Rep. Sandy Levin (D-Mich.), who is the ranking member of the House Ways and Means Committee and requested the JCT analysis. "Any proposals to change our tax code must bear in mind this stark reality: Since 1976, 58 percent of the income growth in the United States went to the top 10 percent of earners."

Policymakers looking for a deficit deal to raise the $14.3 trillion debt ceiling have discussed linking the tax code and benefit payments to the so-called "chained" consumer price index – which, generally speaking, finds a slower rate of inflation than the current method of calculating the CPI.

Supporters of the chained CPI say it better reflects changes in consumer spending habits, such as the fact that people drive less when gas prices rise or that consumers are more likely to buy oranges when the prices of apples increases.

Changes in, among other things, income tax deductions and the cost-of-living adjustment for Social Security are tied to the consumer price index. So switching to the chained CPI, then, would lead to lower Social Security payouts and smaller income tax deductions.

The president's fiscal commission recommended switching to the chained CPI, and House Speaker John Boehner (R-Ohio) said in recent weeks that the idea had some "merit."

Democrats concerned about Social Security are not the only ones concerned about chained CPI, either. The anti-tax crusader Grover Norquist and the libertarian Cato Institute are among those who oppose the idea because of its effect on the tax code, with Cato calling it a "stealth tax increase."

According to the JCT report, linking the individual tax code to chained CPI would raise $12.2 billion between 2012 and 2016, before eventually bringing in $12.4 billion in 2021.

In 2013, more than half of the new revenues would come from those making $100,000 or more a year. In fact, taxpayers making between $100,000 and $200,000 account for more than a quarter of the new revenues themselves.

But by 2021, almost 70 percent of the new revenues would come from those making $100,000 or less. Those making between $50,000 and $75,000 would contribute almost a quarter of those new revenues.

Source:
http://thehill.com/blogs/on-the-money/domestic-taxes/169995-study-cpi-change-would-net-60-billion