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Taxpayers Face Uncertainty in 2011 As Bush And Obama Tax Cuts Expire

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[Note: Corrections were made to some information contained in this report, as indicated, on 7/20/2010]

Polls show that many Americans are anxious about their taxes and believe their payments are rising. At first glance this seems like a public misperception because tax policy at the end of the Bush administration and the beginning of the Obama administration has been dominated by a blizzard of tax cuts, most narrowly targeted at a few taxpayers but some broadly benefiting low- and middle-income people. But paradoxically, the people are right to be worried about high taxes. [With](#) federal deficits growing and the U.S. debt mounting to alarming levels, Congress will soon need to cut spending or raise taxes to shore up the long-term fiscal outlook.

These serious long-term concerns about the fiscal health of the nation have implications in the near term. The end of 2010 is an obvious turning point for tax policy as the Bush-era cuts and Obama's new temporary making-work-pay credit are all expiring at the same time. The handling of these expiring tax provisions may be an indication of what tax policy will look like in the years to come.

The personal income tax has always been Congress's vehicle of choice to raise or cut taxes. Here we calculate what some typical tax returns will look like for tax year 2011 under three scenarios:

- the tax policies that prevailed before President Bush was elected;
- all Bush-era tax policies extended to 2011 (with no Obama changes); and
- combined Bush and Obama policies, as outlined in the President's FY 2011 Budget.

The Bush-era personal income tax cuts that expire at the end of this year included reductions for high-, low- and middle-income earners. Some provisions helped just low-income people, some helped low- and middle-income, some middle- and high-income, and some just high-income people. Proceeding roughly up the income spectrum, then, they:

- made more married taxpayers eligible for the earned income tax credit (EITC);

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- created the 10% income tax bracket;
- raised the standard deduction for couples to double the single amount;
- increased the child tax credit from \$500 to \$1,000 per child and made it refundable;
- raised the ceiling of the 15-percent bracket to double what it is for singles;
- lowered the 28-percent rate to 25 percent;
- lowered the 31-percent rate to 28 percent.
- lowered the 36-percent rate to 33 percent;
- lowered the 39.6-percent rate to 35 percent; and
- reduced and finally repealed the phase-out of itemized deductions and personal exemptions.

Generally speaking, President Obama has proposed extending or making permanent most of the Bush-era tax cuts, that is, all those that benefit families making less than \$250,000 (\$200,000 for a single filer). He proposes letting expire all those that benefit taxpayers over those thresholds. He has also proposed a few new tax policies:

- increasing the EITC for taxpayers with 3 or more children;
- further expanding eligibility limits for married taxpayers claiming the EITC;
- reducing the requirements for qualifying for the refundable portion of the child tax credit; and
- extending the new making-work-pay tax credit through 2011.

Below are tax calculations for a few sample taxpayers. Since it's not clear how Congress and the President will deal with the expiration of all the tax cuts, we calculate them in three ways. The first is what taxes would have been in 2011 if neither the Bush nor Obama tax cuts ever existed (what we call 'Pre-Bush' policy). This is essentially the tax law that was in effect when President Bush was elected and what tax law would be if all the Bush tax cuts were allowed to expire on schedule at the end of 2010. The second scenario is what taxes would be if all Bush-era tax policies were still in effect in 2011. Finally, we look at what taxes would be in 2011 under Obama's proposed tax policies.

Note that several important variables are not included in these calculations: The tax hikes enacted as part of health insurance reform do not apply to 2011, so they are not included here. Also excluded are some tax credits and deductions that a taxpayer may or may not qualify for, such as education tax credits. Here we are highlighting the more 'automatic' tax provisions built into the tax code that depend only on income and family structure. All income is assumed to be in the form of wages. A negative tax liability represents a tax refund, that is, a check from the federal government to the taxpayer. An AMT patch is assumed for all policy scenarios.

Table 1
Summary: Taxes Owed (+ or –) on Typical Tax Returns

	Pre-Bush	Bush	Obama
Single parent, one child, \$25,000	– \$928	– \$1,881	– \$2,281
Married couple, two earners, three children, \$45,000	\$1,020	– \$1,510	– \$3,183
Married couple, one earner, two children, \$50,000	\$2,825	\$688	- \$112 *
Married couple, two earners, two children, \$85,000	\$7,235	\$5,383	\$4,583
Single, no children, \$60,000	\$8,236	\$7,484	\$7,084
Single, no children, \$150,000	\$29,962	\$26,996	\$26,996
Married couple, two earners, two children, \$150,000	\$22,776	\$19,268	\$18,468
Married couple, two earners, two children, \$300,000	\$64,181	\$61,292	\$65,287 *
Married couple, two earners, no children, \$500,000	\$130,210	\$123,900	\$130,342
Married couple, two earners, no children, \$1,000,000	\$298,510	\$254,167	\$307,342

Table 2
Summary: Effective Tax Rates (Taxes as a % of Income) of Typical Tax Returns

	Pre-Bush	Bush	Obama
Single parent, one child, \$25,000	– 3.7%	– 7.5%	– 9.1%
Married couple, two earners, three children, \$45,000	2.3%	– 3.4%	– 7.1%
Married couple, one earner, two children, \$50,000	5.7%	1.4%	– 0.002%*
Married couple, two earners, two children, \$85,000	8.5%	6.3%	5.4%
Single, no children, \$60,000	13.7%	12.5%	11.8%
Single, no children, \$150,000	20.0%	18.0%	18.0%
Married couple, two earners, two children, \$150,000	15.2%	12.8%	12.3%
Married couple, two earners, two children, \$300,000	21.4%	20.4%	21.8%*
Married couple, two earners, no children, \$500,000	26.0%	24.8%	26.1%
Married couple, two earners, no children, \$1,000,000	29.9%	25.4%	30.7%

Table 3
Typical Tax Return: Single Parent, Low Income

Filing Status	Head of Household			
Children	1			
Income	\$25,000			
		Pre-Bush	Bush	Obama
Standard deduction	–	\$8,550	\$8,550	\$8,550
Personal exemptions	–	\$7,400	\$7,400	\$7,400
Taxable income	=	\$9,050	\$9,050	\$9,050
Tax on taxable income		\$1,358	\$905	\$905
Child credit (non-refundable portion)	–	\$500	\$905	\$905
Earned income tax credit	–	\$1,786	\$1,786	\$1,786
Additional child tax credit	–	\$0	\$95	\$95
Making-work-pay tax credit	–	--	--	\$400
Tax liability	=	– \$928	– \$1,881	– \$2,281

Table 4				
Typical Tax Return: Family of 5, Two Earners, Low Income				
Filing Status	Joint			
Children	3			
Income	\$45,000			
		Pre-Bush	Bush	Obama
Standard deduction	–	\$9,700	\$11,600	\$11,600
Personal exemptions	–	\$18,500	\$18,500	\$18,500
Taxable income	=	\$16,800	\$14,900	\$14,900
Tax on taxable income		\$2,520	\$1,490	\$1,490
Child credit (non-refundable portion)	–	\$1,500	\$1,490	\$1,490
Earned income tax credit	–	\$0	\$0	\$873
Additional child tax credit	–	\$0	\$1,510	\$1,510
Making-work-pay tax credit	–	-	-	\$800
Tax liability	=	\$1,020	– \$1,510	– \$3,183

Table 5				
Typical Tax Return: Family of 4, One Earner, Low-Middle Income				
Filing Status	Joint			
Children	2			
Income	\$50,000			
		Pre-Bush	Bush	Obama
Standard deduction	–	\$9,700	\$11,600	\$11,600
Personal exemptions	–	\$14,800	\$14,800	\$14,800
Taxable income	=	\$25,500	\$23,600	\$23,600
Tax on taxable income		\$3,825	\$2,688	\$2,688
Child credit (non-refundable portion)	–	\$1,000	\$2,000	\$2,000
EITC	–	\$0	\$0	\$0
Additional child tax credit	–	\$0	\$0	\$0
Making-work-pay tax credit	–	--	--	\$800*
Tax liability	=	\$2,825	\$688	- \$112*

Table 6				
Typical Tax Return: Family of 4, Two Earners, Middle Income				
Filing Status	Joint			
Children	2			
Income	\$85,000			
		Pre-Bush	Bush	Obama
Standard deduction	–	\$15,300	\$15,300	\$15,300
Personal exemptions	–	\$14,800	\$14,800	\$14,800
Taxable income	=	\$54,900	\$54,900	\$54,900
Tax on taxable income		\$8,235	\$7,383	\$7,383
Child credit (non-refundable portion)	–	\$1,000	\$2,000	\$2,000
Earned income tax credit	–	\$0	\$0	\$0
Additional child tax credit	–	\$0	\$0	\$0
Making-work-pay tax credit	–	--	--	\$800
Tax liability	=	\$7,235	\$5,383	\$4,583

Table 7				
Typical Tax Return: Single Individual, Above-Average Income				
Filing Status	Single			
Children	0			
Income	\$60,000			
		Pre-Bush	Bush	Obama
Itemized deductions (a)	–	\$10,800	\$10,800	\$10,800
Personal exemptions	–	\$3,700	\$3,700	\$3,700
Taxable income	=	\$45,500	\$45,500	\$45,500
Tax on taxable income		\$8,236	\$7,484	\$7,484
Making-work-pay tax credit	–	-	-	\$400
Tax liability	=	\$8,236	\$7,484	\$7,084

Table 8				
Typical Tax Return: Single Individual, High Income				
Filing Status	Single			
Children	0			
Income	\$150,000			
		Pre-Bush	Bush	Obama
Itemized deductions (a)	–	\$27,000	\$27,000	\$27,000
Personal exemptions	–	\$3,700	\$3,700	\$3,700
Taxable income	=	\$119,300	\$119,300	\$119,300
Tax on taxable income		\$29,962	\$26,996	\$26,996
Making-work-pay tax credit	–	-	-	\$0
Tax liability	=	\$29,962	\$26,996	\$26,996

Table 9				
Typical Tax Return: Family of 4, Two Earners, Upper-Middle Income				
Filing Status	Joint			
Children	2			
Income	\$150,000			
		Pre-Bush	Bush	Obama
Itemized deductions (a)	–	\$27,000	\$27,000	\$27,000
Personal exemptions	–	\$14,800	\$14,800	\$14,800
Taxable income	=	\$108,200	\$108,200	\$108,200
Tax on taxable income		\$22,776	\$19,268	\$19,268
Alternative minimum tax	+	\$0	\$0	\$0
Child credit (non-refundable portion)	–	\$0	\$0	\$0
Making-work-pay tax credit	–	\$0	\$0	\$800
Tax liability	=	\$22,776	\$19,268	\$18,468

Table 10				
Typical Tax Return: Family of Four, High Income				
Filing Status	Joint			
Children	2			
Income	\$300,000			
		Pre-Bush	Bush	Obama
Itemized deductions (a)	–	\$50,105	\$54,000	\$52,637
Personal exemptions (b)	–	\$9,472	\$14,800	\$9,176
Taxable income	=	\$240,424	\$231,200	\$238,188
Tax on taxable income (c)		\$64,181	\$53,663	\$59,136
Alternative minimum tax	+	\$0	\$7,629	\$6,151*
Making-work-pay tax credit	–	\$0	\$0	\$0
Tax liability	=	\$64,181	\$61,292	\$65,287*

Table 11				
Typical Tax Return: Married Couple, Two Earners, High Income				
Filing Status	Joint			
Children	0			
Income	\$500,000			
		Pre-Bush	Bush	Obama
Itemized deductions (a)	–	\$80,104	\$90,000	\$82,636
Personal exemptions (b)	–	\$0	\$7,400	\$0
Taxable income	=	\$419,895	\$402,600	\$417,363
Tax on taxable income (c)		\$130,210	\$110,667	\$130,342
Alternative minimum tax	+	\$0	\$13,233	\$0
Making-work-pay tax credit	–	\$0	\$0	\$0
Tax liability	=	\$130,210	\$123,900	\$130,342

Table 12
Typical Tax Return: Married Couple, Two Earners, Very High Income

Filing Status	Joint			
Children	0			
Income	\$1,000,000			
		Pre-Bush	Bush	Obama
Itemized deductions (a)	–	\$155,105	\$180,000	\$157,637
Personal exemptions (b)	–	\$0	\$7,400	\$0
Taxable income	=	\$844,896	\$812,600	\$842,364
Tax on taxable income (c)		\$298,510	\$254,167	\$307,342
Alternative minimum tax	+	\$0	\$0	\$0
Tax liability	=	\$298,510	\$254,167	\$307,342

Notes

(a) Taxpayers are assumed to have itemized deductions worth 18% of income. Itemized deductions are claimed when this amount is greater than the standard deduction. Itemized deductions are split evenly between the deduction for state and local taxes and the mortgage interest deduction. The phase-out of itemized deductions for high-income filers, the so-called “Pease” provision, is in full effect under Pre-Bush law and under Obama’s proposed budget, although Obama increases the income thresholds where Pease begins to take effect. As part of the 2001/2003 tax cuts, President Bush temporarily eliminated the Pease provision, allowing high-income taxpayers to deduct the full value of their itemized deductions. The amounts listed for itemized deductions represent itemized deductions after any applicable limitation under Pease.

(b) The personal exemption phase-out (PEP) for high-income filers is in full effect under Pre-Bush law and under Obama’s proposed budget, although Obama changes the income thresholds where PEP begins to take effect. President Bush temporarily eliminated the PEP provision, allowing high-income taxpayers to deduct the full value of their personal exemptions.

(c) Includes Obama’s proposal to limit the value of all itemized deductions by limiting the tax value of those deduction to 28% whenever they would otherwise reduce taxable income in the 36% or 39.6% tax brackets.

* *Corrected on 7/20/2010*