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**DISTRIBUTION OF THE 2001–2006 TAX CUTS:
UPDATED PROJECTIONS, JULY 2008**

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DISTRIBUTION OF THE 2001–2006 TAX CUTS

Since 2001, Congress has passed a major tax bill almost every year. Most have reduced taxes significantly and, since they were not accompanied by spending cuts, the resulting deficits have increased the national debt. The largest revenue loss—\$1.35 trillion over ten years—came from the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA). The Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA) reduced revenues by another \$350 billion (again over the subsequent decade). Subsequent legislation cut taxes further: \$146 billion in 2004 (WFTRA), \$142 billion in 2006 (TIPRA and PPA), \$51 billion in 2007 (TIPA), and \$125 billion in 2008 (ESA).¹ The tax cuts total almost \$2.2 trillion over ten years, and that total may be vastly understated if some or all of the cuts are extended beyond their scheduled expiration date of 2010.² In addition, the cuts exacerbated the growing problem of the alternative minimum tax (AMT). Barring legislative action, more than 33 million taxpayers will fall prey to the AMT in 2010. It is highly unlikely that Congress will allow this to happen but simply extending the AMT “patch” through the end of 2010 would add another \$207 billion to the cost of the tax cuts.

As Congress and the new President consider whether to extend some or all of the tax cuts, they should take into account the distribution of the tax cuts and how that distribution would change if the cuts were combined with measures to finance the resulting budget deficits. Although the long-term distributional effects of the 2001-06 tax cuts will depend on how they are ultimately paid for, the immediate benefits are skewed in favor of high-income taxpayers. In 2010, when the cuts are fully phased in, households in the middle fifth of the income distribution will receive an average tax reduction equal to 2.6 percent of after-tax income.³ Households in the top quintile—the 20 percent of the population with the highest incomes—will receive an average tax cut that is more than twice as large: 5.4 percent of income. Those in the bottom quintile will get an average cut equal to just 0.7 percent of income. Taxpayers at the very top of the income scale benefit the most. Those in the top one percent will receive a 7.3 percent average increase in after-tax income in 2010; those in the top one-tenth of one percent—the richest 1 in 1,000 taxpayers—will see their after-tax incomes rise an average of 8.2 percent.

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¹ WFTRA is the Working Families Tax Relief Act of 2004; TIPRA is the Tax Increase Prevention Reconciliation Act of 2005; PPA is the Pension Protection Act of 2006; TIPA is the Tax Increase Prevention Act of 2007; and ESA is the Economic Stimulus Act of 2008. Although we will refer to these collectively as the “2001-06 tax cuts”, where appropriate, our distributional estimates also include the temporary measures in TIPA and ESA that affect revenues in 2007 and 2008 only. Revenue estimates for the bills come from the Joint Committee on Taxation and represent the cost through the end of the ten-year budget window in effect at the time of each law’s enactment.

² For analyses of the cost of making the tax cuts permanent, see CBO (2008) and Auerbach, Furman, and Gale (2008). The latter show that the revenue cost of making the tax cuts permanent would be about \$3.5 trillion through 2018.

³ The estimates in this paragraph also assume that the AMT patch is extended and indexed for inflation. The patch primarily affects taxpayers in the 60th through 99th percentiles.

Over the long-term, Congress must finance tax cuts through spending reductions, other tax increases, or a combination of the two. The financing approach chosen will significantly affect the ultimate distributional impact of the cuts. For example, if the revenue loss from the 2001–06 tax cuts and an accompanying fix for the AMT were offset by an additional tax levied in proportion to income, the combination would transfer after-tax income from the poorest four-fifths of households to the richest fifth. Only taxpayers in the top quintile of the income distribution would, on average, receive an increase in after-tax income. Average after-tax incomes would fall for households in the bottom eighty percent of the income distribution. Households in the lowest quintile would face an average tax increase equal to 2.6 percent of after-tax income whereas taxpayers in the top quintile would see a tax cut equal to 1.0 percent of income on average. Taxpayers in the top one percent would see an average tax reduction equivalent to 2.6 percent of income.

This paper summarizes the Tax Policy Center’s (TPC) latest estimates of the distributional impact of the 2001–06 tax cuts. We include the impact of all major individual income and estate tax provisions in the seven tax acts. Our distribution tables include individual and corporate income taxes, payroll taxes for Social Security and Medicare, and the estate tax. More information and additional detailed distribution tables can be found on our web site at <http://www.taxpolicycenter.org>.⁴

The discussion proceeds as follows. Section 1 provides a brief summary of the major provisions of the tax cuts. Section 2 presents traditional distribution tables for the tax cuts by cash income percentile in 2010.⁵ Section 3 shows the distribution of the cuts by cash income percentile in 2008. Section 4 incorporates the impact of three illustrative financing options. Section 5 summarizes our conclusions.

1. THE 2001–2006 TAX CUTS⁶

In May 2001, Congress passed the Economic Growth and Tax Relief Reconciliation Act (EGTRRA), sweeping legislation that reduced individual income tax rates; gradually phased out the estate tax; doubled the child tax credit and made it partially refundable; reduced marriage penalties (and increased marriage bonuses); enhanced the child and dependent care credit; increased contribution limits on tax-deferred retirement savings vehicles, such as IRAs and 401(k)s; expanded credits and deductions for education-related expenses; and temporarily increased the alternative minimum tax (AMT) exemption. To keep the official 10-year cost estimate of the legislation to \$1.35 trillion, Congress phased in many provisions over several years. To avoid parliamentary roadblocks to its passage, Congress fixed the entire bill to “sunset,” or expire, at the end of 2010.

⁴ We use a recently updated version of the Urban-Brookings Tax Policy Center Microsimulation Model (version 0308-5) to produce the estimates in this paper. Appendix A briefly describes the model. Rohaly, Carasso, and Saleem (2005) describe an earlier version of the model in more detail.

⁵ See <http://www.taxpolicycenter.org/TaxModel/income.cfm> for definition of cash income.

⁶ This section draws heavily on Tax Policy Center (2006).

Two years later, Congress passed the Jobs and Growth Tax Relief Reconciliation Act (JGTRRA), which immediately implemented the individual tax rate reductions that EGTRRA had scheduled to take effect in 2006. JGTRRA also sped up other major provisions in EGTRRA, including the increased child credit and some marriage-penalty relief provisions. In addition, the legislation reduced the tax rate on most long-term capital gains and applied the capital gains rates to qualified dividends, which had previously been treated as ordinary income. To keep the official 10-year cost of the bill to \$350 billion, Congress again resorted to extensive use of sunsets. The capital gains and dividend provisions, for example, were set to expire at the end of 2008.

The Working Families Tax Relief Act of 2004 (WFTRA) temporarily extended some of the provisions in EGTRRA and JGTRRA, such as the increased child credit, the new 10-percent bracket, some of the marriage-penalty relief provisions, and an increase in the AMT exemption. WFTRA accelerated an increase in the partial refundability of the child tax credit. The official 10-year cost of the bill was \$146 billion.

In May 2006, Congress passed the Tax Increase Prevention Reconciliation Act of 2005 (TIPRA), which extended through the end of 2010 the reduced rates on capital gains and dividends originally enacted by JGTRRA; increased the AMT exemption level but only for 2006; eliminated the income limitation on converting traditional IRAs to Roth IRAs beginning in 2010, effectively doing away with the income cap for Roth IRA contributions; and extended the increased expensing allowance for businesses.

Later in 2006, Congress passed the Pension Protection Act of 2006 (PPA), the first legislation that makes some EGTRRA provisions permanent. These include the higher contribution limits on pensions and IRAs, as well as the saver's credit—a progressive nonrefundable tax credit for contributions to IRAs and 401(k)-type plans made by lower- and moderate-income taxpayers. Under EGTRRA, the saver's credit would have expired after 2006, but PPA made it permanent.

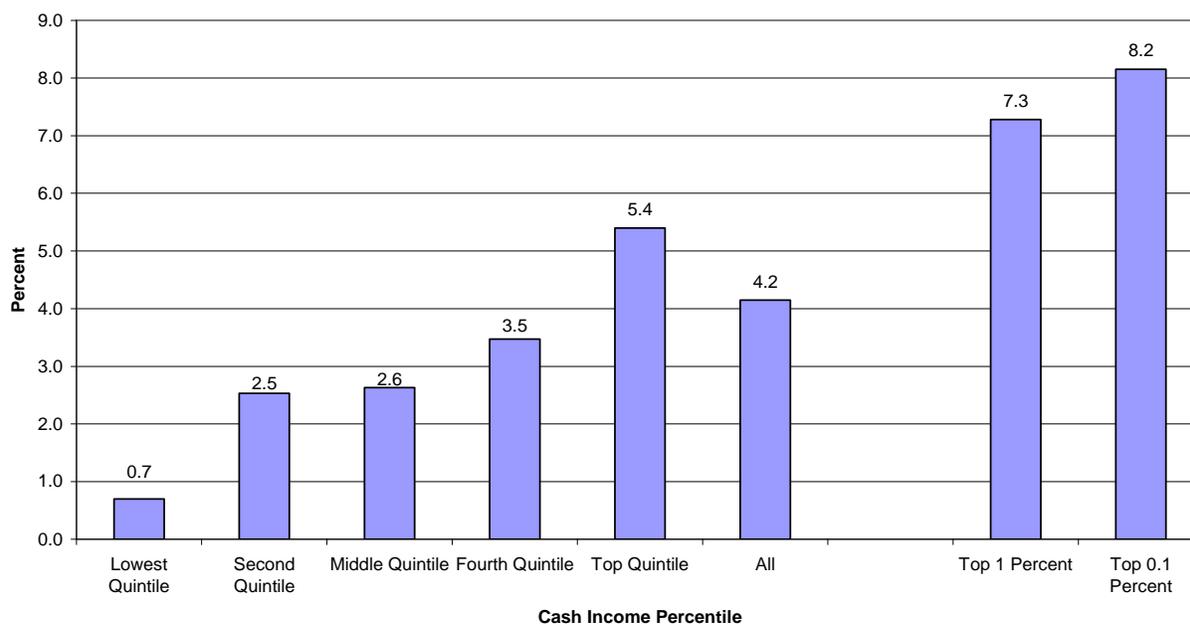
In late December 2007, Congress passed legislation to “patch” the alternative minimum tax (AMT) for the 2007 tax year. The Tax Increase Prevention Act of 2007 raised the AMT exemption to \$66,250 for couples and \$44,350 for unmarried individuals for that year only. It also extended the provision allowing taxpayers to claim personal nonrefundable credits regardless of tentative AMT.

In February of 2008, in response to growing political pressure and signs of a weakening U.S. economy, Congress passed the Economic Stimulus Act of 2008. The law allows “recovery rebates” or credits of up to \$600 for single filers (\$1,200 for married couples filing jointly) plus \$300 per qualifying child for the child tax credit. The credit is phased out for high income taxpayers at a rate of 5 percent of adjusted gross income over \$75,000 for single filers (\$150,000 for joint filers). The recovery rebates were distributed by direct deposit or by check sent directly to the taxpayer in the spring and summer of 2008, based on information from 2007 tax returns. The IRS will recalculate rebates in 2009 based on 2008 tax information and, if that yields a higher payment, will send the difference to the taxpayer.

2. DISTRIBUTIONAL EFFECTS IN 2010

Our preferred measure of the distributional impact of tax changes is the percentage change in after-tax income. That percentage measures the change in economic resources available to households for consumption or saving. A tax cut that gives all households the same percentage increase in after-tax income is distributionally neutral; it leaves the relative distribution of after-tax income unchanged. A tax cut that increases after-tax income proportionately more for lower-income households makes the tax system more progressive (or less regressive). One that increases after-tax income more for higher-income households makes the tax system less progressive (or more regressive).⁷

Figure 1.
2001-06 Tax Cuts with Extension of AMT Patch
Average Percentage Change in After-Tax Income, 2010



Source: TPC Microsimulation Model (version 0308-5).

The 2001–06 tax cuts are regressive. In 2010, when the tax cuts are fully phased in, and assuming the AMT patch is extended and indexed for inflation, tax units in the middle quintile of the income distribution will receive an average tax cut equal to 2.6 percent of after-tax income or \$1,149 (figure 1 and appendix table 1).⁸ Households in the top quintile will enjoy an average

⁷ Appendix B describes other measures of the distributional impact of tax changes.

⁸ A tax unit is an individual, or a married couple who file a tax return jointly, along with all dependents of that individual or married couple. Although this paper uses the terms interchangeably, a tax unit differs from a family or

reduction that is more than twice as large: 5.4 percent of income (\$11,286).⁹ Within the highest quintile, taxpayers in the top one percent will receive an average tax cut equal to 7.3 percent of income (\$97,440). The largest benefits will go to those at the very top of the income scale: the top one-tenth of one percent of households—those with incomes greater than \$3 million—will receive an average cut equal to 8.2 percent of after-tax income or more than \$500,000.¹⁰ In contrast, the cut for households in the bottom quintile will average 0.7 percent of income (\$74).

In addition to increasing the inequality in after-tax income, the tax cuts will shift slightly more of the federal tax burden to households in the middle of the income spectrum and away from households at the very top. In 2010, again assuming the AMT patch is extended and indexed for inflation, the top one percent of the population will receive 29.5 percent of the overall tax cut, a share that is larger than their pre-EGTRRA share of federal taxes paid, 25.9 percent (table 1 and appendix table 1).

Table 1
2001-06 Tax Cuts with Extension of AMT Patch
Share of Federal Tax Change by Cash Income Percentile, 2010

Cash Income Percentile ^a	Share of Total				Change in Share of Federal Taxes due to 2001-06 Tax Cuts
	Pre-Tax Cash Income	Federal Taxes Under Pre-EGTRRA Law	Federal Tax Change due to 2001-06 Tax Cuts	Federal Taxes After 2001-06 Tax Cuts	
Lowest Quintile	3.7	0.8	0.8	0.8	0.0
Second Quintile	8.1	4.4	5.7	4.2	-0.2
Middle Quintile	13.8	10.9	9.3	11.2	0.3
Fourth Quintile	19.6	18.1	16.8	18.3	0.2
Top Quintile	55.2	65.7	67.4	65.4	-0.3
All	100.0	100.0	100.0	100.0	0.0
Addendum					
80-90	13.5	14.0	13.8	14.0	0.0
90-95	9.3	10.1	9.5	10.1	0.1
95-99	13.4	15.7	14.7	15.9	0.2
Top 1 Percent	19.0	25.9	29.5	25.4	-0.5
Top 0.1 Percent	9.1	13.1	15.3	12.7	-0.3

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0308-5).

Note: Data are for calendar year 2010.

a. Tax units with negative cash income are excluded from the lowest quintile but are included in the totals. Includes both filing and non-filing units but excludes those that are dependents of other tax units. For a description of cash income, see <http://www.taxpolicycenter.org/TaxModel/income.cfm>

a household in certain situations. For example, two persons cohabiting make up one household but, if not legally married, would file separate tax returns and comprise two tax units.

⁹ The percentile breaks are (in 2008 dollars): 20 percent, \$19,264; 40 percent, \$38,201; 60 percent, \$67,715; 80 percent, \$114,258; 90 percent, \$165,007; 95 percent, \$232,495; 99 percent, \$620,442; and 99.9 percent, \$2,957,751. Quintiles contain equal numbers of people, not tax units.

¹⁰ Incomes are for 2010 expressed in 2008 dollars.

As a result, the 2001-06 tax cuts will cause the top 1 percent’s share of the federal tax burden to fall by 0.5 percentage points to 25.4 percent. In contrast, households in the middle of the income spectrum—who would have paid 10.9 percent of all federal taxes under pre-EGTRRA law—will receive only 9.3 percent of the benefits of the cuts and will thus see their share of the federal tax burden rise by 0.3 percentage points to 11.2 percent.

The distributional impact of the 2001–06 tax cuts differs among demographic groups for two primary reasons: (1) provisions such as the expansion of the child tax credit, marriage penalty relief, and the repeal of the estate tax target benefits to certain groups such as those with children, married couples, and the elderly; and (2) demographic groups with higher incomes benefit more from the regressive nature of the 2001–06 tax cuts.

In 2010, again assuming extension of the AMT patch, married couples filing jointly, tax units with children, and the elderly all receive average percentage increases in after-tax incomes that are larger than those for the population as a whole (table 2).¹¹

Table 2
2001-06 Tax Cuts with Extension of AMT Patch
Percentage Change in After-Tax Income For Various Demographic Groups
By Cash Income Adjusted for Family Size, 2010

Cash Income Percentile ^a	Percentage Change in After-Tax Income					
	All Tax Units	Single Individuals	Married Couples Filing Jointly	Heads of Household	Tax Units with Children ^b	Elderly ^c
Lowest Quintile	1.2	0.3	2.4	1.3	2.3	0.2
Second Quintile	2.8	1.4	3.5	3.7	4.6	0.7
Middle Quintile	2.8	1.7	3.3	3.1	3.8	1.5
Fourth Quintile	3.2	2.2	3.7	2.8	4.4	2.7
Top Quintile	5.2	6.5	4.9	3.7	5.0	7.1
All	4.2	3.8	4.4	3.1	4.6	4.9
Addendum						
80-90	3.8	3.3	4.0	2.7	4.1	4.3
90-95	4.1	4.1	4.1	2.8	4.3	4.9
95-99	4.7	6.4	4.3	3.4	4.2	6.7
Top 1 Percent	7.3	11.9	6.5	6.6	6.8	9.8
Top 0.1 Percent	8.2	13.7	7.3	7.6	7.2	11.0

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0308-5).

See notes to Table 1.

a. Quintiles are defined for the population as a whole, not the various subgroups.

b. Children are defined as exemptions taken for children living at, or away from, home.

c. Elderly tax units are those in which the head (or spouse, if applicable) is age 65 or older.

¹¹ The income classifier in table 2 has been adjusted for family size using the methodology employed by the Congressional Budget Office (CBO): dividing income by the square root of the number of members of the tax unit. This has the effect of shifting larger tax units into lower income quintiles. See Rohaly (2008) for more details.

A combination of the two explanations described above explains the results for married couples and those with children. Both demographic groups have average cash incomes greater than the \$79,000 value for the population as a whole: \$131,000 for married couples filing jointly and \$100,000 for those with children. In fact, almost one-third of married couples are in the top cash income quintile of the population. Thus married couples tend to benefit more than others since the tax cuts provide larger percentage increases in after-tax income to upper-income households. In addition, the 2001–06 tax cuts contained several provisions directly targeted at couples and those with children: it doubled the child tax credit and made it partially refundable and provided marriage-penalty relief by increasing the standard deduction, widening the 15-percent tax bracket, and extending the EITC plateau for married couples. Both groups also benefit more than others from AMT relief since the AMT penalizes married couples and families with children by disallowing dependent exemptions and imposing its own significant marriage penalties.

The impact on the elderly is more complicated. Although the average after-tax income gain for all elderly tax units (4.9 percent) exceeds the overall average (4.2 percent), the bottom four quintiles of elderly households fare worse than average while the top quintile’s gain exceeds the average. Elderly tax units in the top quintile receive an average tax cut of 7.1 percent of income compared with just 5.2 percent for the top fifth of the entire population. In contrast, although each elderly quintile gets a tax cut, their average after-tax income gains are between 0.5 and 2.1 percentage points less than the comparable quintile average for all tax units. The high-income elderly receive a disproportionate share of the benefits of repealing the estate tax. They also tend to receive a large portion of their income from capital gains and dividends and thus benefit greatly from the reduced tax rates on income from those sources.

Even though they benefit from many of the child-related provisions of the 2001–06 tax cuts, heads of household have the lowest overall percentage increase in after-tax income among all filing statuses, just 3.1 percent. In contrast to married couples, head-of-household tax units have an average cash income of \$42,000, just over half the value for the population as a whole. Since only 5 percent of head-of-household tax units are in the top quintile of the population, few of them will receive the large tax cuts that go to upper-income households.

The 2001–06 tax cuts reduced regular taxes through 2010 but did not provide accompanying permanent reductions in the AMT. Congress has instead relied on an initial temporary fix and subsequent annual patches to increase the AMT exemption and therefore prevent the number of AMT taxpayers from exploding each year.¹² The latest AMT patch expired at the end of 2007. If Congress chooses not to extend the AMT fix or permanently reform the AMT, the tax will “take back” more than a quarter of the benefits of the 2001–06 cuts in 2010, including almost two-thirds of the benefit for those earning between \$200,000 and \$500,000 (Leiserson and Rohaly 2008). Thus, if AMT relief is not extended, the distribution of the tax cuts would look quite different for those income classes most likely to fall into the AMT trap.

¹² For 2007, the patch increased the AMT exemption to \$66,250 for married couples and \$44,350 for unmarried individuals from \$45,000 and \$33,750 respectively. The patch also allowed taxpayers to claim certain personal nonrefundable credits, such as the education credits and the child and dependent care credit, regardless of the amount of tax owed under the AMT system.

AMT relief is a nonissue for almost all households in the bottom 60 percent of the income distribution.¹³ The average percentage change in after-tax income is essentially identical for the lowest three quintiles regardless of whether Congress chooses to extend the temporary AMT patch (table 3 and appendix table 2).

Table 3
The 2001-06 Tax Cuts: Percentage Change in
After-Tax Income by Cash Income Percentile,
2010

Cash Income Percentile	With AMT Patch ^a	Without AMT Patch
Lowest Quintile	0.7	0.7
Second Quintile	2.5	2.5
Middle Quintile	2.6	2.5
Fourth Quintile	3.5	2.6
Top Quintile	5.4	4.0
All	4.2	3.2
Addendum		
80-90	4.3	2.4
90-95	4.4	1.9
95-99	4.8	3.0
Top 1 Percent	7.3	7.3
Top 0.1 Percent	8.2	8.2

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0308-5).

See notes to table 1.

a. Assumes extension and indexation of the increased AMT exemption in the 2007 AMT patch, and allowance of personal nonrefundable credits regardless of tentative AMT.

Without AMT relief, however, the average increase in after-tax income for those in the fourth and fifth quintiles would be markedly lower in 2010, averaging just 2.6 and 4.0 percent of income, respectively, compared with 3.5 and 5.4 percent if the AMT patch were extended and indexed for inflation. In contrast, the AMT does not typically affect the highest-income

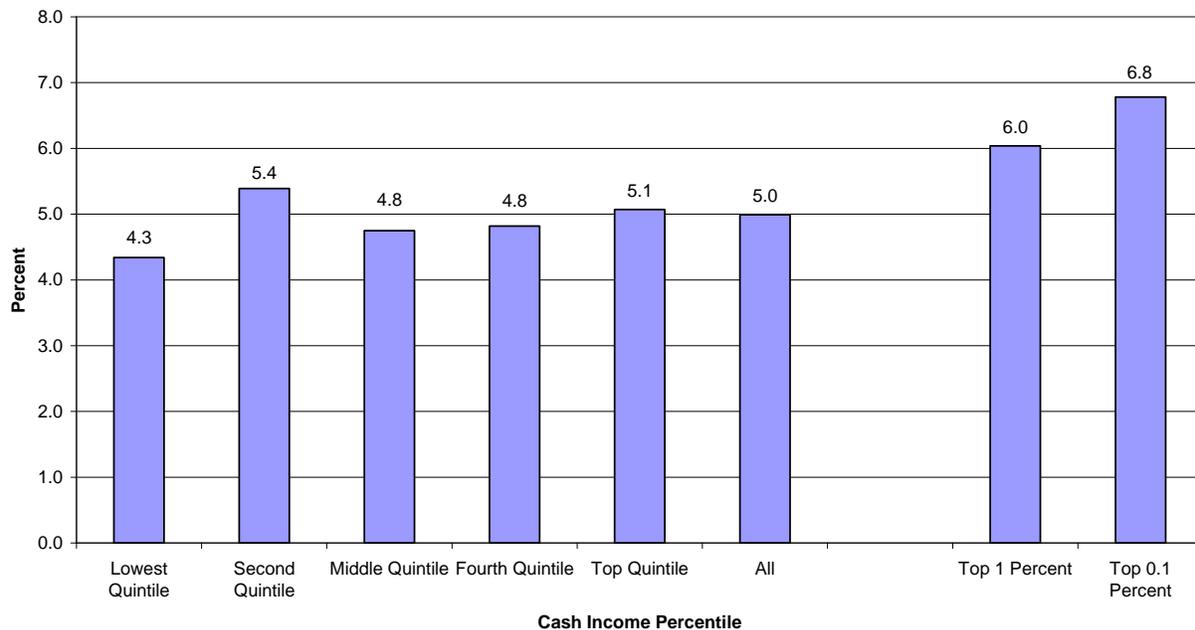
¹³ Unless, of course, AMT relief is ultimately funded by increases in taxes that affect lower- and moderate-income households. Section 4 below discusses the issue of financing the tax cuts.

taxpayers.¹⁴ Taxpayers in the top one percent of the income distribution would receive the same 7.3 percent average increase in after-tax income whether or not Congress extends AMT relief. In contrast, an unpatched AMT would hit the rest of the top quintile hard: taxpayers in the 90th to 95th percentiles, for example, would see an average tax cut equal to just 1.9 percent of income in the absence of AMT relief, compared with 4.4 percent if the patch is extended and indexed.

3. DISTRIBUTIONAL EFFECTS IN 2008

The distribution of the tax cuts is much less regressive in 2008 than in 2010 for several reasons: (1) the one-time only 2008 stimulus payments provide a relatively large benefit to lower- and moderate-income households; (2) some individual income tax provisions that primarily benefit upper-income households continue to phase in between 2008 and 2010; and (3) complete repeal of the estate tax does not occur until 2010.

Figure 2.
2001-06 Tax Cuts with Extension of AMT Patch
Average Percentage Change in After-Tax Income, 2008



Source: TPC Microsimulation Model (version 0308-5).

Assuming the 2007 AMT patch is extended and indexed for inflation, households will receive an average tax cut equal to 5.0 percent of after-tax income in 2008 (\$2,769) (figure 2 and appendix

¹⁴ The top statutory tax rate in the regular income tax is 35 percent whereas the top statutory rate in the AMT is only 28 percent. Thus high-income taxpayers who do not engage in substantial sheltering will owe more tax under the regular tax system and avoid the AMT. See Leiserson and Rohaly (2008) for details.

table 3). The average tax cut as a percent of income will be roughly equal across quintiles, ranging from 4.3 percent (\$435) for the bottom quintile to 5.4 percent (\$1,272) for the second quintile.¹⁵ The highest-income taxpayers will still receive the largest benefits: a 6.0 percent average increase in after-tax income (\$74,605) for those in the top 1 percent and a 6.8 percent gain (\$387,354) for the richest 1 in 1,000.

The 2008 stimulus payments are primarily responsible for the distributional near-neutrality of the tax cuts this year.¹⁶ Without the rebate credit, households in the bottom quintile would receive an average tax cut of only 0.7 percent of income (\$65) in 2008 (not shown in the figure) and those in the second quintile would get an average 2.6 percent (\$607).

As in 2010, the impact of the tax cuts in 2008 differs markedly among filing statuses and other demographic characteristics. On average, married couples filing jointly and tax units with children fare better than the population as a whole; single individuals and the elderly receive average cuts as a percentage of income that are below the average for the entire population. Because the 2008 stimulus payments are larger for married couples and those with children and are phased out for taxpayers with higher incomes, the differences are particularly large in the lower income quintiles.

¹⁵ The percentile breaks are (in 2008 dollars): 20 percent, \$18,726; 40 percent, \$37,258; 60 percent, \$65,634; 80 percent, \$110,346; 90 percent, \$159,187; 95 percent, \$224,851; 99 percent, \$601,906; and 99.9 percent, \$2,906,959.

¹⁶ The stimulus plan (H.R. 5140) provided a refundable basic credit equal to the greater of: (1) income tax liability net of nonrefundable credits (other than the child tax credit) not to exceed \$600 (\$1,200 for joint returns); and (2) \$300 (\$600 for joint returns) if the individual has: (a) at least \$3,000 of earned income plus Social Security benefits and veterans' benefits; or (b) income tax liability net of nonrefundable credits, other than the child tax credit (CTC), of at least \$1 and gross income greater than the sum of the applicable basic standard deduction and one personal exemption (2 exemptions for joint returns). For any tax unit with at least \$1 of basic credit, the law provided an additional, refundable, \$300 credit for each child eligible for the child tax credit. The total value of the credit (basic plus child credit) is reduced by 5 percent of adjusted gross income in excess of \$75,000 for singles, \$150,000 for couples.

Table 4
2001-06 Tax Cuts with Extension of AMT Patch
Percentage Change in After-Tax Income For Various Demographic Groups
By Cash Income Adjusted for Family Size, 2008

Cash Income Percentile	Percentage Change in After-Tax Income					
	All Tax Units	Single Individuals	Married Couples Filing Jointly	Heads of Household	Tax Units with Children	Elderly
Lowest Quintile	5.4	3.7	7.5	5.9	7.4	3.3
Second Quintile	6.0	4.1	7.1	6.8	8.3	2.8
Middle Quintile	5.2	3.8	6.0	5.2	6.5	3.0
Fourth Quintile	4.8	3.4	5.4	3.8	6.0	4.0
Top Quintile	4.8	4.4	5.0	3.4	5.0	5.3
All	5.0	4.0	5.3	5.1	5.9	4.6
Addendum						
80-90	4.7	3.7	5.2	2.8	5.1	4.9
90-95	4.2	3.6	4.4	2.6	4.1	4.9
95-99	4.0	4.3	4.0	2.9	3.9	4.9
Top 1 Percent	5.9	5.9	6.0	5.5	6.4	6.0
Top 0.1 Percent	6.7	6.6	6.8	6.4	6.8	6.7

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0308-5).
See notes to tables 1 and 2.

Married couples in the bottom two quintiles will receive average tax cuts equal to more than 7 percent of after-tax income, compared to 5.4 and 6.0 percent for all tax units in those quintiles (table 4). Tax units with children in the two lowest quintiles will receive average tax cuts of 7.4 and 8.3 percent of income, again well above the overall average. In contrast, low- and moderate-income single and elderly households will receive average tax breaks that are significantly lower than those for the population as a whole.

Average tax cuts at the very top of the income scale differ little across demographic groups, but the groups are not equally represented in those top income categories. For example, the top 1 percent of the population contains 1.6 percent of married couples but only one-tenth of one percent of heads of household.

Finally, if Congress fails to pass AMT relief this year, a large portion of the expected tax reduction for households in the 60th through 99th percentiles of the income distribution will not materialize (table 5 and appendix table 4). Households in the top quintile will receive an average tax cut equal to 4.0 percent of after-tax income if AMT relief is not passed compared with 5.1 percent if the patch is extended and indexed for inflation. Those in the 90th to 99th percentiles of the income distribution would be hardest hit by a lack of Congressional action on the AMT. Households in those income categories would see, on average, only about 60 percent of the tax cut they would have received if the patch were extended.

Table 5
The 2001-06 Tax Cuts: Percentage Change in
After-Tax Income by Cash Income Percentile,
2008

Cash Income Percentile	With AMT Patch ^a	Without AMT Patch
Lowest Quintile	4.3	4.3
Second Quintile	5.4	5.4
Middle Quintile	4.8	4.7
Fourth Quintile	4.8	4.2
Top Quintile	5.1	4.0
All	5.0	4.3
Addendum		
80-90	5.3	3.8
90-95	4.5	2.6
95-99	4.0	2.4
Top 1 Percent	6.0	6.0
Top 0.1 Percent	6.8	6.8

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0308-5).
See notes to tables 1 and 3.

4. FINANCING THE TAX CUTS

Over the long-term, the 2001–06 tax cuts must eventually be offset by lower spending, higher revenues, or a combination of the two. This section presents distributional effects for three stylized approaches to financing the tax cuts for the year 2010 when the cuts are fully phased in.¹⁷ The first option finances the tax cuts with a lump-sum levy on all households. The lump-sum approach can be interpreted as financing the cuts with a reduction in government expenditures that affects all households equally. The second approach finances the cuts by levying an additional tax on all households in proportion to their income. The final approach finances the cuts by levying an additional tax in proportion to current individual income tax liability. This approach can be interpreted as a form of income tax surcharge that would affect high-income households the most.

¹⁷ These estimates are static and assume that the full value of the cuts must be financed. Burman (2006) discusses the effects of financing choices on the economy, pointing out that evidence shows that tax cuts do not pay for themselves and that the financing options most likely to spur growth would also be the most regressive. The analysis continues to assume that the 2007 AMT patch is extended and indexed for inflation.

Table 6
2001-06 Tax Cuts with Extension of AMT Patch
Percentage Change in After-Tax Income Under Various Forms of Financing
By Cash Income Percentile, 2010

Cash Income Percentile ^a	Form of Financing			
	None	Lump-Sum	Proportional to Cash Income	Proportional to Individual Income Tax
Lowest Quintile	0.7	-22.8	-2.6	-1.0
Second Quintile	2.5	-7.3	-1.1	0.7
Middle Quintile	2.6	-3.1	-1.3	0.5
Fourth Quintile	3.5	0.0	-0.6	0.6
Top Quintile	5.4	4.2	1.0	-0.4
All	4.2	0.0	0.0	0.0
Addendum				
80-90	4.3	2.0	0.1	0.5
90-95	4.4	2.7	0.1	-0.3
95-99	4.8	3.9	0.4	-1.4
Top 1 Percent	7.3	7.1	2.6	-0.4
Top 0.1 Percent	8.2	8.1	3.3	0.3

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0308-5).

See notes to Table 1.

Financing the tax cuts with a lump-sum levy would make them significantly more regressive than they appear without financing (table 6 and appendix table 5).¹⁸ The bottom quintile would suffer an average 22.8 percent drop in after-tax income (\$2,409), the second quintile a 7.3 percent drop (\$1,841), and the middle quintile a 3.1 percent drop (\$1,334). The lump-sum levy would, on average, just offset the tax cuts for households in the fourth quintile. Finally, households in the top quintile would gain an average of 4.2 percent in after-tax income (\$8,803) and the top 1 percent would get an average 7.1 percent increase (\$94,957). Overall, close to 4 in 5 households would see their taxes rise, including more than 90 percent of those in the bottom three quintiles (appendix table 5). Only in the top quintile would the majority of households experience a net tax reduction.

Financing the tax cuts with an additional levy proportional to cash income would result in the same general distributional pattern as the lump-sum levy but without the extreme results at the bottom and top of the income scale.¹⁹ After-tax income would fall 2.6 percent (\$278) on average for households in the lowest quintile (table 6 and appendix table 6). The middle three quintiles would see their average after-tax income fall by between 0.6 and 1.3 percent. As in the lump sum

¹⁸ The levy would be \$2,483.

¹⁹ The required levy would be 3.2 percent of cash income.

case, financing in proportion to cash income leaves only the top quintile with an average net tax reduction: the top quintile would get an average 1.0 percent increase in after-tax income—\$2,054. Again, close to 4 in 5 households would experience a net tax increase (appendix table 6), including the majority of those in each quintile. Only within the top 1 percent would more than half of taxpayers receive a net tax reduction (69 percent).

The third option would finance the tax cuts with an additional tax proportional to each household's income tax liability.²⁰ Under this scenario, the top and bottom quintiles would be net losers while the middle three quintiles would be net winners (table 6 and appendix table 7). The bottom quintile would experience an average 1.0 percent drop in after-tax income (\$105); the top quintile would receive an average 0.4 percent drop (\$825). The average increases in after-tax income for the middle three quintiles would fall between 0.5 and 0.7 percent. Households at the very top of the income distribution would also, on average, receive a net tax reduction: the top 0.1 percent would experience an average 0.3 percent increase in after-tax income or \$19,446. Overall, about 39 percent of households would be net winners, including about half of those in the middle three quintiles; 42 percent of households, including about two-thirds of those in the top quintile, would be net losers.

Although these three financing options result in very different distributions of tax burdens, they are neither extreme nor unrealistic. For example, financing the tax cuts by increasing the top tax rates and maintaining the tax cuts benefiting low- and middle-income taxpayers would make the overall distribution of tax burdens significantly more progressive than under the third financing option (tax increases proportional to income tax). Alternatively, financing the tax cuts with cuts in entitlement programs and means-tested transfer programs such as food stamps, school lunches, and Pell grants would impose a disproportionate share of the cost of the tax cuts on low-income households and yield a more regressive outcome than under the lump-sum financing option.

5. CONCLUSIONS

Since 2001, a series of tax cuts has slashed federal revenues by more than \$2.2 trillion over ten years. Almost all of this tax relief is set to expire at the end of 2010. Congress and the new President will need to decide whether to allow this to happen or to make some or all of the tax cuts permanent. Aside from the enormous budgetary consequences, the distributional impact of these tax cuts should matter in the decision-making process.

Although the long-term distributional effects of the 2001-06 tax cuts will depend on how we ultimately pay for them, the immediate benefits are skewed in favor of high-income households. In 2010, when the cuts are fully phased in, households in the top quintile will receive an average tax reduction that is more than twice as large as a share of income than the reduction that will go to those in the middle fifth of the income distribution. Taxpayers at the very top of the income scale will benefit the most, further widening the already substantial inequality in after-tax income. Those in the top one percent of the population will see their after-tax incomes increase

²⁰ Households with negative income tax liability—for example, those receiving a net refund because of the earned income tax credit—would see their refund reduced by the same percentage as the increase in tax for households with a positive tax liability. The required levy in this case would be 28.1 percent of individual income tax liability.

an average of more than 7 percent; those in the top one-tenth of one percent—the richest 1 in 1,000 taxpayers—will see an average increase in after-tax income of more than 8 percent. That is more than ten times greater than the average increase the poorest fifth will get.

Over the long-term, tax cuts must be financed through spending cuts, other tax increases, or a combination of the two. Deficit financing makes tax cuts look like a free lunch—everyone gains and no one loses. In fact, ignoring the difficult financing decisions makes it impossible to say a priori who will gain and who will lose in the long run. For example, if the revenue loss from the 2001–06 tax cuts, and an accompanying fix for the AMT, were offset by an additional tax levied in proportion to income, close to four in five households would actually end up worse off.

APPENDIX A: DESCRIPTION OF TPC MICROSIMULATION MODEL

A large-scale microsimulation model of the U.S. federal tax system produces the Tax Policy Center's revenue and distribution estimates. The model we have developed is similar to those used by the Congressional Budget Office (CBO), the Joint Committee on Taxation (JCT), and the Treasury's Office of Tax Analysis (OTA).

The model is based on data from the 2004 public-use file (PUF) produced by the Statistics of Income (SOI) Division of the Internal Revenue Service (IRS). The PUF contains detailed information from 150,047 federal individual income tax returns filed in the 2004 calendar year. We add information on demographics and sources of income that are not reported on tax returns using a constrained statistical match of the public-use file with the March 2005 Current Population Survey (CPS) of the U.S. Census Bureau. The statistical match with the CPS also generates a sample of individuals who do not file income tax returns ("nonfilers"). Combining the dataset of filers from the PUF (augmented by demographic and other information from the CPS) with the dataset of nonfilers generated by the statistical match with the CPS allows us to conduct distributional analysis for the entire population rather than just the segment that files individual income tax returns.

The tax model consists of two components: a statistical routine that "ages" or extrapolates the 2004 data to create a representative sample of both filers and nonfilers for future years; and a detailed tax calculator that computes the individual income tax liability for all filers in the sample under current law and under alternative policy proposals. The calculator also computes the employee and employer shares of payroll taxes for Social Security and Medicare.

AGING AND EXTRAPOLATION PROCESS

For the years from 2005 to 2019, we "age" the 2004 data based on Congressional Budget Office (CBO) forecasts and projections for the growth in various types of income, IRS projections of the growth in the number of tax returns, and Bureau of the Census data on the composition of the population. We use actual 2005 through 2006 data when they are available. A two-step process produces a representative sample of the filing and nonfiling population in years beyond 2004. First, we first inflate the dollar amounts for income, adjustments, deductions, and credits on each record by their appropriate per capita forecasted growth rates. We use the CBO's forecast for per capita growth in major income sources such as wages, capital gains, and nonwage income (interest, dividends, social security income and others). Most other items are assumed to grow at CBO's projected growth rate for per capita personal income. In the second stage of the extrapolation, we adjust the weights on each record using a linear programming algorithm to ensure that the major income items, adjustments, and deductions match aggregate targets. For years beyond 2004, we do not target distributions for any item; wages and salaries, for example, grow at the same per capita rate for tax units at every income level.

TAX CALCULATOR

We can simulate policy options using the extrapolated data set and a detailed tax calculator that captures most features of the federal individual income tax system, including the alternative minimum tax (AMT). The model reflects major income tax legislation enacted through early 2008, including the Economic Stimulus Act of 2008. We model the following major provisions of EGTRRA and JGTRRA: changes in marginal tax rates, the new 10 percent tax bracket, credits for children and dependent care, itemized deduction limitations, personal exemption phase outs, the AMT, education incentives, retirement and pension measures, and the marriage penalty provisions, which increased the standard deduction, 15 percent bracket, and earned income tax credit for married couples. We also model JGTRRA's changes to the taxation of dividends and capital gains. After computing individual income tax liability, the model then calculates payroll taxes for Social Security and Medicare, imputes corporate income tax to records based on their share of capital income (interest, dividends, capital gains, and rents), and calculates expected estate tax liability for each record based on mortality rates and imputations of wealth. Our estate tax calculator captures EGTRRA's changes to rates and the effective exemption, as well as the replacement of the state death tax credit with a deduction for state-level estate and inheritance taxes.

RECENT MODEL ENHANCEMENTS

In early 2008, the Tax Policy Center completed a major update of its microsimulation model to use more recent data and to expand the model's capabilities. We shifted the database underlying the model from the 2001 public-use file (PUF) of tax returns produced by the IRS to the 2004 file. At the same time, we performed a new statistical match with the March 2005 Current Population Survey, which includes information on 2004 income. We updated the tax model's estate tax module to incorporate the latest IRS data on estate tax filers. We expanded the retirement module to model the revenue and distributional implications of implementing automatic enrollment in IRAs and 401(k) retirement plans and updated the module to incorporate 2004 data. We also refined the model's imputations of itemized deductions, such as charitable contributions and home mortgage interest, for "nonitemizers" (i.e., those who claim only the standard deduction on their tax return). These imputations allow us to model the distribution and revenue implications of proposals to replace certain credits with deductions.

The updated microsimulation model also incorporates a completely overhauled and expanded education module. Using data from the October 2003 and October 2004 CPS, as well as the National Postsecondary Student Aid Study (NPSAS), we impute student status, characteristics, and education expenditures onto the tax model database. This allows us to model current tax incentives for education, such as the HOPE and Lifetime Learning Credits and the deduction for higher education expenses, as well as to examine the revenue and distributional implications of combining or modifying these tax programs. We can also model current spending programs such as Pell Grants, and examine the revenue and distributional effects of changes to program rules.

APPENDIX B: MEASURING THE DISTRIBUTION OF TAX CHANGES

Distributional analysis provides information about how a tax proposal affects the economic well-being of different groups of individuals. There are many possible measures of the distributional impact of tax changes. Ideally, we would measure the resulting change in the welfare or utility of each household, but direct measures of welfare are not available. We believe that the best proxy for economic welfare, given available data, is after-tax income. That measure represents the current change in economic resources that is available to households for consumption or saving. A tax cut that gives all households the same percentage increase in after-tax income is distributionally neutral; it leaves the relative distribution of after-tax income unchanged. A tax cut that increases after-tax income proportionately more for lower-income households makes the tax system more progressive (or less regressive). One that increases after-tax income more for higher-income households makes the tax system less progressive (or more regressive).

Our tables also report several other measures, each of which can be useful in assessing the impact of a tax change, but which can also be misinterpreted. The share of the tax cut received by each income group can be misleading because the individual income tax is highly progressive. High-income households can receive what appears to be a large share of an income tax cut but the tax system could still end up more progressive if their share of the tax cut is smaller than their share of overall tax liability.

The average tax cut in dollar terms is another often-used measure of who benefits from a tax cut. Without additional information, however, it is impossible to determine from this measure which income classes benefit proportionately more since those at the top of the income scale have significantly more income—and also pay significantly more tax—than those in the middle of the income distribution. Thus what appears to be a large average tax cut for a high-income group could, in fact, represent a relatively small percentage increase in after-tax income.

An alternative distributional measure that can also be extremely misleading is the change in tax as a percentage of total tax liability. Because low-income tax units pay less tax than high-income taxpayers under a progressive tax system, a small tax cut for low-income households can appear to be a giant reduction in tax liability even though it does not raise their after-tax income very much. For example, consider someone earning \$20,000 who pays \$1 in taxes and someone earning \$2 million who pays \$500,000. Now suppose that legislation provides a \$1 tax cut for the low-income person and a \$100,000 tax cut for the high-income person. Using the percentage change in tax liability makes it appear that the cut is tilted toward the low-income person; the legislation cuts his taxes by 100 percent but taxes for the high-income household fall “only” 20 percent. In fact, the cut would increase the after-tax income of the poor individual just 0.005 percent but raise the wealthy household’s income 5 percent. Thus economic resources – as measured by after-tax income – increase 1,000 times as much in percentage terms for the high-income household.

The change in the share of the overall tax burden paid by different income classes is another commonly used measure of progressivity. But it can be misleading when the total tax burden also changes. Consider the example discussed above. When legislation cuts the low-income individual’s tax by \$1 and the high-income household’s by \$100,000, that high-income household’s share of the overall tax burden goes up. In fact, they now pay 100 percent of the

total tax burden. Conversely, the low-income household now pays a smaller share of the total tax burden—none. But again, this does not mean that the low-income household benefited proportionately more than the high-income household; in fact, just the opposite. The low-income household receives an increase in economic resources of just 0.005 percent; the high-income household receives 1,000 times as much.

Distributional analysis has been criticized because annual income can vary widely from lifetime income, which would be a preferable measure of economic welfare. Some critics also argue that consumption would be a better proxy for welfare because people's spending tends to more closely track lifetime, rather than annual, income.²¹ Neither permanent income nor consumption can be measured accurately with tax data, however, so annual income is probably the best available proxy for economic welfare. We believe that, bearing in mind these caveats about the imprecision of annual income as a measure of economic status, distributional analysis can be a useful input to policy analysis.

²¹ See Penner (2004) for a critique of standard distributional analysis.

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Appendix Table 1
Individual Income and Estate Tax Provisions in 2001-06 Tax Cuts with AMT Patch Extended
Distribution of Federal Tax Change by Cash Income Percentile, 2010

Cash Income Percentile ^{a,b}	Percent of Tax Units ^c		Percent Change in After-Tax Income ^d	Share of Total Federal Tax Change	Average Federal Tax Change		Share of Federal Taxes		Average Federal Tax Rate ^e	
	With Tax Cut	With Tax Increase			Dollars	Percent	Change (% Points)	Under the Proposal	Change (% Points)	Under the Proposal
Lowest Quintile	25.1	0.5	0.7	0.8	-74	-12.6	0.0	0.8	-0.7	4.6
Second Quintile	81.5	0.3	2.5	5.7	-642	-17.0	-0.2	4.2	-2.2	10.8
Middle Quintile	95.6	0.1	2.6	9.3	-1,149	-11.2	0.3	11.2	-2.1	17.0
Fourth Quintile	99.0	0.0	3.5	16.8	-2,484	-12.2	0.2	18.3	-2.7	19.4
Top Quintile	99.5	0.0	5.4	67.4	-11,286	-13.5	-0.3	65.4	-3.9	24.8
All	75.0	0.2	4.2	100.0	-2,483	-13.1	0.0	100.0	-3.2	20.9
Addendum										
80-90	99.5	0.0	4.3	13.8	-4,554	-12.9	0.0	14.0	-3.2	21.7
90-95	99.8	0.0	4.4	9.5	-6,481	-12.4	0.1	10.1	-3.2	22.8
95-99	99.5	0.0	4.8	14.7	-12,363	-12.3	0.2	15.9	-3.5	24.7
Top 1 Percent	99.3	0.1	7.3	29.5	-97,440	-14.9	-0.5	25.4	-4.9	27.9
Top 0.1 Percent	99.5	0.0	8.2	15.3	-501,532	-15.4	-0.3	12.7	-5.3	29.3

Baseline Distribution of Income and Federal Taxes by Cash Income Percentile, 2010

Cash Income Percentile ^{a,b}	Tax Units ^c		Average Income (Dollars)	Average Federal Tax Burden (Dollars)	Average After-Tax Income ^d (Dollars)	Average Federal Tax Rate ^e	Share of Pre-Tax Income Percent of Total	Share of Post-Tax Income Percent of Total	Share of Federal Taxes Percent of Total
	Number (thousands)	Percent of Total							
Lowest Quintile	39,491	26.0	11,166	589	10,577	5.3	3.7	4.6	0.8
Second Quintile	33,367	21.9	29,131	3,784	25,348	13.0	8.1	9.3	4.4
Middle Quintile	30,543	20.1	54,009	10,308	43,701	19.1	13.8	14.7	10.9
Fourth Quintile	25,544	16.8	91,878	20,342	71,536	22.1	19.6	20.1	18.1
Top Quintile	22,575	14.8	292,812	83,747	209,065	28.6	55.2	51.8	65.7
All	152,206	100.0	78,753	18,905	59,848	24.0	100.0	100.0	100.0
Addendum									
80-90	11,415	7.5	141,464	35,260	106,204	24.9	13.5	13.3	14.0
90-95	5,515	3.6	201,383	52,444	148,939	26.0	9.3	9.0	10.1
95-99	4,501	3.0	357,460	100,600	256,860	28.1	13.4	12.7	15.7
Top 1 Percent	1,143	0.8	1,990,331	652,471	1,337,859	32.8	19.0	16.8	25.9
Top 0.1 Percent	116	0.1	9,409,657	3,257,912	6,151,745	34.6	9.1	7.8	13.1

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0308-5).

Notes: Data are for 2010 calendar year. Baseline is pre-EGTRRA law. Includes major individual income and estate tax provisions in EGTRRA 2001, JGTRRA 2003, WFTRA 2004, TIPRA 2006, PPA 2006, TIPA 2007, and ESA 2008. Assumes that the AMT exemption is \$62,550 for married couples filing jointly and \$42,500 for unmarried individuals, indexed for inflation after 2007, and that personal non-refundable credits are allowed regardless of tentative AMT.

a. Tax units with negative cash income are excluded from the lowest income class but are included in the totals. For a description of cash income, see

<http://www.taxpolicycenter.org/TaxModel/income.cfm>

b. The cash income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2008 dollars): 20% \$19,264, 40% \$38,201, 60% \$67,715, 80% \$114,258, 90% \$165,007, 95% \$232,495, 99% \$620,442, 99.9% \$2,957,751.

c. Includes both filing and non-filing units but excludes those that are dependents of other tax units.

d. After-tax income is cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); and estate tax.

e. Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, and the estate tax) as a percentage of average cash income.

Appendix Table 2
Individual Income and Estate Tax Provisions in 2001-06 Tax Cuts with No AMT Relief
Distribution of Federal Tax Change by Cash Income Percentile, 2010

Cash Income Percentile	Percent of Tax Units		Percent Change in After-Tax Income	Share of Total Federal Tax Change	Average Federal Tax Change		Share of Federal Taxes		Average Federal Tax Rate	
	With Tax Cut	With Tax Increase			Dollars	Percent	Change (% Points)	Under the Proposal	Change (% Points)	Under the Proposal
Lowest Quintile	25.1	0.5	0.7	1.0	-74	-12.6	0.0	0.8	-0.7	4.6
Second Quintile	81.5	0.3	2.5	7.3	-642	-17.0	-0.3	4.1	-2.2	10.8
Middle Quintile	94.8	0.2	2.5	11.2	-1,079	-10.5	0.0	10.9	-2.0	17.1
Fourth Quintile	95.9	0.2	2.6	15.8	-1,826	-9.0	0.3	18.3	-2.0	20.2
Top Quintile	93.1	0.0	4.0	64.6	-8,421	-10.1	0.1	65.8	-2.9	25.7
All	73.4	0.3	3.2	100.0	-1,934	-10.2	0.0	100.0	-2.5	21.6
Addendum										
80-90	94.1	0.0	2.4	9.9	-2,548	-7.2	0.5	14.5	-1.8	23.1
90-95	89.9	0.0	1.9	5.3	-2,822	-5.4	0.5	10.6	-1.4	24.6
95-99	92.9	0.1	3.0	11.7	-7,670	-7.6	0.5	16.2	-2.2	26.0
Top 1 Percent	99.0	0.0	7.3	37.7	-97,028	-14.9	-1.3	24.6	-4.9	27.9
Top 0.1 Percent	99.5	0.0	8.2	19.7	-501,517	-15.4	-0.8	12.3	-5.3	29.3

Baseline Distribution of Income and Federal Taxes by Cash Income Percentile, 2010

Cash Income Percentile	Tax Units		Average Income (Dollars)	Average Federal Tax Burden (Dollars)	Average After-Tax Income (Dollars)	Average Federal Tax Rate	Share of Pre-Tax Income Percent of Total	Share of Post-Tax Income Percent of Total	Share of Federal Taxes Percent of Total
	Number (thousands)	Percent of Total							
Lowest Quintile	39,491	26.0	11,166	589	10,577	5.3	3.7	4.6	0.8
Second Quintile	33,367	21.9	29,131	3,784	25,348	13.0	8.1	9.3	4.4
Middle Quintile	30,543	20.1	54,009	10,308	43,701	19.1	13.8	14.7	10.9
Fourth Quintile	25,544	16.8	91,878	20,342	71,536	22.1	19.6	20.1	18.1
Top Quintile	22,575	14.8	292,812	83,747	209,065	28.6	55.2	51.8	65.7
All	152,206	100.0	78,753	18,905	59,848	24.0	100.0	100.0	100.0
Addendum									
80-90	11,415	7.5	141,464	35,260	106,204	24.9	13.5	13.3	14.0
90-95	5,515	3.6	201,383	52,444	148,939	26.0	9.3	9.0	10.1
95-99	4,501	3.0	357,460	100,600	256,860	28.1	13.4	12.7	15.7
Top 1 Percent	1,143	0.8	1,990,331	652,471	1,337,859	32.8	19.0	16.8	25.9
Top 0.1 Percent	116	0.1	9,409,657	3,257,912	6,151,745	34.6	9.1	7.8	13.1

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0308-5).
See notes to appendix table 1.

Appendix Table 3
Individual Income and Estate Tax Provisions in 2001-08 Tax Cuts with AMT Patch Extended
Distribution of Federal Tax Change by Cash Income Percentile, 2008

Cash Income Percentile	Percent of Tax Units		Percent Change in After-Tax Income	Share of Total Federal Tax Change	Average Federal Tax Change		Share of Federal Taxes		Average Federal Tax Rate	
	With Tax Cut	With Tax Increase			Dollars	Percent	Change (%) Points	Under the Proposal	Change (%) Points	Under the Proposal
Lowest Quintile	78.7	0.1	4.3	4.0	-425	-78.6	-0.6	0.2	-4.1	1.1
Second Quintile	98.2	0.1	5.4	10.1	-1,272	-36.1	-1.1	3.3	-4.7	8.3
Middle Quintile	99.5	0.0	4.8	14.0	-1,937	-20.4	-0.6	10.2	-3.9	15.0
Fourth Quintile	99.8	0.0	4.8	19.3	-3,201	-17.2	-0.3	17.3	-3.8	18.1
Top Quintile	99.8	0.0	5.1	52.5	-9,826	-12.4	2.6	68.9	-3.6	25.4
All	93.6	0.1	5.0	100.0	-2,769	-15.7	0.0	100.0	-3.8	20.4
Addendum										
80-90	99.8	0.0	5.3	14.0	-5,193	-16.1	-0.1	13.6	-4.0	20.7
90-95	100.0	0.0	4.5	8.1	-6,164	-12.8	0.3	10.2	-3.3	22.6
95-99	99.7	0.0	4.0	10.2	-9,486	-10.1	1.0	16.7	-2.9	25.4
Top 1 Percent	99.4	0.1	6.0	20.3	-74,605	-11.7	1.3	28.4	-4.0	30.0
Top 0.1 Percent	99.8	0.1	6.8	10.7	-387,354	-12.1	0.6	14.4	-4.3	31.7

Baseline Distribution of Income and Federal Taxes by Cash Income Percentile, 2008

Cash Income Percentile	Tax Units		Average Income (Dollars)	Average Federal Tax Burden (Dollars)	Average After-Tax Income (Dollars)	Average Federal Tax Rate	Share of Pre-Tax Income Percent of Total	Share of Post-Tax Income Percent of Total	Share of Federal Taxes Percent of Total
	Number (thousands)	Percent of Total							
Lowest Quintile	38,734	26.1	10,339	541	9,799	5.2	3.7	4.6	0.8
Second Quintile	32,512	21.9	27,137	3,525	23,611	13.0	8.1	9.3	4.4
Middle Quintile	29,745	20.0	50,269	9,494	40,775	18.9	13.8	14.7	10.8
Fourth Quintile	24,833	16.7	85,096	18,637	66,459	21.9	19.5	20.0	17.6
Top Quintile	21,974	14.8	273,072	79,191	193,881	29.0	55.2	51.7	66.3
All	148,478	100.0	73,156	17,672	55,484	24.2	100.0	100.0	100.0
Addendum									
80-90	11,083	7.5	130,618	32,249	98,369	24.7	13.3	13.2	13.6
90-95	5,366	3.6	186,071	48,153	137,918	25.9	9.2	9.0	9.9
95-99	4,406	3.0	331,342	93,566	237,777	28.2	13.4	12.7	15.7
Top 1 Percent	1,119	0.8	1,871,777	636,378	1,235,399	34.0	19.3	16.8	27.1
Top 0.1 Percent	113	0.1	8,924,869	3,213,155	5,711,713	36.0	9.3	7.8	13.9

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0308-5).

Notes: Data are for calendar year 2008. The cash income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2008 dollars): 20% \$18,726, 40% \$37,258, 60% \$65,634, 80% \$110,346, 90% \$159,187, 95% \$224,851, 99% \$601,906, 99.9% \$2,906,959. See notes to appendix table 1.

**Appendix Table 4
Individual Income and Estate Tax Provisions in 2001-06 Tax Cuts with No AMT Relief
Distribution of Federal Tax Change by Cash Income Percentile, 2008**

Cash Income Percentile	Percent of Tax Units		Percent Change in After-Tax Income	Share of Total Federal Tax Change	Average Federal Tax Change		Share of Federal Taxes		Average Federal Tax Rate	
	With Tax Cut	With Tax Increase			Dollars	Percent	Change (% Points)	Under the Proposal	Change (% Points)	Under the Proposal
Lowest Quintile	78.7	0.1	4.3	4.7	-425	-78.6	-0.6	0.2	-4.1	1.1
Second Quintile	98.2	0.1	5.4	11.7	-1,272	-36.1	-1.1	3.2	-4.7	8.3
Middle Quintile	99.5	0.0	4.7	16.0	-1,900	-20.0	-0.8	10.0	-3.8	15.1
Fourth Quintile	99.5	0.0	4.2	19.8	-2,819	-15.1	-0.3	17.3	-3.3	18.6
Top Quintile	97.1	0.0	4.0	47.8	-7,676	-9.7	2.9	69.2	-2.8	26.2
All	93.1	0.1	4.3	100.0	-2,379	-13.5	0.0	100.0	-3.3	20.9
Addendum										
80-90	98.4	0.0	3.8	11.9	-3,777	-11.7	0.3	13.9	-2.9	21.8
90-95	96.6	0.0	2.6	5.4	-3,529	-7.3	0.7	10.6	-1.9	24.0
95-99	94.1	0.1	2.4	7.0	-5,622	-6.0	1.4	17.1	-1.7	26.5
Top 1 Percent	99.1	0.0	6.0	23.5	-74,266	-11.7	0.6	27.7	-4.0	30.0
Top 0.1 Percent	99.8	0.1	6.8	12.4	-387,345	-12.1	0.2	14.1	-4.3	31.7

Baseline Distribution of Income and Federal Taxes by Cash Income Percentile, 2008

Cash Income Percentile	Tax Units		Average Income (Dollars)	Average Federal Tax Burden (Dollars)	Average After-Tax Income (Dollars)	Average Federal Tax Rate	Share of Pre-Tax Income Percent of Total	Share of Post-Tax Income Percent of Total	Share of Federal Taxes Percent of Total
	Number (thousands)	Percent of Total							
Lowest Quintile	38,734	26.1	10,339	541	9,799	5.2	3.7	4.6	0.8
Second Quintile	32,512	21.9	27,137	3,525	23,611	13.0	8.1	9.3	4.4
Middle Quintile	29,745	20.0	50,269	9,494	40,775	18.9	13.8	14.7	10.8
Fourth Quintile	24,833	16.7	85,096	18,637	66,459	21.9	19.5	20.0	17.6
Top Quintile	21,974	14.8	273,072	79,191	193,881	29.0	55.2	51.7	66.3
All	148,478	100.0	73,156	17,672	55,484	24.2	100.0	100.0	100.0
Addendum									
80-90	11,083	7.5	130,618	32,249	98,369	24.7	13.3	13.2	13.6
90-95	5,366	3.6	186,071	48,153	137,918	25.9	9.2	9.0	9.9
95-99	4,406	3.0	331,342	93,566	237,777	28.2	13.4	12.7	15.7
Top 1 Percent	1,119	0.8	1,871,777	636,378	1,235,399	34.0	19.3	16.8	27.1
Top 0.1 Percent	113	0.1	8,924,869	3,213,155	5,711,713	36.0	9.3	7.8	13.9

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0308-5).
See notes to appendix tables 1 and 3.

Appendix Table 5
2001-06 Tax Cuts with AMT Patch Extended: Lump-Sum Financing
Distribution of Federal Tax Change by Cash Income Percentile, 2010

Cash Income Percentile	Percent of Tax Units		Percent Change in After-Tax Income	Share of Total Federal Tax Change	Average Federal Tax Change		Share of Federal Taxes		Average Federal Tax Rate	
	With Tax Cut	With Tax Increase			Dollars	Percent	Change (% Points)	Under the Proposal	Change (% Points)	Under the Proposal
Lowest Quintile	0.0	100.0	-22.8	*	2,409	409.1	3.3	4.1	21.6	26.9
Second Quintile	1.6	98.4	-7.3	-98,444.7	1,841	48.7	2.1	6.5	6.3	19.3
Middle Quintile	6.4	93.6	-3.1	-65,286.3	1,334	12.9	1.4	12.4	2.5	21.6
Fourth Quintile	35.9	64.1	0.0	55.0	-1	0.0	0.0	18.1	0.0	22.1
Top Quintile	92.9	7.1	4.2	318,535.3	-8,803	-10.5	-6.9	58.8	-3.0	25.6
All	21.4	78.6	0.0	100.0	0	0.0	0.0	100.0	0.0	24.0
Addendum										
80-90	89.5	10.5	2.0	37,896.4	-2,071	-5.9	-0.8	13.2	-1.5	23.5
90-95	96.2	3.8	2.7	35,336.7	-3,998	-7.6	-0.8	9.3	-2.0	24.1
95-99	96.0	4.0	3.9	71,281.1	-9,880	-9.8	-1.6	14.2	-2.8	25.4
Top 1 Percent	97.8	2.2	7.1	174,021.0	-94,957	-14.6	-3.8	22.2	-4.8	28.0
Top 0.1 Percent	99.4	0.6	8.1	92,445.2	-499,049	-15.3	-2.0	11.1	-5.3	29.3

Baseline Distribution of Income and Federal Taxes by Cash Income Percentile, 2010

Cash Income Percentile	Tax Units		Average Income (Dollars)	Average Federal Tax Burden (Dollars)	Average After-Tax Income (Dollars)	Average Federal Tax Rate	Share of Pre-Tax Income Percent of Total	Share of Post-Tax Income Percent of Total	Share of Federal Taxes Percent of Total
	Number (thousands)	Percent of Total							
Lowest Quintile	39,491	26.0	11,166	589	10,577	5.3	3.7	4.6	0.8
Second Quintile	33,367	21.9	29,131	3,784	25,348	13.0	8.1	9.3	4.4
Middle Quintile	30,543	20.1	54,009	10,308	43,701	19.1	13.8	14.7	10.9
Fourth Quintile	25,544	16.8	91,878	20,342	71,536	22.1	19.6	20.1	18.1
Top Quintile	22,575	14.8	292,812	83,747	209,065	28.6	55.2	51.8	65.7
All	152,206	100.0	78,753	18,905	59,848	24.0	100.0	100.0	100.0
Addendum									
80-90	11,415	7.5	141,464	35,260	106,204	24.9	13.5	13.3	14.0
90-95	5,515	3.6	201,383	52,444	148,939	26.0	9.3	9.0	10.1
95-99	4,501	3.0	357,460	100,600	256,860	28.1	13.4	12.7	15.7
Top 1 Percent	1,143	0.8	1,990,331	652,471	1,337,859	32.8	19.0	16.8	25.9
Top 0.1 Percent	116	0.1	9,409,657	3,257,912	6,151,745	34.6	9.1	7.8	13.1

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0308-5).
See notes to appendix table 1.

Appendix Table 6
2001-06 Tax Cuts with AMT Patch Extended: Financing Proportional to Cash Income
Distribution of Federal Tax Change by Cash Income Percentile, 2010

Cash Income Percentile	Percent of Tax Units		Percent Change in After-Tax Income	Share of Total Federal Tax Change	Average Federal Tax Change		Share of Federal Taxes		Average Federal Tax Rate	
	With Tax Cut	With Tax Increase			Dollars	Percent	Change (% Points)	Under the Proposal	Change (% Points)	Under the Proposal
Lowest Quintile	2.4	93.6	-2.6	-22,712.0	278	47.2	0.4	1.2	2.5	7.8
Second Quintile	22.9	77.1	-1.1	-19,089.4	276	7.3	0.3	4.7	1.0	13.9
Middle Quintile	17.5	82.4	-1.3	-35,016.8	554	5.4	0.6	11.5	1.0	20.1
Fourth Quintile	23.3	76.6	-0.6	-21,829.8	413	2.0	0.4	18.4	0.5	22.6
Top Quintile	38.8	61.2	1.0	96,037.3	-2,054	-2.5	-1.6	64.1	-0.7	27.9
All	19.3	79.7	0.0	100.0	0	0.0	0.0	100.0	0.0	24.0
Addendum										
80-90	35.6	64.3	0.1	2,218.7	-94	-0.3	0.0	14.0	-0.1	24.9
90-95	38.9	61.1	0.1	1,496.8	-131	-0.3	0.0	10.0	-0.1	26.0
95-99	38.9	61.1	0.4	10,179.8	-1,092	-1.1	-0.2	15.6	-0.3	27.8
Top 1 Percent	68.8	31.2	2.6	82,142.1	-34,684	-5.3	-1.4	24.6	-1.7	31.0
Top 0.1 Percent	86.7	13.4	3.3	49,036.7	-204,845	-6.3	-0.8	12.3	-2.2	32.5

Baseline Distribution of Income and Federal Taxes by Cash Income Percentile, 2010

Cash Income Percentile	Tax Units		Average Income (Dollars)	Average Federal Tax Burden (Dollars)	Average After-Tax Income (Dollars)	Average Federal Tax Rate	Share of Pre-Tax Income	Share of Post-Tax Income	Share of Federal Taxes
	Number (thousands)	Percent of Total					Percent of Total	Percent of Total	Percent of Total
Lowest Quintile	39,491	26.0	11,166	589	10,577	5.3	3.7	4.6	0.8
Second Quintile	33,367	21.9	29,131	3,784	25,348	13.0	8.1	9.3	4.4
Middle Quintile	30,543	20.1	54,009	10,308	43,701	19.1	13.8	14.7	10.9
Fourth Quintile	25,544	16.8	91,878	20,342	71,536	22.1	19.6	20.1	18.1
Top Quintile	22,575	14.8	292,812	83,747	209,065	28.6	55.2	51.8	65.7
All	152,206	100.0	78,753	18,905	59,848	24.0	100.0	100.0	100.0
Addendum									
80-90	11,415	7.5	141,464	35,260	106,204	24.9	13.5	13.3	14.0
90-95	5,515	3.6	201,383	52,444	148,939	26.0	9.3	9.0	10.1
95-99	4,501	3.0	357,460	100,600	256,860	28.1	13.4	12.7	15.7
Top 1 Percent	1,143	0.8	1,990,331	652,471	1,337,859	32.8	19.0	16.8	25.9
Top 0.1 Percent	116	0.1	9,409,657	3,257,912	6,151,745	34.6	9.1	7.8	13.1

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0308-5).

Notes: Cost of the tax cuts is financed with a 3.2 percent levy on the cash income of all non-dependent tax units. See notes to appendix table 1.

Appendix Table 7
2001-06 Tax Cuts with AMT Patch Extended: Financing Proportional to Individual Income Tax
Distribution of Federal Tax Change by Cash Income Percentile, 2010

Cash Income Percentile	Percent of Tax Units		Percent Change in After-Tax Income	Share of Total Federal Tax Change	Average Federal Tax Change		Share of Federal Taxes		Average Federal Tax Rate	
	With Tax Cut	With Tax Increase			Dollars	Percent	Change (% Points)	Under the Proposal	Change (% Points)	Under the Proposal
Lowest Quintile	19.0	27.7	-1.0	-7,295.4	105	17.9	0.1	1.0	0.9	6.2
Second Quintile	51.6	31.9	0.7	9,582.1	-164	-4.3	-0.2	4.2	-0.6	12.4
Middle Quintile	47.0	48.9	0.5	11,151.5	-208	-2.0	-0.2	10.7	-0.4	18.7
Fourth Quintile	46.9	52.2	0.6	18,978.6	-424	-2.1	-0.4	17.7	-0.5	21.7
Top Quintile	36.1	63.5	-0.4	-32,662.8	825	1.0	0.7	66.4	0.3	28.9
All	38.9	42.3	0.0	100.0	0	0.0	0.0	100.0	0.0	24.0
Addendum										
80-90	45.2	54.3	0.5	10,486.9	-524	-1.5	-0.2	13.8	-0.4	24.6
90-95	32.9	66.9	-0.3	-4,509.3	466	0.9	0.1	10.1	0.2	26.3
95-99	21.1	78.5	-1.4	-28,464.7	3,605	3.6	0.6	16.3	1.0	29.2
Top 1 Percent	19.6	79.8	-0.4	-10,175.6	5,073	0.8	0.2	26.1	0.3	33.0
Top 0.1 Percent	35.9	63.6	0.3	3,942.3	-19,446	-0.6	-0.1	13.0	-0.2	34.4

Baseline Distribution of Income and Federal Taxes by Cash Income Percentile, 2010

Cash Income Percentile	Tax Units		Average Income (Dollars)	Average Federal Tax Burden (Dollars)	Average After-Tax Income (Dollars)	Average Federal Tax Rate	Share of Pre-Tax Income Percent of Total	Share of Post-Tax Income Percent of Total	Share of Federal Taxes Percent of Total
	Number (thousands)	Percent of Total							
Lowest Quintile	39,491	26.0	11,166	589	10,577	5.3	3.7	4.6	0.8
Second Quintile	33,367	21.9	29,131	3,784	25,348	13.0	8.1	9.3	4.4
Middle Quintile	30,543	20.1	54,009	10,308	43,701	19.1	13.8	14.7	10.9
Fourth Quintile	25,544	16.8	91,878	20,342	71,536	22.1	19.6	20.1	18.1
Top Quintile	22,575	14.8	292,812	83,747	209,065	28.6	55.2	51.8	65.7
All	152,206	100.0	78,753	18,905	59,848	24.0	100.0	100.0	100.0
Addendum									
80-90	11,415	7.5	141,464	35,260	106,204	24.9	13.5	13.3	14.0
90-95	5,515	3.6	201,383	52,444	148,939	26.0	9.3	9.0	10.1
95-99	4,501	3.0	357,460	100,600	256,860	28.1	13.4	12.7	15.7
Top 1 Percent	1,143	0.8	1,990,331	652,471	1,337,859	32.8	19.0	16.8	25.9
Top 0.1 Percent	116	0.1	9,409,657	3,257,912	6,151,745	34.6	9.1	7.8	13.1

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0308-5).

Notes: Cost of the tax cuts is financed with a 28.1 percent levy on the individual income tax of all non-dependent tax units. See notes to appendix table 1.