A Working Paper of The Heritage Center for Data Analysis

The Economic and Fiscal Effects of Ending the Double Taxation of Dividends

Norbert J. Michel, Alfredo Goyburu, and
Ralph A. Rector, Ph.D.

February 4, 2003

The Heritage Foundation

214 Massachusetts Avenue, NE • Washington, D.C. 20002 • (202) 546-4400 • www.heritage.org

THE ECONOMIC AND FISCAL EFFECTS OF ENDING THE FEDERAL DOUBLE TAXATION OF DIVIDENDS

NORBERT J. MICHEL, ALFREDO GOYBURU, AND RALPH A. RECTOR, PH.D.[1]

On January 7, 2003, President George W. Bush unveiled a multi-faceted proposal to improve the nation's economic growth. One of the most important features of his plan calls for abolition of the current federal double taxation of corporate dividends paid to individual shareholders. Economic analysts at the Center for Data Analysis (CDA) at The Heritage Foundation found, in a study of a dividend reform proposal similar to President Bush's, that ending the double taxation of dividends would improve the nation's economic growth, employment level, and other economic indicators over the next 10 years.

For example, CDA estimates indicate that the employment level would average 285,000 additional jobs from 2003 to 2012. In addition, CDA analysis has found that ending this double taxation would reduce federal revenue by $64 billion over ten years, or 79 percent less than an estimate that does not account for the effects of greater economic activity following the proposal's implementation. The CDA's $64 billion estimate is slightly more than one-fifth of the $364 billion cost estimated by the United States Department of the Treasury for President Bush's proposal.[2] The CDA and Treasury analyses consider slightly different proposals, but this cost difference is largely due to the more realistic estimation method used by the CDA.

The Treasury Department employs an erroneous "static" approach to estimate the revenue effect of tax law changes, while the CDA uses dynamic simulation, a method that accounts for the impact that federal tax policy may exert on economic growth.[3] Figure 1 shows that the estimation method chosen can make a large difference in the projected revenue loss. The figure compares the CDA's own static and dynamic projections of the federal revenue change resulting from a particular plan to end the double taxation of dividends.

This double taxation[4] has two stages. The first stage occurs when the federal government taxes shareholders on corporate income through corporate taxes. The second occurs after the corporation has distributed part of the post-tax profits to the shareholders in the form of dividends. In this second stage, the federal

1. The authors would like to thank Gary Robbins, Visiting Fellow in Tax Analysis at The Heritage Foundation and President of Fiscal Associates, and Stephen J. Entin, President and Executive Director of the Institute for Research on the Economics of Taxation (IRET) for their helpful comments.

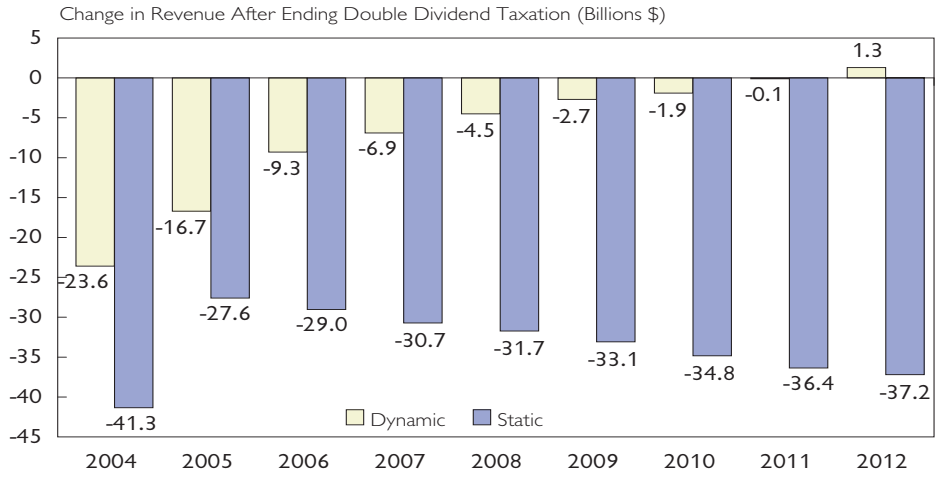
2. United States Department of the Treasury, Office of Public Affairs, "Tax Provisions of the President's Growth Package," at *http://www.treas.gov/press/releases/kd3739.htm*.

3. Forthcoming sections of this paper further discuss the differences between static and dynamic analysis.

government taxes shareholders on their dividend income through the personal income tax.

Figure 1 JAN 2003

Dynamic vs. Static Revenue Cost Estimates of Ending Double Dividend Taxation



Note: Assumes legislative enactment on September 30, 2003.
Source: Estimates by the Center for Data Analysis at The Heritage Foundation, using August 2002 Congressional Budget Office projections and the DRI-WEFA U.S. Macroeconomic Model.

Economists have long argued that the double taxation of dividends reduces the after-tax return on capital in the nation's economy and thus discourages investment—in other words, purchases of new business equipment and machinery.[5] This reduced investment in turn weakens economic growth. Consequently, eliminating the double taxation would spur investment and improve the economy's long-term growth. Recognizing these economic benefits, several nations, including Australia, France, Italy, Canada, Germany, Japan, and the United Kingdom, have abolished or reduced their double taxation of corporate dividends.[6]

One recent legislative proposal to abolish this double taxation in the United States was sponsored by Representative Christopher Cox (R–CA).[7] The Heritage Foundation's CDA used this proposal to illustrate the economic and federal fiscal effects of ending the double taxation of dividends.[8] To estimate these effects, Heritage analysts employed the DRI–WEFA U.S. Macroeconomic Model and the Center's own Individual Income Tax Model. Assuming the reform becomes law in September 2003, the investigation found that:[9]

- **GDP Increases.** During the period from 2003 through 2012, the Cox proposal would

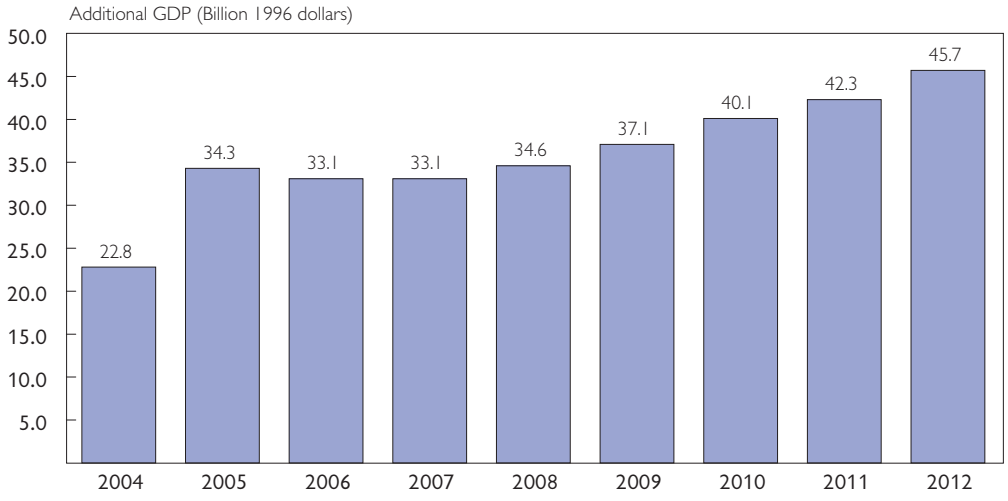
4. The term "double taxation" refers only to the federal taxation of dividends. When state and local taxes and estate taxes are considered, there are more than two layers of taxation on dividend income. However, this working paper limits its discussion to federal tax policy, so its language refers only to federal double taxation. Consequently, the examples discussed herein set aside the effect of state and local taxation on corporate shareholder return and the user cost of capital.
5. For more on the economic effects of federal double taxation of dividends, see James M. Poterba, "Tax Policy and Corporate Saving," *Brookings Papers on Economic Activity* No. 2, 1987, pp. 455–515; Peter Birch Sorensen, "Changing Views of the Corporate Income Tax," *National Tax Journal*, Vol. 48, Issue 2 (June 1995), pp. 279–294; James M. Poterba and Lawrence H. Summers, "The Economic Effects of Dividend Taxation," National Bureau of Economic Research *Working Paper* No. 1353, 1984; and James M. Poterba and Lawrence H. Summers, "New Evidence that Taxes Affect the Valuation of Dividends," *The Journal of Finance*, Vol. 39, Issue 5 (December 1984), pp. 1397–1415.
6. Deborah Thomas and Keith Sellers, "Eliminate the Double Tax on Dividends," *Journal of Accountancy*, November 1994, and Ervin L. Black, Joseph Legoria, and Keith F. Sellers, "Capital Investment Effects of Dividend Imputation," *The Journal of the American Taxation Association*, Vol. 22, Issue 2 (2000), pp. 40–59.
7. H.R. 5323, 107th Congress.
8. The Center for Data Analysis was asked to evaluate this proposal in September 2002 and plans to evaluate the "exclusion method" in President Bush's proposal in a forthcoming study.

increase the nation's gross domestic product (GDP) by an inflation-adjusted[10] $32 billion per year on average, compared to what it would otherwise have been. GDP would be at least $22 billion higher in 2004 and no less than $45 billion higher in 2012 if the proposal were to be implemented. (See Figure 2.)

- **Employment grows.** The provisions in the Cox bill would enable the economy to support 325,000 more jobs by 2012. (See Figure 3.) With these additional jobs in the economy, the unemployment rate would be 0.2 percent lower throughout the period 2005–2012 than current projections indicate.
- **Investment strengthens.** Over the 10-year period from 2003

Figure 2 JAN 2003

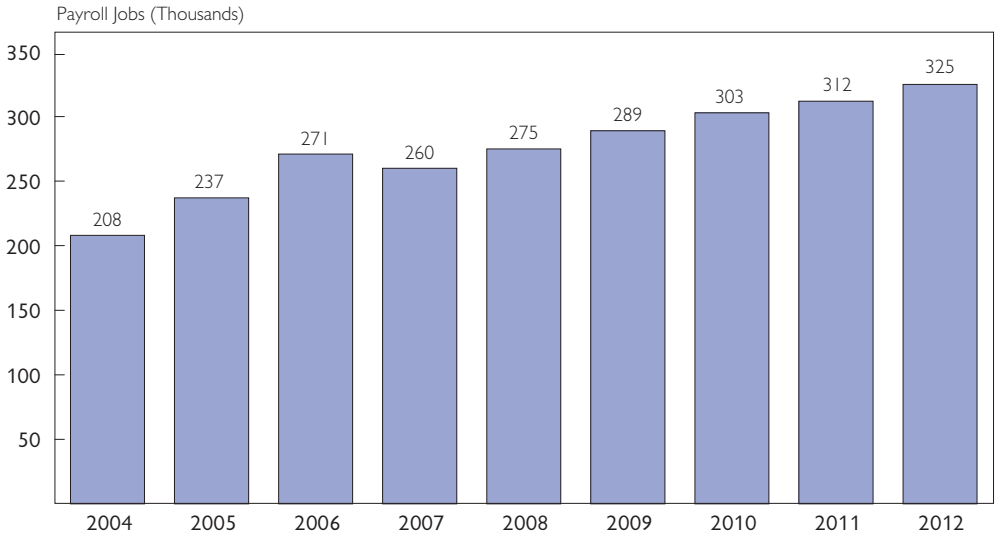
Ending Double Taxation of Dividends Bolsters Economic Growth, Gross Domestic Product Compared to Baseline



Note: Assumes legislative enactment on September 30, 2003.
Source: Estimates by the Center for Data Analysis at The Heritage Foundation, using August 2002 Congressional Budget Office projections and the DRI-WEFA U.S. Macroeconomic Model.

Figure 3 JAN 2003

Ending Double Taxation of Dividends Strengthens Job Growth Compared to Baseline

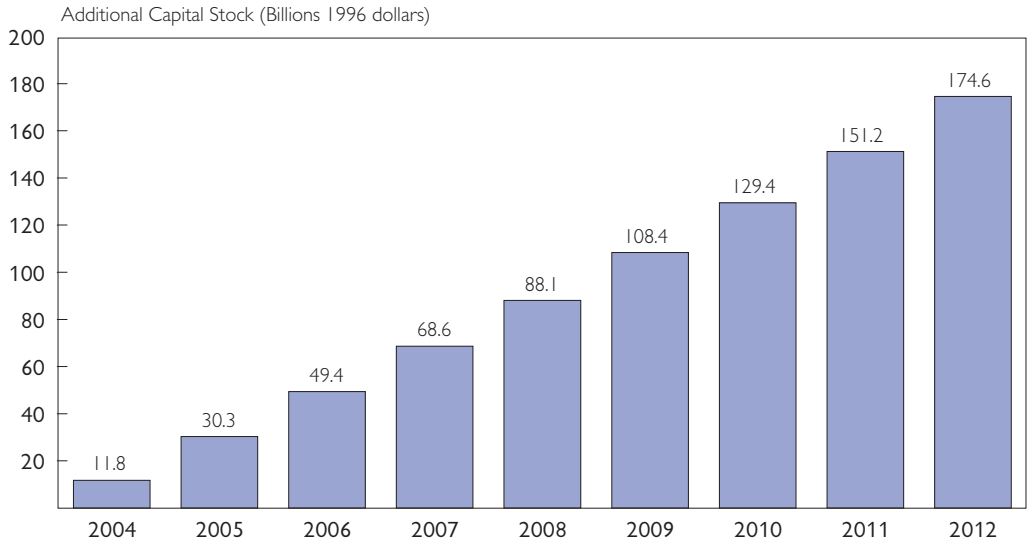


Note: Assumes legislative enactment on September 30, 2003.
Source: Estimates by the Center for Data Analysis at The Heritage Foundation, using August 2002 Congressional Budget Office projections and the DRI-WEFA U.S. Macroeconomic Model.

9. CDA analysts assumed that the reform would be enacted on September 30, 2003, and applicable retroactively to dividends paid after January 1, 2003.
10. All dollar values listed as "inflation-adjusted" are indexed to the general 1996 price level.

Figure 4 JAN 2003

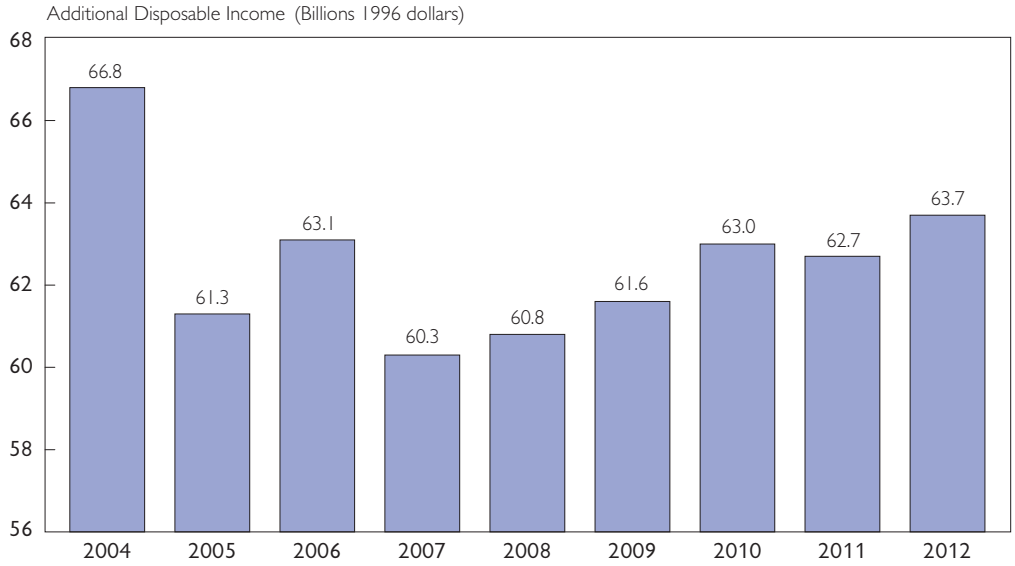
Ending Double Taxation of Dividends Raises Net Capital Stock Compared to Baseline



Note: Assumes legislative enactment on September 30, 2003.
Source: Estimates by the Center for Data Analysis at The Heritage Foundation, using August 2002 Congressional Budget Office projections and the DRI-WEFA U.S. Macroeconomic Model.

Figure 5 JAN 2003

Ending Double Taxation of Dividends Boosts Disposable Income Compared to Baseline



Note: Assumes legislative enactment on September 30, 2003.
Source: Estimates by the Center for Data Analysis at The Heritage Foundation, using August 2002 Congressional Budget Office projections and the DRI-WEFA U.S. Macroeconomic Model.

through 2012, the proposal would result in an aggregate increase of at least $253 billion (adjusted for inflation) in non-residential investment. Because of this higher level of investment, the nation's non-residential capital stock would be $175 billion higher in 2012. (See Figure 4.)

- **Disposable income picks up.** Under the Cox legislation, disposable personal income would average an inflation-adjusted $56 billion higher from 2003 through 2012. (See Figure 5.) This higher level would raise annual disposable personal income by $192 per person on average during the period. For a family of four, this increase would correspond to $768 more in disposable income on average each year.
- **Personal savings increases.** The proposal would increase personal savings by an inflation-adjusted average of $18 billion per year from 2003 through 2012.
- **Higher economic growth reduces the "cost" to the Treasury by over 70 percent.** The CDA's own static estimates suggest the proposal would reduce federal revenue by about $300 billion from 2003 through 2012. However, the CDA's more realistic *dynamic* estimates show that the proposal would reduce federal revenue during the period by a total of $64 billion. (See Figure 1.) During the last five years, the proposal would be nearly revenue neutral, since the improved economic growth caused by the legislation would, in turn, increase tax collections. (See Table 3). For reasons discussed below, these estimates do not take into account the way in which the proposal's effect on capital gains tax collections would change federal tax revenue.

HOW THE DOUBLE TAXATION OF DIVIDENDS WORKS

The double taxation of dividends[11] is one of the clearest examples of the way the nation's current tax law reduces the return on capital and, therefore, the incentive to invest. The following example illustrates the effect of this double taxation.

Consider $100 in pre-tax profit earned by a corporation in the flat 35 percent bracket. Suppose that, after paying the $35 in federal corporate taxes, the firm distributed the remaining $65 to a shareholder. Suppose, further, that this individual was in the 27 percent personal income tax bracket. This shareholder would pay $17.55 in personal income taxes on these dividends. This second round of taxation would leave only $47.45 of the original $100 in corporate profits. In other words, for every $100 in pre-tax profits, the federal government would absorb approximately $52.55 in taxes.

In contrast, consider the taxes the shareholder might have paid if that person could have received the dividend before the firm paid corporate taxes. In this case, the corporation would have paid the shareholder all $100 in the form of a dividend. The shareholder would then have paid $27 in personal income taxes on the dividends, leaving that investor with $73 out of the $100 in pre-tax corporate profit. As this example shows, the double taxation of corporate dividends reduced the shareholder's return on capital from $73 to $47.45—a reduction of 35 percent (or $25.55). In the aggregate, this lower return on capital means that there is less investment than there would otherwise have been.

11. The Bureau of Economic Analysis (BEA) and the Internal Revenue Service (IRS) define the word "dividend" differently. This paper uses the BEA definition. There are at least two major differences between the BEA and IRS definitions. For example, the IRS defines as "dividend income" interest earned by mutual funds on the funds' non-equity holdings, while the BEA does not count this as dividend income. In contrast, the BEA counts as dividend income flows from S-Corporations, while the IRS does not. The numerical differences between the two definitions can be quite large. For example, during calendar year 2000, IRS dividends were $142.2 billion, while BEA dividends were $375.7 billion. See Thae S. Park, "Comparison of BEA Estimates of Personal Income and IRS Estimates of Adjusted Gross Income," Bureau of Economic Analysis, *Survey of Current Business*, November 2002, Table 2, at *http://www.bea.gov/bea/ARTICLES/2002/11November/1102irs&agi.pdf*.

DYNAMIC SIMULATION OF MACROECONOMIC AND FISCAL EFFECTS

Heritage economists use dynamic simulation to project the economic and fiscal effects of proposals for tax changes. This method contrasts with the static approach used by the U.S. Department of the Treasury and the Congressional Joint Committee on Taxation (JCT) , which assumes that federal tax policy does not affect economic growth.

In determining the fiscal effects of tax change proposals, the static approach does take into account some of the ways taxpayers alter their tax reporting and filing in response to changes in tax law. For example, the static approach takes into account that taxpayers could increase their itemized deductions or shift compensation from taxable to tax-exempt (or tax-deferred) forms in response to certain changes in the tax laws. However, the static approach does not take into account the way investors and workers alter their consumption, investment, saving, and work effort in response to changes in tax policy. This is a major shortcoming of the static approach because economic theory suggests that tax policy changes bring about such alterations.[12]

Such changes in taxpayers' behavior could affect important macroeconomic variables, including employment, personal income, and GDP. Thus, changes in tax law often exert an impact on the nation's economy. The static approach necessarily ignores these impacts, leading to systematic inaccuracies in the estimates of the fiscal effects of tax policy changes.

In contrast, The Heritage Foundation uses dynamic simulation in evaluating the fiscal and economic effects of tax policy proposals. Dynamic simulation takes into account the impact that tax policy legislation can exert on taxpayers' economic decisions, such as consumption, investment, saving, and work effort. Dynamic simulation, therefore, can reflect changes in macroeconomic variables that new tax policies can cause.

For example, if a tax rate reduction were to strengthen national economic growth and therefore increase the tax base, a resultant increase in tax collections could partially offset the federal revenue losses caused by the rate reduction. Static analysis would not take such an offset into account and therefore would overestimate the net decline in federal tax collections resulting from the tax rate reduction. Dynamic analysis would include this offset because it would take full account of the economic benefits that the tax rate reduction could cause. It would also capture the ways in which these benefits could strengthen the economy, bolster the tax base, and ameliorate the reduction in tax collections.

In analyzing the economic and fiscal impact of the Cox proposal, CDA analysts made a number of assumptions regarding the alternative minimum tax, capital gains taxation, federal spending, and the date the bill would be enacted. These assumptions were as follows.

- **Alternative Minimum Tax.** The form of the bill submitted for consideration in the 107th Congress does not clearly state how the dividend tax credit should be handled under those parts of the tax code that establish the alternative minimum tax (AMT). Heritage Foundation analysts assumed that taxpayers required to file under the AMT rules would be able to take advantage of the dividend tax credit. If this were not the case, the dividend tax relief for those taxpayers would be negated.
- **Capital Gains Tax.** The Cox proposal would be expected to cause an increase in equity prices. This increase would likely cause investors to adjust their portfolios, perhaps triggering increased capital gains tax liability. Estimating the total increase in capital gains tax collections would require both distributional and basis data that are not readily available to Heritage economists. Therefore, CDA analysts assumed that such collections would remain unchanged relative to the baseline forecast.

12. For a discussion of the shortcomings of static analysis of the effects of tax policy changes, see Daniel J. Mitchell, "The Correct Way to Measure the Revenue Impact of Changes in Tax Rates," Heritage Foundation *Backgrounder* No. 1544, May 3, 2002, at *http://www.heritage.org/Research/Taxes/BG1544.cfm*. See also "The Argument for Reality-Based Scoring," Heritage Foundation *Web Memo* No. 92, March 29, 2002, at *http://www.heritage.org/Research/Taxes/WM92.cfm*, and Daniel R. Burton, "Reforming the Federal Tax Policy Process," Cato Institute, *Cato Policy Analysis* No. 463, December 17, 2002, at *http://www.cato.org/pubs/pas/pa-463es.html*.

- **Federal Spending.** Heritage Foundation analysts assumed that Congress would make no government program spending reductions to offset federal revenue cuts expected with the Cox proposal. As a result, any changes in federal spending observed in the simulation are attributable solely to the Cox proposal's effect on the national economy and, in turn, the economy's effect on federal spending.
- **Dividend Increase.** Heritage analysts assumed that ending the double taxation of dividends would increase dividend payouts by 10 percent. A portion of this increase would be caused by higher shareholder demand for dividends. In response to this higher demand, corporations would increase their payouts of dividends out of after-tax profits. The remainder of this 10 percent increase would be explained by a reduction in the user cost of capital and a corresponding increase in profits. Some of these higher profits would then be returned to shareholders as higher dividends. The combined result of these two effects was assumed to be a 10 percent increase in dividends.[13]
- **Date of Enactment.** Heritage economists assumed that the tax reform would become law on September 30, 2003, and apply retroactively to dividends received after January 1, 2003. Assuming an earlier date of enactment would have resulted in the proposal's benefits being realized sooner.

Macroeconomic and Fiscal Effects of the Cox Proposal

Heritage economists used a modified version of the DRI-WEFA U.S. Macroeconomic Model to conduct a dynamic simulation of the effects of Representative Cox's bill.[14] Specifically, Heritage economists developed a baseline by adapting the DRI–WEFA macroeconomic forecast from September 2002 to yield the same economic and budget projections as those of the Congressional Budget Office (CBO) in August 2002.[15] Thus, the economic baseline employed in this analysis should be comparable to baselines used by the CBO and JCT in analyzing this legislation. The results of the dynamic simulation are displayed in Table 2.

Specifically, the dynamic analysis projects that the Cox proposal would:

- **Increase economic growth.** GDP would increase by an average of at least $32 billion per year (adjusted for inflation) within the period from 2003 through 2012. GDP would be an inflation-adjusted $22 billion higher in 2004 and $45 billion higher in 2012. (See Figure 2.)
- **Create more job opportunities.** The proposal would increase the number of jobs by at least 325,000 in 2012. (See Figure 3.) This increase in jobs would correspond to a decline in the unemployment rate of no less than 0.2 percent per year over the next 10 years. (See Figure 3.)
- **Increase investment.** Non-residential investment would average nearly $25 billion per year (adjusted for inflation) higher between 2003 and 2012. By the end of fiscal year 2012, the net capital stock would be at least an inflation-adjusted $174 billion higher. (See Figure 4.) The user cost of capital would be about 5.4 percent lower in 2012.
- **Increase disposable personal income.** Disposable personal income would increase by an inflation-adjusted average of $56 billion or

13. Based on empirical evidence, this 10 percent increase in dividends appears to be a low-end estimate. See Martin Feldstein, "Corporate Taxation and Dividend Behavior," *The Review of Economic Studies*, Vol. 37, Issue 1 (January 1970), pp. 57–72, and Poterba, "Tax Policy and Corporate Saving." Assuming a larger increase in dividends would have resulted in a higher estimated growth in GDP.
14. The Center for Data Analysis used the Mark 11 U.S. Macroeconomic Model of DRI–WEFA, Inc., to conduct this analysis. The model was developed in the late 1960s by Nobel Prize–winning economist Lawrence Klein and several colleagues at the University of Pennsylvania. It is widely used by *Fortune* 500 companies, prominent federal agencies, and economic forecasting departments. The methodologies, assumptions, conclusions, and opinions herein are entirely the work of Heritage Foundation analysts. They have not been endorsed by, and do not necessarily reflect the views of, the owners of the model.
15. Congressional Budget Office, "The Budget and Economic Outlook: An Update," August 2002, at *http://www.cbo.gov/showdoc.cfm?index=3735&sequence=0*.

more per year from 2003 through 2012. For a family of four, this increase in disposable income would correspond to an average of at least $768 per year. (See Figure 5.)

- **Increase personal savings and personal consumption.** Personal savings would average an inflation-adjusted $18 billion higher during the 10-year period. Personal consumption expenditures would average an inflation-adjusted $36 billion higher than current projections.
- **Slightly increase consumer prices.** Under the Cox proposal, growth in the consumer price index would average 0.1 percent higher from 2004 through 2008. Over the final four years of the forecast period, increases in the price level would be virtually unchanged in comparison with those of the baseline.
- **Decrease federal tax revenue.** The Cox dividend proposal would reduce total federal tax revenues by a total of $64 billion during its first 10 years. Close to $56 billion of this reduction would take place during the first five years, for an average of $11 billion per year. During the final five years of the simulation period, the tax cut would be virtually revenue neutral, reducing federal revenue by an average of less then $2 billion per year. During this latter five-year period, increases mostly in corporate and Social Security tax collections would offset expected declines in personal income taxes. Corporate tax collections would rise because of higher pre-tax corporate profits. Payroll taxes would increase because of higher employment levels.[16] (See Table 3.)
- **Increase federal spending.** If Congress were not to reduce federal program spending to offset the tax revenue reductions caused by this proposal, overall federal spending would rise. Spending would average about $13 billion higher after ending the double taxation of dividends. About two-thirds of this increase would result from additional federal interest payments. The rest would be caused by increases in federal expenditures on income-maintenance programs for federal and Social Security retirees. These increases in federal income maintenance spending would be caused mainly by higher consumer prices observed during the years from 2004 through 2008. (See Table 4.)

CONCLUSION

President Bush has proposed reforming the U.S. tax code to abolish the federal double taxation on corporate dividends. Economists have long argued that this double taxation exerts a harmful effect on the nation's economy because it increases the user cost of capital and therefore reduces investment in the United States. Last fall, Representative Christopher Cox introduced legislation that would end this double taxation.

This Heritage Foundation working paper investigates the 10-year economic and fiscal impact of Representative Cox's proposal to abolish this double taxation. It finds that the proposal would, by the year 2012, improve growth in the nation's GDP, add hundreds of thousands of jobs to the economy, increase investment, strengthen growth in disposable income, and add to the nation's capital stock.

—Norbert J. Michel and Alfredo Goyburu are Policy Analysts, and Ralph A. Rector, Ph.D., is a Research Fellow, in the Center for Data Analysis at The Heritage Foundation.

16. To maintain comparability with published CBO long-term projections, projections of changes in federal spending and revenue are not adjusted for inflation in this paper.

APPENDIX I: METHODOLOGY

Heritage Foundation economists in the Center for Data Analysis (CDA) used a multi-step procedure to analyze the budgetary and economic effects of the tax law change proposed by Representative Cox.

First, CDA economists adapted the September 2002 forecast from the DRI–WEFA U.S. Macroeconomic Model to make it congruent with the long-term budget and economic projections published by the Congressional Budget Office in August 2002.[17] CDA analysts then used this forecast as the baseline by which to analyze the effects of the Cox proposal.

CDA economists then used the Center's Individual Income Tax Model to generate a static estimate of the change in federal tax collections resulting from the Cox proposal.[18] This static estimate serves as an essential starting point in analyzing the fiscal impact of proposed changes in tax policy. However, as explained above, to use this estimate as an ultimate forecast of the federal revenue lost under the Cox proposal would be to implement an erroneous static approach. The more accurate, dynamic approach would take into account the proposal's macroeconomic effects. These effects include changes in GDP, interest rates, employment levels, price levels, investment, and other quantities. Changes in any of these macroeconomic variables could affect tax revenues significantly.

Next, the Center's analysts introduced these tax collection changes and other implications of the Cox proposal into the adapted DRI–WEFA U.S. Macroeconomic Model. CDA researchers then executed the simulation and developed a dynamic estimate of the fiscal and macroeconomic effects of the Cox proposal. The researchers noted changes in key macroeconomic and budget variables compared with their values in the original adapted version of the model. Differences in these key variables were attributed to the response of the U.S. economy and federal budget to the tax policy change—that is, the dynamic response. (See Table 2.)

The Simulation[19]

The DRI–WEFA model contains a number of variables that can be altered to simulate policy changes. Using these variables, CDA analysts introduced static-model tax revenue and economic behavior responses attributable to the enactment of Representative Cox's proposal to end the double taxation on corporate dividends. The variables altered include:

- **Federal Marginal Tax Rate on Corporate Income.** The Cox dividend proposal would significantly reduce the effective federal marginal tax rate on corporate income. CDA analysts altered a variable that controls this quantity in order to reflect this reduction.
- **Federal Average Tax Rate on Corporate Income.** CDA researchers manipulated a variable that controls the federal average corporate tax rate. This variable was changed so that the average rate would remain unchanged compared to the baseline value, in spite of the alteration of the federal marginal corporate tax rate.

17. Congressional Budget Office, "The Budget and Economic Outlook: An Update."

18. The CDA's Individual Income Tax Micro-simulation model estimates the tax liability for a national sample of 100,000 tax filers. This sample contains tax return data from the Public Use Tax File produced by the Statistics of Income (SOI) Division of the IRS. The IRS data have been supplemented with additional information from the March 1996 Current Population Survey (CPS) produced by the Bureau of the Census. The March 1996 CPS data contain family income information for 1995. The 1995 data from the SOI and CPS have been "aged" using a forecast produced from a DRI–WEFA macroeconomic model that has been calibrated to the baseline economic assumptions published by the Congressional Budget Office in August 2002. To these data, CDA analysts added the CBO's economic and budget forecast to project the sample data forward through year 2012.

19. Readers interested in replicating this analysis should contact the authors for further information regarding how the model was applied.

- **Federal Average Tax Rate on Personal Income.** The Cox dividend proposal would abolish the double taxation of corporate dividend income by returning a credit that could be claimed against personal income tax liability. CDA analysts altered this variable to capture the static reduction in federal personal income tax collections resulting from the enactment of Representative Cox's legislation.
- **Personal Dividend Income.** The Cox dividend proposal is expected to boost corporate payments of dividends. This increase would have both short-run and long-run components. In the short run, existing C-Corporations would increase their dividend payouts as a share of after-tax profits. They would do so in response to shareholder demand. In the long run, the Cox dividend proposal would reduce the user cost of capital. The lower user cost of capital would boost corporate profits, leading to an increase in payouts of corporate dividends. CDA analysts recognized this increase through an appropriate change in a model variable that controls personal dividend income.
- **Corporate Profits.** The Cox dividend proposal is expected to increase personal dividend income compared to its level in the baseline forecast. As indicated in the simulation, part of this increased dividend income comes from an increase in firm profitability, as described above. The rest of the dividend increase would represent a shift from corporate retained earnings to increased payouts of dividends. CDA economists adjusted a variable that controls after-tax corporate profits to reflect this shift.

APPENDIX II: MECHANICS OF THE COX PROPOSAL

The bill sponsored by Representative Cox would eliminate the double taxation of dividends paid by C-Corporations through an "imputation credit" method similar to that used in several other countries.[20] This method adds an amount equal to the corporate layer of the tax on the distributed dividend to the individual shareholder's gross income and then gives the shareholder a tax credit equal to that amount.

The Cox approach has the effect of removing the corporate layer of taxation from dividends by returning it to shareholders *at the personal level*, via a credit. Although corporations continue to pay income taxes on the dividends they distribute, individuals receiving dividends end up with a lower tax liability to offset the corporate income tax.

This proposal would not change any aspect of taxation at the corporate level. In addition, the shareholder's legal obligation to report dividends received as ordinary personal income would remain unchanged. However, in addition to the dividends, shareholders would have to add to their taxable income the amount that each corporation paid in taxes on the profits from which each dividend payout came.[21]

By adding the corporate tax payments on each dividend payout to their ordinary personal income, shareholders would be said to be "grossing up" their dividend income. The corporate tax payments on the dividends—that is, the amount by which the dividend payments would be "grossed up"—would also become a non-refundable credit that shareholders could claim against tax liability.

Thus, the gross-up amount would both add to and subtract from each shareholder's tax liability. However, the net effect would never be a tax liability increase. The gross-up would increase the shareholder's liability by adding to taxable income. On the other hand, the gross-up would reduce tax liability by serving as a non-refundable credit. The effect of the former can never add more in tax liability than the latter reduces. This is because the gross-up increases the shareholder's liability only by the amount of the gross-up multiplied by the shareholder's top marginal tax rate, while the shareholder's tax liability is reduced by up to the full amount of the gross-up.

Table 1 provides an example illustrating how the Cox proposal works for a hypothetical dual-earning married childless couple in the 27 percent tax bracket[22] during 2003.[23] The couple is assumed to own stock in a company subject to the average corporate tax rate of 35 percent. The corporation's tax situation is illustrated in the section of the table labeled "Corporate Taxpayer" (lines 1 to 3). This section shows that corporate tax liability on pre-tax dividends does not change with the proposal. In both cases, the $100 in pre-tax profits is taxed at the corporate rate of 35 percent, leaving $65 that could be paid to individuals in the form of dividends.

The example illustrated in the table sets aside the effect of state and local corporate taxes and further assumes that all of the $65 is paid to the couple in the form of a dividend. Under both current law and the Cox proposal, the couple adds the $65 dividend to its other taxable income (line 8). The couple's other taxable income, in turn, is calculated the same way under both current law

20. Thomas and Sellers, "Eliminate the Double Tax on Dividends," and Black, Legoria, and Sellers, "Capital Investment Effects of Dividend Imputation."

21. The Cox proposal specifies that this tax amount be calculated using the average federal tax rate on the particular corporation for the relevant tax year.

22. For 2003, marginal personal income tax rates range between 10 percent and 38.6 percent. For this example, CDA analysts chose a hypothetical couple facing a marginal tax rate somewhere in the middle of this range—27 percent.

23. The table uses CCH projections for the 2003 federal income tax brackets (Schedule Y-1: Married Filing Jointly and Surviving Spouses), deductions, and exemptions. See CCH Incorporated, *2003 Master Tax Guide* (Chicago, Ill.: CCH Incorporated, 2002), pp. 25, 102, 309.

Table 1 JAN 2003

Example Showing How the Dividend Imputation Credit Increases After-tax Income For a Dual-Earning, Childless Married Couple With $62,000 Non-dividend Income and $65 Dividend Income

Corporate Taxpayer	Current Law	Proposal	Difference
Pre-tax Corporate Dividend	$100.00	$100.00	$0.00
Corporate Tax (35%)	35.00	35.00	0.00
After-tax Corporate Dividen	65.00	65.00	0.00
Individual Taxpayer Dual-Earning Married Couple in the 27% Bracket With Total Income of $62,065			
Wages	62,000.00	62,000.00	0.00
Standard Deduction	7,950.00	7,950.00	0.00
Personal Exemptions	6,100.00	6,100.00	0.00
Taxable Other Income	47,950.00	47,950.00	0.00
Dividend Income	65.00	65.00	0.00
Dividend Gross-Up	0.00	35.00	35.00
Taxable Income	48,015.00	48,050.00	35.00
Pre-credit Tax Liability	6,652.50	6,661.95	9.45
Dividend Credit	0.00	(35.00)	(35.00)
Personal Tax Liability on Dividend	17.55*	(8.00)**	(25.55)
Personal Tax Liability on Other Income	6,634.95	6,634.95	0.00
Total Tax Liability	6,652.50	6,626.95	(25.55)
After-tax income	55,412.50	55,438.05	25.55
Dividend Detail			
Pre-tax Corporate Dividend	100.00	100.00	0.00
Corporate Tax on Dividend	35.00	35.00	0.00
Personal Tax Liability on Dividend	17.55	(8.00)	(25.55)
Effective Personal Tax on Dividend	52.55	27.00	(25.55)
Effective Personal Dividend	47.45	73.00	25.55

Note: * Under current law, the personal tax liability on the dividend is calculated as follows: ($65 dividend income * 27%) = $17.55
** Under the Cox proposal, the personal tax liability on the dividend is calculated as follows: ($100 dividend income after the gross up * 27%) - $35 credit = ($8.00)

Source: Heritage Foundation, Center For Data Analysis calculations based on the 2003 U.S. Master Tax Guide , Chicago, CCH Incorporated 2002.

and the proposal (lines 4–7). The couple starts with $62,000 in wage and salary income and no other type of income (line 4). It then takes its standard deduction of $7,950 (line 5) as well as its personal exemptions totaling $6,100 (line 6). These deductions leave $47,950 in taxable other income (line 7).

As described above, the dividend payout the couple receives is added to their other taxable income under both current law and the proposal (line 8). However, under the Cox proposal, the dividend gross-up is also added to the couple's taxable income (line 9).[24] Under the proposal, the couple applies the same rate structure to their

income as under current rules. Under current law, the couple ends up with a total tax liability of $6,652.50 and an after-tax income of $55,412.50 (lines 15 and 16). Under the Cox proposal, because of the dividend gross-up, the couple's taxable income (line 10) totals $48,050, not $48,015 as under current law. This higher taxable income incurs a pre-credit tax liability of $6,661.95 (line 11). At this point, the filing couple applies the credit (line 12) and is left with a total tax liability of $6,626.95 (line 15)—a $25.55 reduction in tax liability.

The "Dividend Detail" section of Table 1 shows how the Cox proposal reduces the taxes the couple pays on the dividends it received. For example, under current law, the taxpayer's individual portion of the tax on the dividend is $17.55.[25]

Under the Cox proposal, however, the taxpayer's individual portion of the tax on the dividend is negative $8 (line 8).[26]Since the personal tax on other income remains unchanged, the taxpayer's total tax liability falls by $25.55–from $6,652.50 to $6,626.95. Therefore, the Cox proposal lowers the effective personal tax on the dividend by $25.55 for the couple in this example (line 20).

Under current law, the $100 in pre-tax dividend income is reduced by $35 at the corporate level, leaving $65 for the individual, which is further reduced by $17.55 at the personal level (lines 17–19). Adding the $35 tax and the $17.55 tax results in an effective personal tax of $52.55. (Adding lines 18 and 19 results in the total on line 20.) When the $52.55 is subtracted from the original $100, the individual investor receives an effective dividend of only $47.45. (Subtracting line 20 from line 17 gives the total on line 21.)

Under the Cox proposal, the effective personal tax on the dividend is only $27 ($65 dividend + $35 credit = $100 x 27% = $27). This means that the effective personal dividend is $25.55 higher, for a total of $73 ($47.45 + 25.55). This new effective dividend is exactly what the individual would have received had the original $100 been taxed only at the personal level ($100 x (1-.27) = $73).

While the corporation pays the same tax on the dividend income that it pays under current law, the Cox proposal has the *effect* of distributing a dividend that was untaxed at the corporate level. The end result is that one layer of taxation on dividends is removed, resulting in a higher after-tax rate of return on investment.[27]

24. In this example, it is assumed that the corporations making the dividend payouts are responsible for keeping track of the proper credit and providing shareholders with this information.

25. See first footnote on Table 1.

26. See second footnote on Table 1.

27. This result is dependent on taxpayers' being allowed to take the tax credit against the alternative minimum tax (AMT).

APPENDIX III:
TABLES FOR ECONOMIC AND FISCAL EFFECTS

Table 2 JAN 2003

How Ending Double Taxation of Dividends Would Affect Selected Economic Indicators

Economic Indicator	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	(Average) 2003 - 2012
						(Fiscal Year End)						
Gross Domestic Product					In Billions of Inflation-adjusted Dollars (Indexed to the 1996 Price Level)							
Under Cox Proposal	9,364.8	9,634.2	9,972.0	10,296.7	10,620.4	10,959.9	11,310.9	11,675.1	12,041.5	12,416.1	12,794.1	11,172.1
Current Law	9,364.8	9,634.2	9,949.2	10,262.4	10,587.3	10,926.8	11,276.3	11,638.0	12,001.4	12,373.8	12,748.4	11,139.8
Difference	0.0	0.0	22.8	34.3	33.1	33.1	34.6	37.1	40.1	42.3	45.7	32.3
Total Employment						In Thousands of Jobs						
Under Cox Proposal	130,784	132,674	135,137	136,868	138,175	139,612	141,213	142,547	144,451	146,372	148,335	140,538
Current Law	130,784	132,674	134,929	136,631	137,904	139,352	140,938	142,258	144,148	146,060	148,010	140,290
Difference	0	0	208	237	271	260	275	289	303	312	325	248
Unemployment Rate						Percent of Civilian Labor Force						
Under Cox Proposal	6.0	5.9	5.3	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.1
Current Law	6.0	5.9	5.4	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.3
Difference	0.0	0.0	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Total Unemployment						In Thousands						
Under Cox Proposal	8,580	8,516	7,810	7,489	7,600	7,686	7,750	7,806	7,861	7,907	7,906	7,833
Current Law	8,580	8,515	8,017	7,724	7,870	7,946	8,023	8,092	8,158	8,211	8,221	8,078
Difference	0	1	-207	-235	-270	-260	-273	-286	-297	-304	-315	-245
Disposable Personal Income					In Billions of Inflation-adjusted Dollars (Indexed to the 1996 Price Level)							
Under Cox Proposal	7,033.1	7,238.8	7,450.6	7,566.1	7,743.6	7,932.6	8,144.9	8,372.7	8,581.0	8,741.4	8,946.5	8,071.8
Current Law	7,033.1	7,238.8	7,383.8	7,504.8	7,680.5	7,872.3	8,084.1	8,311.1	8,518.0	8,678.7	8,882.8	8,015.5
Difference	0.0	0.0	66.8	61.3	63.1	60.3	60.8	61.6	63.0	62.7	63.7	56.3
Disposable Income Per Capita					In Inflation-adjusted Dollars (Indexed to the 1996 Price Level)							
Under Cox Proposal	25,178	25,707	26,246	26,436	26,845	27,282	27,784	28,327	28,798	29,094	29,534	27,605
Current Law	25,178	25,707	26,010	26,222	26,626	27,075	27,577	28,119	28,587	28,886	29,324	27,413
Difference per Person	0	0	236	214	219	207	207	208	211	208	210	192
Difference for Family of Four	0	0	944	856	876	828	828	832	844	832	840	768
Non Residential Investment					In Billions of Inflation-adjusted Dollars (Indexed to the 1996 Price Level)							
Under Cox Proposal	1,182.7	1,258.9	1,429.2	1,522.9	1,615.2	1,724.5	1,841.1	1,973.1	2,106.4	2,249.3	2,402.9	1,812.4
Current Law	1,182.7	1,258.9	1,410.9	1,502.4	1,591.9	1,699.6	1,813.8	1,943.1	2,073.4	2,213.4	2,362.6	1,787.0
Difference	0.0	0.0	18.3	20.5	23.3	24.9	27.3	30.0	33.0	35.9	40.3	25.3
Net Capital Stock - Nonresidential					In Billions of Inflation-adjusted Dollars (Indexed to the 1996 Price Level)							
Under Cox Proposal	9,688.6	9,998.9	10,425.6	10,934.6	11,484.4	12,086.0	12,744.0	13,463.2	14,247.9	15,104.0	16,044.0	12,653.3
Current Law	9,688.6	9,998.9	10,413.8	10,904.3	11,435.0	12,017.4	12,655.9	13,354.8	14,118.5	14,952.8	15,869.4	12,572.1
Difference	0.0	0.0	11.8	30.3	49.4	68.6	88.1	108.4	129.4	151.2	174.6	81.2

Note: All years are fiscal year end. Some figures may not sum due to rounding. Assumes that Congress does not cut spending on programs.
Does not take account of changes in capital gains tax collections. Assumes legislative enactment on September 30, 2003.
Source: Estimates by the Center for Data Analysis at The Heritage Foundation, using August 2002 Congressional Budget Office projections and the DRI-WEFA U.S. Macroeconomic Model.

Table 2, continued JAN 2003

How Ending Double Taxation of Dividends Would Affect Selected Economic Indicators

Economic Indicator	(Fiscal Year End) 2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	(Average) 2003 - 2012
User Cost of Capital						Index (1996 Second Quarter = 100)						
Under Cox Proposal	97.4	101.9	98.1	98	98.7	99.6	100.4	100.9	101.3	101.7	101.9	100.3
Current Law	97.4	101.9	104.4	103.7	104.4	105.4	106.1	106.8	107.1	107.5	107.7	105.5
Difference	0	0	-6.3	-5.7	-5.7	-5.8	-5.7	-5.9	-5.8	-5.8	-5.8	-5.3
Consumer Price Index						Percent Change from Year Ago						
Under Cox Proposal	1.6	2.5	2.6	2.6	2.6	2.6	2.6	2.5	2.5	2.5	2.5	2.6
Current Law	1.6	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Difference	0	0	0.1	0.1	0.1	0.1	0.1	0	0	0	0	0.0
Treasury Bill, 3 Month						Annualized Percent						
Under Cox Proposal	1.6	3.1	5	5.1	5.2	5.2	5.2	5.2	5.2	5.1	5.1	4.9
Current Law	1.6	3.1	5	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.7
Difference	0	0	0	0.2	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.2
Treasury Bond, 10 Year						Annualized Percent						
Under Cox Proposal	4.9	5.5	5.9	5.9	6.0	6.0	6.0	6.0	6.0	5.9	5.9	5.9
Current Law	4.9	5.5	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8
Difference	0.0	0.0	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1
Net Publicly Held Federal Debt						In Billions of Dollars (Not Adjusted for Inflation)						
Under Cox Proposal	3487.8	3676.0	3817.4	3901.5	3924.6	3910.3	3860.4	3764.1	3622.7	3334.6	2845.2	3665.7
Current Law	3487.8	3676.0	3805.0	3862.0	3865.0	3829.0	3757.0	3639.0	3476.0	3167.0	2658.0	3573.4
Difference	0.0	0.0	12.4	39.5	59.6	81.3	103.4	125.1	146.7	167.6	187.2	92.3
Net Publicly Held Federal Debt Share						Percent of GDP						
Under Cox Proposal	33.8	34.1	33.6	32.5	31.0	29.2	27.4	25.3	23.1	20.2	16.4	27.3
Current Law	33.8	34.1	33.6	32.4	30.7	28.9	26.9	24.7	22.4	19.4	15.5	26.9
Difference	0.0	0.0	0.0	0.1	0.3	0.3	0.5	0.6	0.7	0.8	0.9	0.4
Consumption Expenditures						In Billions of Inflation-adjusted Dollars (Indexed to the 1996 Price Level)						
Under Cox Proposal	6,629.5	6,791.5	7,002.1	7,235.5	7,461.9	7,669.9	7,889.4	8,129.6	8,372.8	8,636.1	8,900.8	7,809.0
Current Law	6,629.5	6,791.5	6,979.1	7,203.9	7,425.1	7,631.0	7,848.0	8,085.9	8,326.6	8,588.3	8,850.9	7,773.0
Difference	0.0	0.0	23.0	31.6	36.8	38.9	41.4	43.7	46.2	47.8	49.9	35.9
Personal Savings						In Billions of Inflation-adjusted Dollars (Indexed to the 1996 Price Level)						
Under Cox Proposal	204	240.4	230.4	100.5	34	-0.8	-21.4	-43.8	-86.7	-193.3	-259.2	0.0
Current Law	204	240.4	188.2	72.7	9.9	-19.8	-38.3	-59	-100.8	-205.4	-270.2	-18.2
Difference	0	0	42.2	27.8	24.1	19	16.9	15.2	14.1	12.1	11	18.2

Note: All years are fiscal year end. Some figures may not sum due to rounding. Assumes that Congress does not cut spending on programs. Does not take account of changes in capital gains tax collections. Assumes legislative enactment on September 30, 2003.

Source: Estimates by the Center for Data Analysis at The Heritage Foundation, using August 2002 Congressional Budget Office projections and the DRI-WEFA U.S. Macroeconomic Model.

Table 2, continued JAN 2003

How Ending Double Taxation of Dividends Would Affect Selected Economic Indicators

Federal Budget Indicators	(Fiscal Year End) 2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	(Average) 2003 - 2012
Federal Tax Revenue	In Billions of Dollars (Not Adjusted for Inflation)											
Under Cox Proposal	1,880.6	1,956.0	2,057.4	2,224.3	2,373.7	2,512.1	2,658.5	2,810.3	2,968.1	3,244.9	3,526.3	26,331.6
Current Law	1,880.6	1,956.0	2,081.0	2,241.0	2,383.0	2,519.0	2,663.0	2,813.0	2,970.0	3,245.0	3,525.0	26,396.0
Difference	0.0	0.0	-23.6	-16.7	-9.3	-6.9	-4.5	-2.7	-1.9	-0.1	1.3	-64.4
Change in Federal Tax Revenue	In Billions of Dollars (Not Adjusted for Inflation)											
Static Change	0.0	0.0	-41.3	-27.6	-29.0	-30.7	-31.7	-33.1	-34.8	-36.4	-37.2	-301.9
Dynamic Change	0.0	0.0	-23.6	-16.7	-9.3	-6.9	-4.5	-2.7	-1.9	-0.1	1.3	-64.4
Revenue Feedback	0.0	0.0	17.7	10.9	19.7	23.8	27.2	30.4	32.9	36.3	38.5	237.5
Feedback Percent	--	--	42.9	39.5	68.0	77.5	85.8	91.8	94.5	99.7	103.5	78.7
Federal Spending	In Billions of Dollars (Not Adjusted for Inflation)											
Under Cox Proposal	2,031.9	2,105.0	2,194.7	2,288.4	2,379.2	2,478.0	2,590.3	2,697.6	2,811.5	2,944.1	3,025.2	25,514.0
Current Law	2,031.9	2,105.0	2,194.0	2,283.0	2,368.0	2,463.0	2,573.0	2,679.0	2,792.0	2,924.0	3,005.0	25,386.0
Difference	0.0	0.0	0.7	5.4	11.2	15.0	17.3	18.6	19.5	20.1	20.2	128.0
Federal Surplus/Deficit	In Billions of Dollars (Not Adjusted for Inflation)											
Under Cox Proposal	-151.3	-149.0	-137.4	-64.0	-5.5	34.1	68.3	112.6	156.7	300.8	501.1	817.7
Current Law	-151.3	-149.0	-113.0	-42.0	15.0	56.0	90.0	134.0	178.0	321.0	520.0	1,010.0
Difference	0.0	0.0	-24.4	-22.0	-20.5	-21.9	-21.7	-21.4	-21.3	-20.2	-18.9	-192.3
Federal Interest Payments	In Billions of Dollars (Not Adjusted for Inflation)											
Under Cox Proposal	212.9	209.0	238.7	261.9	273.0	277.2	278.3	276.8	272.1	264.2	249.1	2,600.3
Current Law	212.9	209.0	238.0	258.0	265.0	267.0	267.0	265.0	260.0	252.0	237.0	2,518.0
Difference	0.0	0.0	0.7	3.9	8.0	10.2	11.3	11.8	12.1	12.2	12.1	82.3

Note: All years are fiscal year end. Some figures may not sum due to rounding. Assumes that Congress does not cut spending on programs. Does not take account of changes in capital gains tax collections. Assumes legislative enactment on September 30, 2003.

Source: Estimates by the Center for Data Analysis at The Heritage Foundation, using August 2002 Congressional Budget Office projections and the DRI-WEFA U.S. Macroeconomic Model.

How Ending Double Taxation of Dividends Would Affect Federal Revenues

Type of Revenue	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	(Total) 2003 - 2012
	(Fiscal Year End)											
	In Billions of Dollars (Not Adjusted for Inflation)											
Federal Revenue												
Under Cox Proposal	1,880.6	1,956.0	2,057.4	2,224.3	2,373.7	2,512.1	2,658.5	2,810.3	2,968.1	3,244.9	3,526.3	26,331.8
Current Law	1,880.6	1,956.0	2,081.0	2,241.0	2,383.0	2,519.0	2,663.0	2,813.0	2,970.0	3,245.0	3,525.0	26,396.2
Difference	0.0	0.0	-23.7	-16.7	-9.3	-6.9	-4.5	-2.7	-1.9	-0.1	1.3	-64.4
Personal Income Taxes												
Under Cox Proposal	913.7	920.0	955.0	1,025.4	1,093.3	1,166.1	1,248.7	1,338.9	1,436.8	1,641.7	1,817.5	12,643.4
Current Law	913.7	920.0	983.0	1,048.0	1,111.0	1,184.0	1,266.0	1,356.0	1,454.0	1,658.0	1,833.0	12,813.0
Difference	0.0	0.0	-28.0	-22.6	-17.7	-17.9	-17.3	-17.1	-17.2	-16.3	-15.5	-169.6
Social Security Taxes												
Under Cox Proposal	608.1	643.3	682.8	725.2	769.8	813.4	857.5	901.8	953.3	1,008.1	1,062.3	8,417.5
Current Law	608.1	643.3	681.6	722.0	765.1	808.2	851.5	895.3	946.3	1,000.8	1,054.5	8,368.8
Difference	0.0	0.0	1.2	3.2	4.6	5.2	5.9	6.5	7.0	7.4	7.8	48.8
Federal Corporate Taxes												
Under Cox Proposal	161.3	165.0	193.7	230.4	263.9	283.5	296.4	308.1	319.4	334.7	348.8	2,743.9
Current Law	161.3	165.0	191.0	229.0	262.0	280.0	292.0	303.0	314.0	329.0	343.0	2,708.1
Difference	0.0	0.0	2.6	1.3	1.9	3.5	4.4	5.1	5.4	5.7	5.8	35.8
Medicare Taxes												
Under Cox Proposal	124.6	131.7	137.8	142.9	148.1	153.2	159.1	164.4	169.6	173.2	180.6	1,560.6
Current Law	124.6	131.7	137.4	142.0	146.9	151.8	157.5	162.7	167.7	171.2	178.5	1,547.3
Difference	0.0	0.0	0.3	0.9	1.3	1.4	1.6	1.8	1.9	2.0	2.1	13.3
Federal Indirect Business Taxes												
Under Cox Proposal	108.2	106.0	108.2	112.5	115.7	119.8	123.9	127.0	131.1	134.1	138.2	1,216.3
Current Law	108.2	106.0	108.0	112.0	115.0	119.0	123.0	126.0	130.0	133.0	137.0	1,209.0
Difference	0.0	0.0	0.2	0.5	0.7	0.8	0.9	1.0	1.1	1.1	1.2	7.3

Note: All years are fiscal year end. Some figures may not sum due to rounding. Assumes that Congress does not cut spending on programs. Does not take account of changes in capital gains tax collections. Assumes legislative enactment on September 30, 2003.
Source: Estimates by the Center for Data Analysis at The Heritage Foundation, using August 2002 Congressional Budget Office projections and the DRI-WEFA U.S. Macroeconomic Model.

Table 4 JAN 2003

How Ending Double Taxation of Dividends Would Affect Federal Spending

Type of Revenue	2002	2003	2004	2005	2006	2007
			(Fiscal Year End)			
Federal Expenditures			In Billions of Dollars (Not Adjusted for Inflation)			
Under Cox Proposal	2,031.9	2,105.0	2,194.7	2,288.4	2,379.2	2,478.0
Current Law	2,031.9	2,105.0	2,194.0	2,283.0	2,368.0	2,463.0
Difference	0.0	0.0	0.7	5.4	11.2	15.0
Federal Interest						
Under Cox Proposal	212.9	209.0	238.7	261.9	273.0	277.2
Current Law	212.9	209.0	238.0	258.0	265.0	267.0
Difference	0.0	0.0	0.7	3.9	8.0	10.2
Social Security Benefits						
Under Cox Proposal	444.5	474.0	494.2	517.2	544.0	573.7
Current Law	444.5	474.0	494.0	516.0	542.0	571.0
Difference	0.0	0.0	0.2	1.2	2.0	2.7
Federal Employee Retirement Benefit						
Under Cox Proposal	77.1	59.0	62.0	65.2	68.4	71.6
Current Law	77.1	59.0	62.0	65.0	68.0	71.0
Difference	0.0	0.0	0.0	0.2	0.4	0.6

Type of Revenue	2008	2009	2010	2011	2012	(Total) 2003 - 2012
			(Fiscal Year End)			
Federal Expenditures			In Billions of Dollars (Not Adjusted for Inflation)			
Under Cox Proposal	2,590.3	2,697.6	2,811.5	2,944.1	3,025.2	25,514.0
Current Law	2,573.0	2,679.0	2,792.0	2,924.0	3,005.0	25,386.0
Difference	17.3	18.6	19.5	20.1	20.2	128.0
Federal Interest						
Under Cox Proposal	278.3	276.8	272.1	264.2	249.1	2,600.3
Current Law	267.0	265.0	260.0	252.0	237.0	2,518.0
Difference	11.3	11.8	12.1	12.2	12.1	82.3
Social Security Benefits						
Under Cox Proposal	605.3	640.9	679.3	721.6	766.8	6,016.8
Current Law	602.0	637.0	675.0	717.0	762.0	5,990.0
Difference	3.3	3.9	4.3	4.6	4.8	26.8
Federal Employee Retirement Benefit						
Under Cox Proposal	75.8	78.9	83.0	87.1	91.1	742.1
Current Law	75.0	78.0	82.0	86.0	90.0	736.0
Difference	0.8	0.9	1.0	1.1	1.1	6.1

Note: All years are fiscal year end. Some figures may not sum due to rounding. Assumes that Congress does not cut spending on programs. Does not take account of changes in capital gains tax collections. Assumes legislative enactment on September 30, 2003.

Source: Estimates by the Center for Data Analysis at The Heritage Foundation, using August 2002 Congressional Budget Office projections and the DRI-WEFA U.S. Macroeconomic Model.