

Congress of the United States

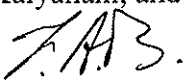
JOINT COMMITTEE ON TAXATION

Washington, DC 20515-6453

JUL 30 2010

MEMORANDUM

TO: John Buckley, Aruna Kalyanam, and Kase Jubboori

FROM: Thomas A. Barthold 

SUBJECT: Distributional Analysis

This memorandum is in response to your request of July 13, 2010, for an analysis of the distributional effects of the Middle Class Tax Cuts and AMT relief permitted as policy adjustments under the Statutory Pay-As-You-Go Act of 2010 ("PAYGO").

The Middle Class Tax Cuts included in the PAYGO legislation allow for permanent extension of the following provisions contained originally in the Economic Growth and Tax Relief Reconciliation Act of 2001 ("EGTRRA") as in effect for tax year 2010: (1) the 10-percent income tax bracket; (2) the child tax credit; (3) marriage penalty relief; (4) the adoption credit; (5) the dependent care credit; (6) the employer-provided child care credit; (6) education tax incentive; (7) the 25-percent and 28-percent income tax brackets; (8) the 33-percent income tax bracket for taxpayers with AGI less than \$200,000 for singles filers and \$250,000 for joint filers; (9) the zero-percent and 15-percent tax rates structure on capital gains and qualified dividend income for taxpayers with AGI less than \$200,000 for singles filers and \$250,000 for joint filers. In addition, the PAYGO legislation allows for the permanent extension of the increased limitation on business expensing under section 179 of the Internal Revenue Code contained originally in the Jobs and Growth Tax Relief and Reconciliation Act of 2001 ("JGTRRA") as in effect for tax year 2010.

Also, PAYGO permits personal credits to be applied against the AMT and an increase in the AMT exemption amounts necessary to hold the number of taxpayers affected by the AMT at the same number of taxpayers affected by the AMT in 2008. The AMT relief provided under PAYGO is for tax years 2010 and 2011.

Table #D-10-06 provides a distributional analysis of the Middle Class Tax Cuts and AMT relief under PAYGO compared to present law for tax year 2011. You requested a distributional analysis of the Middle Class Tax Cuts and AMT relief under PAYGO compared to a baseline that includes a permanent extension of EGTRRA and JGTRRA and AMT relief. For consistency, we prepare all of our distributional analyses against present law. Instead, we are providing you a distributional analysis, Table #D-10-05, of a permanent extension of EGTRRA and JGTRRA, including the AMT relief permitted under PAYGO, for tax year 2011. Together,

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Table #D-10-05 and Table #D-10-06 will permit you to make direct comparisons between the policy implications of the Middle Class Tax Cuts permitted under PAYGO and the permanent extension of EGTRRA and JGTRRA.

Attachments: Table #D-10-05 and Table #D-10-06

**DISTRIBUTIONAL EFFECTS OF A PROPOSAL TO
PERMANENTLY EXTEND THE EXPIRING PROVISIONS OF THE "ECONOMIC GROWTH AND TAX RELIEF
RECONCILIATION ACT OF 2001" ("EGTRRA") AND THE "JOB AND GROWTH TAX RELIEF
RECONCILIATION ACT OF 2003" ("JGTRRA") AND AMT RELIEF(1)**

Calendar Year 2011

INCOME CATEGORY (2)	CHANGE IN FEDERAL TAXES (3)		FEDERAL TAXES (3) UNDER PRESENT LAW		FEDERAL TAXES (3) UNDER PROPOSAL		Average Tax Rate (4)	
	Millions	Percent	Billions	Percent	Billions	Percent	Present Law	Proposal Percent
Less than \$10,000.....	-\$117	-1.0%	\$12	0.5%	\$11	0.6%	8.6%	8.4%
\$10,000 to \$20,000.....	-\$3,721	-19.9%	\$19	0.9%	\$15	0.8%	5.0%	4.0%
\$20,000 to \$30,000.....	-\$11,654	-20.8%	\$56	2.6%	\$44	2.3%	11.8%	9.3%
\$30,000 to \$40,000.....	-\$12,869	-14.1%	\$91	4.2%	\$78	4.0%	16.1%	13.7%
\$40,000 to \$50,000.....	-\$11,238	-10.6%	\$106	4.9%	\$95	4.9%	17.6%	15.7%
\$50,000 to \$75,000.....	-\$26,705	-9.2%	\$290	13.3%	\$264	13.5%	19.0%	17.2%
\$75,000 to \$100,000.....	-\$28,517	-9.8%	\$290	13.3%	\$262	13.4%	21.3%	19.1%
\$100,000 to \$200,000.....	-\$62,309	-10.6%	\$587	26.9%	\$525	26.8%	25.2%	22.4%
\$200,000 to \$500,000.....	-\$26,871	-8.7%	\$307	14.1%	\$280	14.3%	28.3%	25.6%
\$500,000 to \$1,000,000.....	-\$10,620	-8.3%	\$128	5.8%	\$117	6.0%	30.1%	26.2%
\$1,000,000 and over.....	-\$32,708	-11.0%	\$297	13.6%	\$265	13.5%	30.0%	24.6%
Total, All Taxpayers.....	-\$227,330	-10.4%	\$2,183	100.0%	\$1,956	100.0%	22.1%	19.5%

Source: Joint Committee on Taxation

Detail may not add to total due to rounding.

- (1) The extended provisions of EGTRRA and JGTRRA included here are: (a) the reduced marginal income tax rates; (b) the phase-out of the Pease and PEP limitations; (c) the marriage-penalty relief; (d) the reduced tax rates on capital gains and dividend income; (e) the changes to dependent care credit; (f) the changes to the child credit; (g) the changes to student loan interest deduction; (h) the changes to the adoption credit; (i) the changes to the earned income tax credit; and (j) the treatment of the child credit, adoption credit and EIC under the AMT.
- (2) The income concept used to place tax returns into income categories is adjusted gross income (AGI) plus: [1] tax-exempt interest, [2] employer contributions for health plans and life insurance, [3] employer share of FICA tax, [4] worker's compensation, [5] nontaxable Social Security benefits, [6] insurance value of Medicare benefits, [7] alternative minimum tax preference items, and [8] excluded income of U.S. citizens living abroad. Categories are measured at 2009 levels.
- (3) Federal taxes are equal to individual income tax (including the outlay portion of refundable credits), employment tax (attributed to employees), and excise taxes (attributed to consumers). Corporate income tax is not included due to uncertainty concerning the incidence of the tax. Individuals who are dependents of other taxpayers and taxpayers with negative income are excluded from the analysis. Does not include indirect effects.
- (4) The average tax rate is equal to Federal taxes described in footnote (3) divided by income described in footnote (2).

DISTRIBUTIONAL EFFECTS OF A PROPOSAL TO
ENACT THE MIDDLE-CLASS TAX CUTS AND AMT RELIEF
PERMITTED AS POLICY ADJUSTMENTS UNDER THE STATUTORY
PAY-AS-YOU-GO ACT OF 2010 ("PAYGO") (1)

Calendar Year 2011

INCOME CATEGORY (2)	CHANGE IN FEDERAL TAXES (3)		FEDERAL TAXES (3) UNDER PRESENT LAW		FEDERAL TAXES (3) UNDER PROPOSAL		Average Tax Rate (4)	
	Millions	Percent	Billions	Percent	Billions	Percent	Present Law	Proposal
Less than \$10,000.....	-\$1,508	-13.1%	\$12	0.5%	\$10	0.5%	8.6%	7.4%
\$10,000 to \$20,000.....	-\$9,446	-50.6%	\$19	0.9%	\$9	0.5%	5.0%	2.5%
\$20,000 to \$30,000.....	-\$14,273	-25.5%	\$56	2.6%	\$42	2.1%	11.8%	8.8%
\$30,000 to \$40,000.....	-\$14,047	-15.4%	\$91	4.2%	\$77	3.9%	16.1%	13.6%
\$40,000 to \$50,000.....	-\$11,913	-11.2%	\$106	4.9%	\$94	4.8%	17.6%	15.6%
\$50,000 to \$75,000.....	-\$27,140	-9.3%	\$290	13.3%	\$263	13.3%	19.0%	17.2%
\$75,000 to \$100,000.....	-\$28,973	-10.0%	\$290	13.3%	\$261	13.2%	21.3%	19.2%
\$100,000 to \$200,000.....	-\$63,591	-10.8%	\$587	26.9%	\$523	26.4%	25.2%	22.4%
\$200,000 to \$500,000.....	-\$25,333	-8.2%	\$307	14.1%	\$282	14.2%	28.3%	25.9%
\$500,000 to \$1,000,000.....	-\$4,074	-3.2%	\$128	5.8%	\$123	6.2%	30.1%	29.2%
\$1,000,000 and over.....	-\$2,000	-0.7%	\$297	13.6%	\$295	14.9%	30.0%	29.9%
Total, All Taxpayers.....	-\$202,294	-9.3%	\$2,183	100.0%	\$1,981	100.0%	22.1%	20.0%

Source: Joint Committee on Taxation

Detail may not add to total due to rounding.

- (1) The Middle-Class Tax Cuts in PAYGO included here are: (a) the 10-percent income tax bracket; (b) the child tax credit; (c) marriage penalty relief; (d) the adoption credit; (e) the dependent care credit; (f) the employer-provided child care credit; (g) education tax incentives; (h) the 25-percent and 28-percent income tax brackets; (i) the 33-percent income tax bracket (but only for taxpayers with AGI less than \$200,000 for singles filers and \$250,000 for joint filers); (j) the zero-percent and 15-percent tax rates structure on capital gains and qualified dividend income (but only for taxpayers with AGI less than \$200,000 for singles filers and \$250,000 for joint filers).
- (2) The income concept used to place tax returns into income categories is adjusted gross income (AGI) plus: [1] tax-exempt interest, [2] employer contributions for health plans and life insurance, [3] employer share of FICA tax, [4] worker's compensation, [5] nontaxable Social Security benefits, [6] insurance value of Medicare benefits, [7] alternative minimum tax preference items, and [8] excluded income of U.S. citizens living abroad. Categories are measured at 2009 levels.
- (3) Federal taxes are equal to individual income tax (including the outlay portion of refundable credits), employment tax (attributed to employees), and excise taxes (attributed to consumers). Corporate income tax is not included due to uncertainty concerning the incidence of the tax. Individuals who are dependents of other taxpayers and taxpayers with negative income are excluded from the analysis.
- Does not include indirect effects.
- (4) The average tax rate is equal to Federal taxes described in footnote (3) divided by income described in footnote (2).

PROJECTED NUMBER OF TAX RETURN UNITS
BY INCOME CLASS AND FILING STATUS
INCLUDES FILERS AND NON-FILERS
[Returns in Thousands]

Calendar Year 2011

INCOME CATEGORY (1)	(Filers and Non-Filers)			
	All Returns	Single Returns	Joint Returns	Head of Household
Less than \$10,000.....	28,681	22,171	2,288	4,222
\$10,000 to \$20,000.....	24,383	15,812	3,092	5,480
\$20,000 to \$30,000.....	18,523	10,086	3,734	4,703
\$30,000 to \$40,000.....	15,679	8,175	4,417	3,087
\$40,000 to \$50,000.....	13,001	6,584	4,520	1,897
\$50,000 to \$75,000.....	23,972	8,663	12,899	2,410
\$75,000 to \$100,000.....	15,245	3,276	11,125	844
\$100,000 to \$200,000.....	16,885	2,420	13,955	509
\$200,000 to \$500,000.....	3,757	534	3,146	78
\$500,000 to \$1,000,000.....	608	87	503	17
\$1,000,000 and over.....	315	47	260	7
Total, All Taxpayers.....	161,048	77,855	59,939	23,253

Source: Joint Committee on Taxation

Detail may not add to total due to rounding.

(1) The income concept used to place tax returns into income categories is adjusted gross income (AGI) plus: [1] tax-exempt interest, [2] employer contributions for health plans and life insurance, [3] employer share of FICA tax, [4] worker's compensation, [5] nontaxable Social Security benefits, [6] insurance value of Medicare benefits, [7] alternative minimum tax preference items, and [8] excluded income of U.S. citizens living abroad. Categories are measured at 2009 levels.
Individuals who are dependents of other taxpayers and taxpayers with negative income are excluded from the analysis.