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Tax Provisions in The President's Economic Stimulus Proposals

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Document date: January 07, 2003
Released online: January 07, 2003

The President's plan, announced today, would accelerate major elements of the income tax cuts enacted in 2001, provide additional temporary AMT relief, exempt dividends earned by individuals from income tax, and provide additional accelerated tax write-offs for small businesses. The tax provisions in the President's plan would cost $98 billion in 2003 and $670 billion over ten years. An additional $4 billion is earmarked for "personal reemployment accounts."

Summary of Provisions [1]

1. *End individual taxation of dividends*

- Most dividends paid by US corporations would be exempt from individual income tax.
- Companies that do not wish to pay dividends may establish mandatory dividend reinvestment plans that effectively allow them to deem a portion of retained earnings as dividends without requiring any actual cash dividend distribution.
  - Shareholders' taxable capital gains would be reduced by the amount of the deemed dividend distributions and the dividends would generally be tax-free.
- Tax-free dividends would be limited to the amount of prior-year taxable income.
- In 2003, the bottom 60 percent of taxpayers would get 5 percent of the benefit of this proposal and the top 20 percent would get 84 percent. [2]
- 42 percent of benefits would accrue to the top 1 percent of taxpayers.

Cost: $20 billion in CY 2003
$364 billion from FY 2003 to 2013

2. *Accelerate upper-income tax rate cuts*

- Top four statutory tax rates would be reduced from 27, 30, 35, and 38.6 percent to 25, 28, 33, and 35 percent, respectively. The change would be retroactive to January 1, 2003.
- In 2003, the bottom 60 percent of taxpayers would get less than 1 percent of the benefits of this proposal; the top 20 percent would get almost 94 percent of the tax cut
- 54 percent of benefits would accrue to the top 1 percent of taxpayers.

Cost: $29 billion in CY 2003
$64 billion from FY 2003 to 2013

3. *Accelerate middle- and upper-income marriage penalty relief*

- The standard deduction for joint filers is set equal to twice that for singles starting in 2003.
- The beginning of the 25 percent bracket for couples is set equal to twice the threshold for singles starting in 2003.
- Note that the marriage penalty relief for low-income EITC recipients, which was enacted in 2001 but doesn't take full effect until 2008, is not accelerated.
- In 2003, the bottom 60 percent of taxpayers would get 6 percent of the benefits of this proposal; the top 20 percent would get 81 percent of the tax cut.
- 4 percent of benefits would accrue to the top 1 percent of taxpayers.

Cost: $19 billion in CY 2003
$58 billion from FY 2003 to 2013

4. *Accelerate expansion of the 10 percent tax bracket*

- The beginning of the 15-percent tax bracket is increased from $6,000 to $7,000 for singles in 2003, and from $12,000 to $14,000 in 2003.
- Thresholds are indexed for inflation starting in 2004 (rather than in 2009).
- In 2003, the bottom 60 percent of taxpayers would get 27 percent of the benefits of this proposal; the top 20 percent would get 40 percent of the tax cut.
- Less than 2 percent of benefits would accrue to the top 1 percent of taxpayers.

Cost: $5 billion in CY 2003
$48 billion from FY 2003 to 2013

Table 1. Combined Effect of Provisions (2)-(4) On Tax Thresholds in 2003.				
Highest Income Bracket			**Tax Bracket**	
Joint	Single	HOH	Current Law	Proposed
12,000	6,000	10,000	10%	10%
14,000	**7,000**	10,000	15%	10%
47,450	28,400	38,050	15%	15%
56,800	28,400	38,050	27%	15%
114,650	68,800	98,250	27%	25%
174,700	143,400	159,100	30%	28%
311,950	311,950	311,950	35%	33%
			38.6%	35%
Note: boldface thresholds would be increased by proposal.				

5. *Accelerate child credit increase to 2003*

- Per child tax credit is increased from $600 per child to $1,000 per child.
- Treasury will send out checks for the credit in 2003 (like the rebate checks issued in 2001) for up to $400 per child based on prior year's tax return.
- Note that the increase in the portion of the child tax credit that is refundable (i.e., which helps low-income working families), scheduled to take effect in 2005, is not accelerated.
- In 2003, the bottom 60 percent of taxpayers would get 29 percent of the benefits of this proposal; the top 20 percent would get 35 percent of the tax cut.
- The top 1 percent of taxpayers would receive no benefit from this provision.

Cost: $16 billion in CY 2003
$91 billion from FY 2003 to 2013

6. *Temporary AMT Relief*

- The alternative minimum tax (AMT) exemption is increased by $4,000 for singles and $8,000 for joint returns through 2005.
- This increases the threshold to $39,750 for singles and $57,000 for joint returns.
- As under current law, the thresholds will return to $33,750 for singles and $45,000 for joint returns in 2006.
- The proposal is designed to assure that taxpayers would not become subject to the AMT as a result of the stimulus package's provisions.
- Note that Treasury's estimates assume that the AMT exemption increases enacted in 2001, which expire at the end of 2004, would be extended one year through 2005.
- The proposal does not address the explosive long-term growth in the AMT. As under current law, almost 36 million taxpayers would be subject to the AMT by 2010.

Cost: $8 billion in CY 2003
$29 billion from FY 2003 to 2013

7. *Increase expensing limit for small businesses*

- Increase the amount of investment by small business that may be deducted currently (instead of

amortized) from $25,000 to $75,000, starting in 2003.
- The expensing limit phases out dollar for dollar with income about $325,000 (compared with $200,000 under current law). The threshold is indexed for inflation after 2003.

Cost: $2 billion in CY 2003
$16 billion from FY 2003 to 2013

Overall Distribution of Tax Benefits

- In 2003, the middle 20 percent of taxpayers would get 6 percent of the benefits of the President's proposal, the bottom 20 percent would get less than 1 percent and the top 20 percent would get 78 percent.
- 28 percent of benefits would accrue to the top 1 percent of taxpayers.

Notes:
1. This summary is preliminary based on information available or inferred as of 1/7/03. Source for distribution estimates is Tax Policy Center; Source for revenue estimates is Department of the Treasury.

2. Distribution effects are for each provision as a stand-alone measure-that is, stacked against current law.

Other Publications by the Authors

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