The Effect of the 2001 Tax Cut on Low- and Middle-Income Families and Children

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ABSTRACT

The 2001 tax cut has been roundly criticized because so much of the benefit goes to the rich, but the bill also did much to help low- and middle-income families. Most notably, it increased the child tax credit and made it refundable—that is, available to families with incomes too low to owe income tax. The legislation also simplified the EITC and increased it for some married couples. It increased the maximum child care tax credit, created a new 10 percent tax bracket, and raised the standard deduction for married couples, all of which will provide substantial benefit to middle-income families. Like the rest of the tax bill, many of these provisions phase in very slowly, and inflation erodes away much of the value of the advertised increases. Nonetheless, when fully phased in, the tax cuts will be worth over $1,700 per year in tax savings for a family of four at or near the poverty line, and over $1,000 for a family at twice the poverty level. Families with children do better than those without at almost every income level. The exception is upper-middle income families whose benefits are curtailed or eliminated by the alternative minimum tax. And, not surprisingly, the largest overall tax cuts by far will accrue to those with incomes over $200,000.

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Introduction

With astonishing speed, Congress passed the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), legislation based loosely on the blueprint put forward by President Bush in March. This extraordinary act contains several notable features. First, it constitutes the largest tax cut in 20 years and will cost the government $1.35 trillion over 10 years. Second, some provisions do not become fully effective until 2010. Third, the entire tax bill expires in 2011, in theory returning the tax system to its initial state after an experimental ten-year period. Fourth, EGTRRA will eventually repeal the estate tax, an important element of the federal tax system since the enactment of the modern income tax. Fifth, the act substantially expands federal tax assistance for working families with children.

Although all elements of EGTRRA warrant scrutiny, this paper focuses on how the income tax cuts will affect low- and middle-income families with children.[1] Increasingly, lower-income families, in particular, rely on the income tax system for support. For example, the earned income tax credit (EITC), the largest cash assistance program for poor families, has been expanding at a time when direct cash assistance through traditional welfare programs has been contracting. Thus, policymakers and researchers interested in the well-being of people at the bottom rungs of the economic ladder must monitor the tax system to gauge the level of public support.

Unfortunately, the new tax law does not resolve how lower-income families—or anybody else, for that matter—will be taxed in the years to come. As passed, the tax cut phases in gradually and then disappears after 10 years. Although the "sunsetting" of the tax law is a clever budget gimmick, it is very unlikely to remain intact. Indeed, President Bush proposed in his very

[1] For a more comprehensive discussion of EGTRRA, see Gale and Potter (forthcoming).

next budget to make all EGTRRA changes permanent. Furthermore, both the President and some members of Congress have proposed accelerating the high-income tax rate cuts in EGTRRA on the theory that this measure could boost the sagging economy. Accelerating some tax cuts in the package, however, would put more pressure on the remaining provisions, some of which are most likely to help low- and middle-income families. And given the strains on the budget arising from the recession and the aftermath of the September terrorist attacks, every provision in EGTRRA could find its way to the chopping block.

In summary, the main provisions of EGTRRA that will help low- and middle-income families are the following:

- The child tax credit eventually doubles from $500 to $1,000 and becomes refundable for millions of low-income families;

- The amount of child care expenses eligible for the child and dependent care tax credit increases from $2,400 to $3,000, and the credit rate for low-income families increases;

- The earned income tax credit is simplified and increased for many married couples;

- Other "marriage-penalty" relief provisions increase the standard deduction and expand the size of the 15 percent tax bracket for married couples;

- A new 10 percent tax bracket applies to low-income taxpayers.

This paper outlines the main elements of prior tax law that helped low-income families, explains the impact of EGTRRA's changes on low- and moderate-income families, and explores some of the unresolved issues Congress will have to grapple with in the years to come.

Prior Tax Treatment of Low- and Moderate-Income Families

Several long-standing provisions of tax law aid lower-income families. First, the standard deduction and personal exemptions automatically exempt a minimum amount of income that increases with the size of the family. For example, in 2000, a married couple with two children could earn $18,550 before owing any tax (i.e., a standard deduction of $7,350 and four personal exemptions of $2,800 each); a family with four children could earn $24,150 tax-free.

Many individuals with positive taxable income—that is, income above the exempt level—benefit from tax credits such as the child tax credit (CTC) and the child and dependent care tax credit (CDCTC). The $500 per child tax credit exempted another $3,333 per child from tax.[2] For most families, the CDCTC was equal to 20 percent of child care expenses up to $2,400 for one child or up to $4,800 for two or more children.[3] A family with two children and the maximum qualifying expenses could thus shelter another $6,400 of income from tax. Accordingly, including these two tax credits, the family of four could earn over $31,000 before it owed income tax.[4]

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[2] At the 15 percent tax rate that applies to lower-income taxpayers, $3,333 of income would be subject to $500 of tax (15 percent of $3,333).

[3] Very-low-income families (under $10,000 in 2000) qualified for tax credits at rates of up to 30 percent, but that credit rate is largely theoretical since few families with such low incomes would owe income tax, even without the CDCTC.

[4] Note that the EITC did not affect the tax-free level of income for a family with the maximum child care expenses, because the EITC was fully phased out at $31,152 of income in 2000—less than the $31,617 that could be sheltered from tax by the CTC and CDCTC alone. The EITC did, however, raise the tax-free threshold for families that spent less than the maximum amount of child care expenses. See table 5 and discussion below.

Of course, lower-income working families do pay other taxes, including payroll taxes for Social Security and Medicare, excise taxes, and state and local taxes such as sales, income, and property taxes. Recognizing these other burdens, as well as the fact that taxes can discourage low-income people from working in the arduous, nonremunerative occupations available to them, the tax law provides so-called refundable tax credits to families that do not have income tax liability.

The largest, best-known refundable credit is the earned income tax credit (EITC). Established in 1975, the federal EITC was designed to encourage work by providing a cash benefit to offset payroll taxes for working-poor families. Congress has enacted several expansions since then, resulting in substantial assistance for working-poor families; for very low-income families, the EITC now exceeds payroll taxes. Low-income taxpayers receive a tax credit for their earnings up to a maximum amount. In 2000, the tax credit rate for families with two or more children was 40 percent of earnings up to $9,720. Smaller credits are available for families with one or no children. The credits phase out as income increases above a certain amount. That phaseout is tantamount to a surtax at the phaseout rate and was one of the motivations for raising the credit under the new tax law.[5]

The CTC also has a refundable component for certain families with three or more children, affectionately known as FRED—for "full refundability for excess dependents"—among tax wonks. The CTC is refundable to the extent that the employee share of Social Security taxes plus individual income taxes exceeds his or her EITC.

[5] For example, the phaseout rate for taxpayers with two or more qualifying children is 21.06 percent. That is, for every $100 earned, taxpayers lose $21.06 of EITC. This is equivalent to a surtax of 21.06 percent in the phaseout range.

Finally, the progressive tax rate schedule benefits low- and middle-income families by taxing them at lower rates than higher-income households. About three-quarters of all households are taxed at rates of 15 percent or less, and 95 percent are taxed at rates of 28 percent or less (House Committee on Ways and Means 2000). Single parents (called "heads of household" in the tax law) and married couples pay lower taxes on the same amount of income than do single people without children. This provides a subsidy, or “marriage bonus,” for one-earner families with children.

Not all couples, however, see tax benefits because of marriage. Many two-earner married couples are penalized by the tax code. Despite the lower rates that generally apply to joint returns, couples with both spouses earning about the same income often pay much more in taxes than if they had not married. This so-called marriage penalty may discourage marriage and prevent potential second earners from entering the workforce.

The New Bill's Effect on the Taxation of Families

EGTRRA made fundamental changes in almost all of the provisions geared toward families. On net, the family-related provisions will cost almost $660 billion, taking into account both decreased revenues and increased outlays on refundable credits (table 1a). The most costly of the provisions, the creation of a 10 percent bracket, benefits higher-income taxpayers the most. The increase of the standard deduction for married couples and the expansion of the 15 percent bracket for married couples also disproportionately benefit higher-income taxpayers (table 1b). Only the expanded CTC and CDTC and the increase in the EITC provide about the same or more benefits to the lower half of the income distribution (roughly those below 300 percent of the poverty level) than to the upper half.

Table 1a. Revenue Cost of Family-Related EGTRRA Provisions

Provision	Fully phased in Cost of Provision (in FY 2010) ($ Millions)	10 Year Cost of Provision through FY 2011 ($ Millions)
Child tax credit provisions	25,200	171,782
Child and dependent care credit provisions	296	2,991
Increase standard deduction for married couples	2,932	14,918
Expand 15% bracket for married couples	4,001	32,734
Simplify EITC and increase for some couples	2,240	15,643
Create 10% bracket	46,034	421,321
Total cost	**80,703**	**659,389**

Source: Joint Committee on Taxation (2001).

Table 1b. Share of Benefits Going to Low- and Moderate-Income Families, Calendar Year 2010

Provision	Share of Tax Cut to Taxpayers with Income Below:			Share to Taxpayers With Higher Incomes
	100% of Poverty	200% of Poverty	300% of Poverty	
Child tax credit provisions	6%	34%	54%	46%
Child and dependent care credit provisions	*	27%	57%	43%
Increase standard deduction for married couples	*	13%	29%	71%
Expand 15% bracket for married couples	*	*	*	100%
Increase EITC for some couples	23%	98%	100%	0%
Create 10% bracket	2%	18%	38%	62%
Share of Tax Filing Population	**22.1%**	**40.9%**	**55.0%**	**45.0%**

Source: Urban-Brookings Tax Policy Center Microsimulation Model.

* Less than 0.5 percent.

Notes: The federal poverty levels for 2010 are estimated using the 2001 values from the U.S. Census Bureau and forecasts and projections for inflation from the Congressional Budget Office. The cost of the child tax credit and EITC includes the outlay component (increase in refundable tax credits). Estimated costs do not account for interactions between provisions.

Child Tax Credit

The most significant change affecting most families was the doubling of the child tax credit from $500 to $1,000. Like most provisions in the new law, this change phases in very slowly, though an initial jump to $600 occurred in 2001. The credit amount then remains unchanged until 2005, when it increases to $700. The credit does not reach the advertised maximum of $1,000 until 2010 (table 2). The maximum is fleeting under the law as it sunsets along with the other provisions, returning to the 2000 level of $500 after just one year.

What's more, because EGTRRA does not adjust the credit amount for inflation, the ultimate value of the credit will be less than advertised. The $700 credit in 2008 will be worth less than the $600 credit effective in 2001 owing to inflation.[6] The fully phased-in credit of $1,000 in 2010 is projected to be worth only $772 in 2000 dollars. Thus, what appears to be a doubling of the credit amounts to only a 54 percent increase over the level that would apply if the $500 credit were simply indexed for inflation starting in 2001.

In addition to raising the amount of the CTC, the new law also made the credit available to millions of low-income families who were ineligible under prior law because they did not owe income tax. To extend the credit to these families, lawmakers added a refundable component, available for up to 10 percent of earnings over $10,000 (increasing to 15 percent in 2005). Thus, a family with one child and earnings of $16,000 in 2001 could take the full $600 child tax credit, even if the head had no income tax liability.[7] In 2001, refundability benefited more than 14 million children who would have been excluded under the old rules governing refundability; the number of additional beneficiaries rises to 18 million by 2010.

The new provisions did not address calls to simplify the CTC, but instead introduced added complexity. Lawmakers passed up the opportunity to eliminate the complicated partial refundability provision (FRED) under prior law. As a result, low-income taxpayers with three or

[6] Inflation assumptions are from the Congressional Budget Office (2001) baseline projections.

[7] The taxpayer's earnings exceed $10,000 by $6,000; 10 percent of $6,000 equals $600. See Greenstein (2001) for an excellent discussion of the issues surrounding the expansion of the CTC and EITC.

Table 2. Child-Related Tax Credits Modified by EGTRRA

Credit	Year										
	2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Child Tax Credit											
Maximum credit	$500	$600				$700				$800	$1,000
In 2000$	$500	$581	$566	$551	$537	$612	$597	$582	$568	$633	$772
Refundable?	No[i]	Refundable up to 10 percent of earnings over $10,000 (indexed for inflation after 2002).				Credit refund rate increases to 15 percent.					
Child and Dependent Care Tax Credit											
Max Expenses per child	$2,400 ($4,800 max)			$3,000 ($6,000 max)							
In 2000$	$2,400	$2,323	$2,262	$2,753	$2,686	$2,621	$2,557	$2,495	$2,434	$2,374	$2,316
Max Credit Rate	30% (income < $10,000)			35% (income < $15,000)							
Min Credit Rate[ii]	20% (income > $28,000)			20% (income > $43,000)							

Source: Committee on Ways and Means, June 6, 2001.

[i] Generally, the credit is nonrefundable. However, a family with three or more children gets a refundable child credit to the extent that the employee share of Social Security taxes plus individual income taxes exceeds its earned income tax credit up to the amount of the full child credit.
[ii] The phaseout range is not indexed for inflation, so it effectively applies to lower and lower levels of real income over time. For example, by 2010, the nominal phaseout range of $15,000 to $43,000 is eroded by inflation to the equivalent of $11,672 to $33,461, not that much higher than current levels. In consequence, fewer and fewer households will be able to take advantage of the higher credit rates over time.

more children will need to compare the refundable credit they qualify for under FRED with the refundable credit they are eligible for under the new law and take the larger credit. Congress could have merged the two provisions to make the benefit clearer and easier to calculate, a straightforward simplification measure that should be considered in future legislative debates.

Congress did address one significant aspect of complexity and unfairness. The new law made the child credit available to upper-middle-income families that would otherwise have had their credits reduced by the alternative minimum tax. This move appears particularly relevant because under the new law many more taxpayers will be affected by the alternative minimum tax.[8]

Child and Dependent Care Tax Credit

The CDCTC offsets some of the costs of paying for child care to work or study.[9] The law increased the maximum expenses eligible for this nonrefundable credit from $2,400 to $3,000 per child (and a maximum of $6,000) for a family. However, lawmakers chose not to adjust the amount of eligible expenses for inflation. As a result, the credit will actually be worth less in real terms in 2010 than in 2000.

EGTRRA also increased the maximum credit rate for low-income families—raising it from 30 percent to 35 percent for families with incomes below $15,000. The significance of this change, however, is limited, because people at that income level do not have enough tax liability

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[8] The Joint Committee on Taxation estimates that 35.5 million taxpayers will be affected by the AMT in 2010, up from 1.4 million in 2001. Many of these taxpayers do not technically owe AMT, because their ordinary income tax before credits is greater than their "tentative alternative minimum tax" (TAMT). However, if their tax after credits is less than their TAMT, then the tax credits are trimmed to eliminate the difference. Although these taxpayers are not technically subject to the AMT, the result is the same as if they were. The new provisions passed as part of EGTRRA stipulate that this rule does not apply to the child tax credit. Taxpayers can use the full child tax credit even if it causes their ordinary income tax to fall below their TAMT. This exception will spare many upper-middle-income families from a complicated worksheet.

[9] The CDCTC may also be used to pay for the costs of care for a disabled or elderly dependent.

to use the full tax credit, and unlike the CTC, the CDCTC is not refundable. Moreover, the income levels at which the credit rate is reduced are not indexed for inflation. Thus, over time, the higher credit rates apply at lower and lower levels of real income. Also, most families with very low incomes cannot afford to pay thousands of dollars for child care, even with a tax credit, so the increase in the maximum expense will not help them.

In addition, as mentioned above, the apparent increase in the maximum eligible expenses is illusory. In inflation-adjusted terms, the tax credit will be worth slightly less in 2010 than it was in 2000. Nonetheless, this slight decrease reverses the longstanding practice of allowing this tax credit's real value to erode over time. Were it not for the new law, by 2010 the credit would have declined in real value by more than 20 percent owing to inflation.

Marriage-Penalty Relief

Three provisions are aimed at reducing the tendency of two-earner couples to pay more income taxes when married than if they remained single. The EITC was revised to reduce marriage penalties for low-income families. Another provision increased the standard deduction for married couples, primarily benefiting middle-income families. A third provision increased the size of the 15 percent tax bracket for couples benefiting upper-income households (table 1b).

Low-income couples can face hefty marriage penalties because of the EITC.[10] For example, consider a couple with two children in which each parent earns $16,000. If unmarried, the head of household could have qualified for an EITC of $3,186 in 2000. If they married, though, their combined income of $32,000 would have disqualified them from receiving the

[10] Wheaton (1998) discusses EITC marriage penalties and some options to mitigate them.

EITC. By virtue of being married, this modest-income couple would have lost $3,186 in tax credits--about 10 percent of their combined incomes.[11]

The EITC provides a tax credit as a percentage of earnings up to a certain level of income. Within a specified income range, dubbed "the plateau," the credit remains a set percentage. Once earnings exceed that range, the size of the credit decreases until it is phased out. Both the credit rates and the phaseout rates vary with the number of children in the home; they are highest for two-child families. Under pre-EGTRRA law, the income ranges of the EITC were the same for married couples as for single parents.

EGTRRA mitigates the marriage penalty by increasing the income levels at which the EITC begins to phase out for married couples. Under EGTRRA, the income point at which the EITC begins to phase out rises in $1,000 increments for couples, ultimately reaching $3,000. Similar to other parts of the law, the provision phases in slowly and will not become fully effective until 2008. Taking into account inflation, the $3,000 increase will be equivalent to $2,434 (in 2000 dollars) (table 3). Nonetheless, the change creates a significant increase in the EITC for some married couples who would have lost credits under the old phaseout schedule. In 2000, for families with two or more children, the credit began to phase out once income reached $12,690; by 2008, the phaseout will not begin until income reaches $15,124 (in 2000 dollars). In addition, because both the start and end point of the phaseout have increased, families with incomes up to $33,586 (in 2000 dollars) will still be eligible for some EITC. Before the new law, only families with incomes up to $31,152 were eligible.

[11] They would also owe more tax before credits by virtue of being married, so that their total marriage penalty would exceed $3,186.

Table 3. Marriage Penalty Relief Provisions

Provision		Year										
		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Phase in Increase in Standard Deduction and 15 percent Bracket for Married Couples to Twice Level for Singles												
Joint Standard Deduction as Percent of Single		167%					174%	184%	187%	190%	200%	
Size of 15% Bracket as Percent of Singles		167%					180%	187%	193%	200%		
Phase in $3,000 Increase in EITC Phaseout Range for Married Couples[i]												
Earnings level at which EITC starts to phase out (2000$)	0 children	$5,770		$6,713			$7,517			$8,204		
	1 child	$12,690		$13,634			$14,437			$15,124		
	2 or more children	$12,690		$13,634			$14,437			$15,124		
End of phaseout (2000$)	0 children	$10,380		$11,323			$12,127			$12,814		
	1 child	$27,413		$28,356			$29,127			$29,847		
	2 or more children	$31,152		$32,095			$32,899			$33,586		

Source: Committee on Ways and Means, June 6, 2001 and authors' calculations.

[i] Parameters for singles remain unchanged at 2000 levels. In 2000, the EITC equals 7.65 percent of earnings up to $4,610 for workers without children; 34 percent of earnings up to $6,920 for those with one child; and 40 percent of earnings up to $9,720 for those with two children. The EITC phases out at rates of 7.65 percent, 15.98 percent, and 21.06 percent for workers with 0, 1, and 2 or more children, respectively. The phase-in and phaseout ranges are indexed for inflation. The credit rates, phase-in region, and phaseout rates are not affected by the legislation.

The EITC provisions also simplify eligibility for low-income workers in a number of ways. Namely, the new rules make the definition of qualifying child more consistent with that used elsewhere in the tax code; use adjusted gross income rather than a confusing "modified adjusted gross income" to calculate benefits; allow parents living with their children first rights to claim them for credit purposes; and allow foster parents to claim the credit if they live with their children for 6 months of the year (down from 12 months). EGTRRA also makes it easier for the IRS to identify ineligible noncustodial parents trying to claim a tax credit. These changes will help to reduce the incidence of both honest mistakes and fraudulent EITC claims, strengthening the integrity of the program.[12] The new rules went into effect as of 2002.

The other provisions designed to offer marriage-penalty relief do not take effect until 2005. Eventually, EGTRRA makes the standard deduction for couples double the deduction for singles, and will make the 15 percent tax bracket for joint returns twice the size of the bracket on single returns. These provisions will eliminate marriage penalties for most middle-income couples, but they will also increase marriage bonuses. In other words, couples that currently pay *less* tax by virtue of being married will pay an even smaller amount after these new provisions are phased in.

Although the increase in the amount of income taxed at the 15 percent rate may sound like a tax cut for modest-income couples, only couples who would otherwise be taxed at higher rates benefit from this change. Less than 40 percent of all joint filers were in the 28 percent or higher tax brackets in 2000.

[12] See Greenstein (2001) for a more detailed discussion.

Reduced Marginal Tax Rates

EGTRRA creates a new 10 percent tax bracket for lower-income taxpayers and cuts rates for people in the 28 percent and higher tax brackets (table 4). Only the 10 percent bracket, applicable to the first $6,000 of income for singles and $12,000 for joint returns, aids lower-income households. In a departure from the practice of the past 20 years, lawmakers did not index the bracket for inflation for the first seven years. As a consequence, low-income people will see more and more of their income taxed at the 15 percent rate (so-called bracket creep owing to inflation) until 2008, when the thresholds will increase by $1,000 for singles and $2,000 for couples. The adjustment will nearly offset the erosion resulting from inflation. Beginning in 2009, the 10 percent bracket will be indexed for inflation.

Table 4. Marginal Tax Rate Brackets by Year, 2000-10

2000 Tax Rate	**New Tax Brackets under EGTRRA by Year**										**Maximum 2010 Taxable Income Taxed at Rate (2000$)**		
	2001[i]	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**Single**	**Married**	**HOH[ii]**
15%	New 10% bracket for first $6,000 of income for single, $12,000 for married.							Raise bracket thresholds to $7,000 and $14,000. Indexed beginning in 2009.			$5,679	$11,357	$8,112
15%[iii]	15%										$26,250	$52,500	$35,150
28%	27%			26%		25%					$63,550	$105,950	$90,800
31%	30%			29%		28%					$132,600	$161,450	$147,050
36%	35%			34%		33%					$288,350	$288,350	$288,350
39.6%	38.6%			37.6%		35%					∞	∞	∞

Source: Committee on Ways and Means, June 6, 2001.

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[i] The top four rates are effective July 1, 2001 resulting in rates of 27.5%, 30.5%, 35.5%, and 39.1% for calendar year 2001.
[ii] HOH = Head of Household.
[iii] While the 15 percent marginal rate does not change, the amount of income taxed at that rate does. In addition to part of the present 15 percent bracket being taxed at 10 percent in 2001 and beyond, the size of the bracket for married filers is ultimately expanded to be twice the size of the single bracket.

Effect of EGTRRA on Low- and Moderate-Income Families

The wide scope of tax provisions addressed in EGTRRA make assessing the overall effect on low- and moderate-income families difficult. For example, the higher standard deduction for married couples and the 10 percent bracket reduce the value of the CDCTC for low-income families because they are less likely to owe tax against which to apply the nonrefundable credits. Of course, the complicated phase-ins also make it hard to tell how the different provisions will affect families at different points in time.

The level of income that is tax-free provides a simple metric of how the tax system affects low-income people. Table 5a shows the "income tax entry threshold," the level of income at which income tax liability occurs before considering the effect of tax credits. This threshold comprises a standard deduction, which depends on filing status and personal exemptions, determined by the number of people in the filing unit. The threshold increases with family size, and it is higher for married couples than for singles and heads of household. Absent other credits, in 2000, a single person with no children had positive tax liability starting at $7,200 of income; a single head of household with one child owed tax starting at $12,050. A married couple, qualifying for a higher standard deduction, began to owe tax at a higher level of income. A married couple with two children could earn $18,550 tax-free; with four children, the tax-entry threshold was $24,150.

None of the provisions of EGTRRA affect the tax-entry point for single people—either with or without children. In contrast, tax-entry thresholds increase for married couples in 2005, when the increase in their standard deduction starts to phase in. This phase-in is not complete until 2009, when the tax-entry threshold for married taxpayers is $1,450 higher (in inflation-adjusted dollars) than it was in 2000.

The CTC and EITC change the picture considerably. In 2000, a married couple with four children could earn $37,486 before owing any income tax, more than 50 percent over the tax-entry threshold (table 5b). A single head of household with one child could earn 75 percent more tax-free than he or she could without the CTC or the EITC. Even a single person without children could earn 15 percent more than the tax-entry threshold before owing tax because of the small EITC available to childless workers. A single parent with one child could earn more than two-and-a-half times the amount that a single childless person could earn before being taxed, a significantly higher ratio than without the two credits.

The tax-entry threshold increases over time for most households for three reasons. First, the CTC expansion raises the entry threshold for families with children. Second, for married couples, the EITC marriage-penalty relief further increases the level of tax-free income. Third, for all families eligible for an EITC or CTC, tax credits offset tax liability on more income in 2001 than in 2000 because of the reduction in income tax rates from 15 percent to 10 percent on the first $6,000 of income.[13]

Measured in 2000 dollars, the increase in the entry threshold is uneven because of the complex phase-ins and the failure to index the CTC expansion to inflation. For single taxpayers without children, the 10 percent bracket increased the entry threshold slightly in 2001; the level is set to remain constant after that. By contrast, families with children see increases in tax-entry thresholds phased in over several years. Between 2000 and 2010, a single parent with one child will see an increase in the tax-free level of income by more than $2,000 (table 5b). For a married couple with two children, the increase is more than $5,000. For a married couple with four

[13] For example, $500 of tax credits in 2000 could offset the income tax liability on $3,333 of taxable income in 2000 ($3,333 * 15 percent = $500). In 2001, the same tax credits could offset tax liability on $5,000 of income ($5,000 * 10 percent = $500).

children, the increase is more than $12,000. However, it takes a long time for these increases to phase in. Indeed, between 2001 and 2007, the tax-free level of income changes very little; in some years, it actually declines (figure 1).

The increase in the CDCTC will also affect the tax-free threshold, especially among middle-income households who can afford to pay for child care. Families with the typical amount of child care expenses at their income level will see a 5–10 percent increase in the tax-free level of income over the 2000 level owing to the CDCTC (tables 5b and 5c). Expansions in the credit result in larger differences in the amount of income that is tax-free by 2010. Expressed in 2000 dollars, a single parent with one child will be able to earn 9 percent more before owing tax because of the CDCTC. For a married couple with two children, the tax-entry threshold will increase by 13 percent; a married couple with four children will see an increase of 11 percent. Thus, married couples with four children and an average amount of child care expenses (for people taking the credit) can earn $55,440 before owing federal income tax.

The reduced income tax burden on low-income families continues a trend seen through the 1990s. Taxes declined for poor families throughout the 1990s (see table 6a and b). In 1990, a family at the poverty level ($17,436 in 2000) would receive a net refund equal to about 5 percent of income after taking the EITC. A near-poor family (125 percent of poverty), actually owed some tax (0.4 percent). By 2000, that family would qualify for a net refund of more than 8 percent of income, and the family at the poverty level would receive a net refund of more than 15 percent. Families at twice and three times the poverty threshold continued to owe income tax, but the size of their liability dropped significantly over the course of the decade.

Table 5a. Income Tax Entry Thresholds for Selected Families before Credits, 2000-09 (in 2000$)

Family Type	Year							
	2000	2001	2003	2005	2006	2007	2008	2009
Single, No Children	7,200	7,200	7,200	7,200	7,200	7,200	7,200	7,200
Single, One Child	12,050	12,050	12,050	12,050	12,050	12,050	12,050	12,050
Married, Two Children	18,550	18,550	18,550	18,860	19,300	19,430	19,560	20,000
Married, Four Children	24,150	24,150	24,150	24,460	24,900	25,030	25,160	25,600

Notes and source: In calculating the year 2000 values of 2001 tax law in subsequent years, we use projections for inflation from the Congressional Budget Office, August 2001.

Table 5b. Tax-Free Level of Income for Selected Families after the Earned Income Tax Credit and Child Tax Credit, 2000-10 (in 2000$)

Family Type	Year						
	2000	2001	2003	2005	2007	2009	2010
Single, No Children	8,275	8,580	8,580	8,580	8,580	8,580	8,580
Single, One Child	21,590	23,465	23,260	23,385	23,220	23,355	23,806
Married, Two Children	28,684	30,795	31,027	31,903	31,840	33,021	34,081
Married, Four Children	37,486	43,639	42,506	44,258	43,715	46,270	49,976

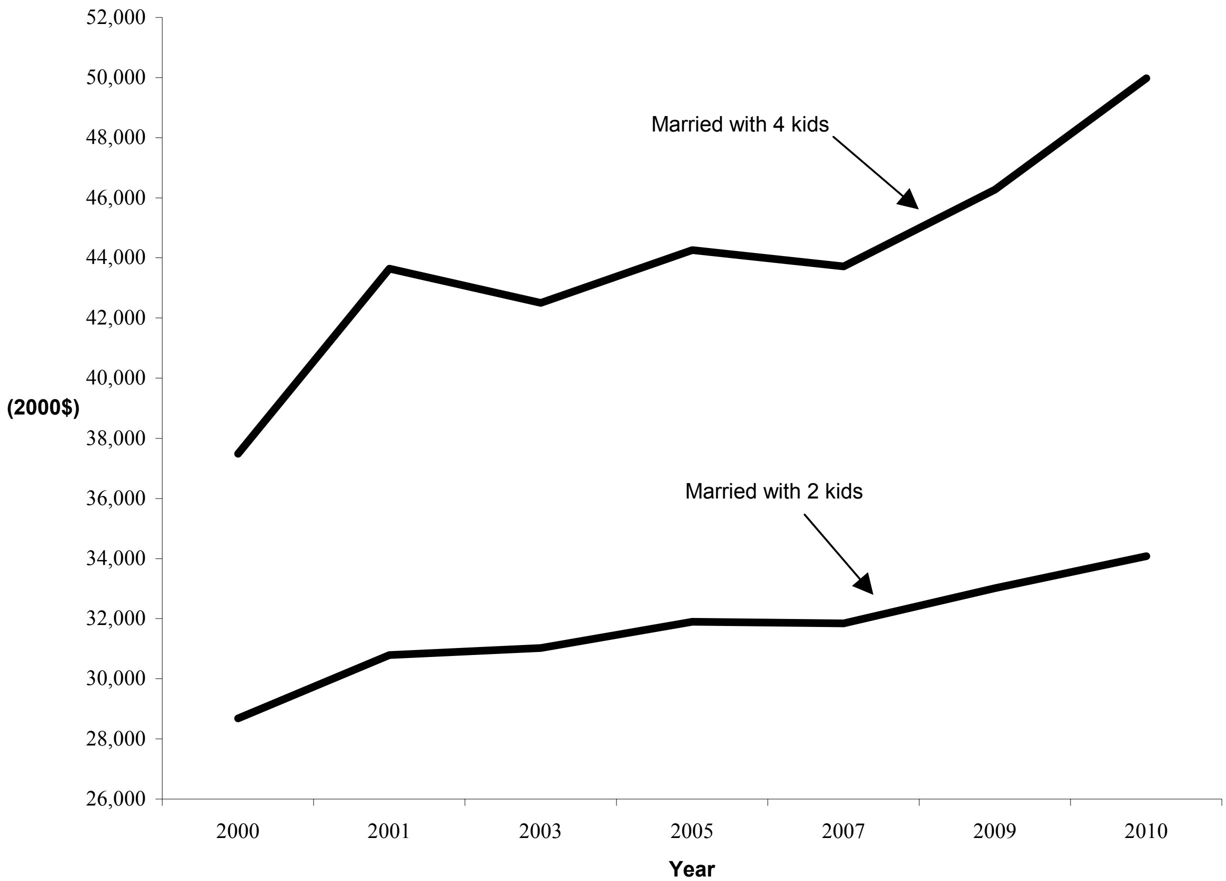
Notes and source: In calculating the year 2000 values of 2001 tax law in subsequent years, we use projections for inflation from the Congressional Budget Office, August 2001.

Table 5c. Tax-Free Level of Income for Selected Families after the Earned Income Tax Credit, Child Tax Credit, and Dependent Care Credit, 2000-10 (in 2000$)

Family Type	Year						
	2000	2001	2003	2005	2007	2009	2010
Single, No Children	8,275	8,580	8,580	8,580	8,580	8,580	8,580
Single, One Child	23,370	25,113	25,811	25,858	25,531	25,551	25,945
Married, Two Children	30,050	33,825	33,834	34,894	34,735	36,582	38,380
Married, Four Children	41,330	48,294	47,040	48,979	48,378	51,328	55,440

Notes and source: In calculating the year 2000 values of 2001 tax law in subsequent years, we use projections for inflation from the Congressional Budget Office, August 2001. Calculations including dependent care credit use average expenses for families with incomes shown in table 5b that report child care expenses. Approximately 30 percent of single, one-child households; 27 percent of married, two-child households; and 14 percent of married, four-child households at those income levels use the child and dependent care tax credit. See Giannarelli and Barsimantov (2000).

Figure 1. Tax-Free Level of Income as EGTRRA Phases In, Selected Families (in 2000$), 2000-10



Source: Authors' calculations. In calculating the year 2000 values of 2001 tax law in subsequent years, we use projections for inflation from the Congressional Budget Office, August 2001.

Table 6a. Average Income Tax Rates at Selected Income Levels for Married Couple with Two Children, 1990 – 2010 (Income Tax as % of Pretax Income)

Income	Year						
	1990	1995	2000	2001	2003	2005	2010
Poverty Level	-4.9%	-13.6%	-15.3%	-19.6%	-20.6%	-23.7%	-24.5%
125% of Poverty Level	0.4%	-5.3%	-8.4%	-11.9%	-12.5%	-13.9%	-16.3%
200% of Poverty Level	6.8%	6.4%	3.9%	1.8%	2.1%	1.8%	0.3%
300% of Poverty Level	9.2%	8.9%	7.2%	5.9%	6.0%	5.8%	4.9%

Source: Authors' calculations.
Notes: Pre-tax income is defined as wages plus the employer's contribution to social insurance taxes. The poverty level is $17,463 (in 2000$) for this family.

Table 6b. Total Income Tax Paid at Selected Income Levels for Married Couple with Two Children, 1990 – 2010 (in 2000$)

Income	Year						
	1990	1995	2000	2001	2003	2005	2010
Poverty Level	-924	-2,563	-2,883	-3,687	-3,880	-4,456	-4,601
125% of Poverty Level	90	-1,236	-1,963	-2,797	-2,930	-3,257	-3,837
200% of Poverty Level	2,541	2,408	1,456	695	804	663	127
300% of Poverty Level	5,160	5,028	4,076	3,314	3,424	3,283	2,746

Source: Authors' calculations.
Notes: Pretax income is defined as wages plus the employer's contribution to social insurance taxes. The poverty level is $17,463 (in 2000$) for this family.

EGTRRA will make a big difference for families at or near the poverty threshold. In 2001, a family at the poverty threshold would receive a net tax refund equal to nearly 20 percent of income, compared with a 15 percent subsidy the previous year (table 6a). By 2010, when the act is fully phased in, the net income tax subsidy to poor families will equal almost 25 percent of income, almost five times the 1990 amount. That is, by 2010, the cash refund of about $4,600 will move the family's after-tax income to the equivalent of 125 percent of the poverty threshold. A family earning 25 percent above the poverty level would get a net refund equal to about 16 percent of income (about $3,800). In 1990, the same family would have owed a small amount of income tax. Even a family at twice the poverty level in 2010 would have almost no tax liability—about $110 or 0.3 percent of income—compared with a 7 percent net tax rate in 1990.

A family at three times the poverty threshold would see its tax rate cut to about one-third its 2000 tax and to almost half its 1990 levy.

Working poor families do pay payroll taxes, a component that changes the picture dramatically (tables 7a and 7b). Including payroll taxes, a family at the poverty level paid more than 9 percent of its income in taxes in 1990.[14] In 2000, the EITC eliminated their income tax bill, and they received a small (1 percent) net subsidy over payroll taxes (Ellwood 2000). By 2010, their net income tax refund will exceed payroll taxes by about 10 percent of income.[15] A family at 125 percent of the poverty level does not see its overall tax bill eliminated until 2010, and a family at twice the poverty threshold continues to pay significant tax even after the income tax cuts are fully phased in. Nonetheless, the new tax law reduces total taxes across the board, following the same pattern as shown for income taxes (tables 6a and 6b).

The marginal tax rate—the amount of taxes due on an additional dollar of income—is a measure of a taxpayer's incentive to work or save. The EITC was designed to encourage work by augmenting wages. A family with two children and very low income receives a 40 percent income tax subsidy for every additional dollar earned. The EITC's phaseout schedule, however, creates an implicit tax of 21 percent for families that move from very low income to higher income levels. The bulk of the evidence suggests that the EITC encourages work more than the high marginal tax rates in the phaseout range discourages it (Ellwood 2000). Nonetheless, analysts were concerned because marginal tax rates can exceed 40 percent in some cases.[16]

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[14] This figure includes both the employer and employee portion of the payroll taxes. Evidence suggests that the tax that is nominally paid by employers is ultimately paid by employees in the form of lower wages or reduced fringe benefits (Gruber 1994).

[15] Poor families face many other taxes, including federal excise tax, state and local sales tax, income tax, and property tax.

[16] Marginal tax rates exceeded 40 percent when the EITC phaseout was added to the 15 percent income tax rate and the payroll taxes that are paid by both employers and employees.

Table 7a. Combined Average Income and Payroll Tax Rates for Married Couple with Two Children, 1990 – 2010 (Income plus Payroll tax as % of Pretax Income)

Income	Year						
	1990	1995	2000	2001	2003	2005	2010
Poverty Level	9.3%	0.6%	-1.1%	-5.4%	-6.4%	-9.5%	-10.3%
125% of Poverty Level	14.6%	9.0%	5.9%	2.3%	1.7%	0.4%	-2.1%
200% of Poverty Level	21.0%	20.6%	18.1%	16.0%	16.4%	16.0%	14.6%
300% of Poverty Level	23.4%	23.1%	21.4%	20.1%	20.3%	20.0%	19.1%

Source: Authors' calculations.
Notes: Pretax income is defined as wages plus the employer's contribution to social insurance taxes. The poverty level is $17,463 (in 2000$) for this family.

Table 7b. Combined Average Income and Payroll Taxes Paid by Married Couple with Two Children, 1990 – 2010 (in 2000$)

Income	Year						
	1990	1995	2000	2001	2003	2005	2010
Poverty Level	$1,748	$109	$-211	$-1,015	$-1,208	$-1,784	$-1,929
125% of Poverty Level	$3,429	$2,103	$1,377	$543	$410	$83	$-497
200% of Poverty Level	$7,885	$7,752	$6,800	$6,039	$6,148	$6,007	$5,471
300% of Poverty Level	$13,176	$13,043	$12,092	$11,330	$11,440	$11,299	$10,762

Source: Authors' calculations.
Notes: Pretax income is defined as wages plus the employer's contribution to social insurance taxes. The poverty level is $17,463 (in 2000$) for this family.

The new refundable CTC and 10 percent tax bracket were designed to lower high marginal tax rates where possible. They clearly succeeded in the case of families at the poverty level. Marginal tax rates for a married couple with two children at the poverty level were almost 34 percent in 2000; that rate fell to under 25 percent in 2001 and will fall below 20 percent by 2005 (table 8). The decline occurs entirely because these families benefit from the refundable CTC. A family with income in the phase-in range can receive 10 cents in additional child tax credits for every additional dollar of earnings in 2001. These additional credits are equivalent to a 10 percent tax subsidy. In 2005, the family will receive 15 cents in tax credits for every additional dollar earned.[17]

Table 8. Combined Marginal Income and Payroll Tax Rates for Married Couple with Two Children, 1990 – 2010

Income	**Year**						
	1990	**1995**	**2000**	**2001**	**2003**	**2005**	**2010**
Poverty Level	23.5%	33.0%	33.8%	24.5%	24.5%	19.8%	19.8%
125% of Poverty Level	37.4%	46.9%	33.8%	43.1%	43.1%	43.1%	43.1%
200% of Poverty Level	28.1%	28.1%	28.1%	28.1%	28.1%	28.1%	28.1%
300% of Poverty Level	28.1%	28.1%	28.1%	28.1%	28.1%	28.1%	28.1%

Source: Authors' calculations.
Notes: Pretax income is defined as wages plus the employer's contribution to social insurance taxes. The poverty level is $17,463 (in 2000$) for this family.

A similar family at 125 percent of the poverty level actually faces increased marginal tax rates (43.1 percent in 2001 versus 33.8 percent in 2000) as a result of EGTRRA. Prior to the new law, that family had more nonrefundable child tax credits than it could use. As a result, any additional dollar of tax was fully offset by the unused child tax credits. That is, its effective income tax rate was zero (before counting the effect of the EITC phaseout). After EGTRRA, the family's earnings are high enough to make the entire CTC refundable. Thus, the tax on an

[17] For more on the logic behind the refundable CTC and its effect on poor families and work incentives, see Sawhill and Thomas (2001a; 2001b).

additional dollar of earnings is not sheltered by unused tax credits, as under prior law.[18] The effective tax rate increased by about 10 percent.

By contrast, marginal tax rates for families at two and three times the poverty threshold have not changed. Because EGTRRA left their 15 percent marginal income tax bracket intact and their incomes are too high to qualify them for the EITC, they are not affected by the credit's phaseout. Families with much higher incomes will benefit from reductions in marginal tax rates as the higher tax brackets are pared back (not shown in table). However, some upper-middle-income families, especially those with many children, will see little or no tax reduction because of the alternative minimum tax (AMT). The lowering of tax rates for upper-income taxpayers will roughly double the number of people subject to the AMT over the next 10 years. By 2010, more than half of all families of four or more will be subject to the AMT unless Congress changes the rules (Tempalski forthcoming).

Distributional Effects of the Legislation

On balance, the tax cut favors families with children over those without children. EGTRRA also provides much larger tax cuts for high-income households than for those with moderate and low incomes; this relative difference becomes even more pronounced when the effects of the estate tax are included. In dollar terms, the benefits of the measures aimed at high-income taxpayers, including the cuts to the top marginal tax rates, far outweigh the benefits delivered by provisions geared to lower-income individuals, such as the creation of the 10

[18] The increase is less than 10 percentage points because we assume that the employee actually pays the employer portion of payroll taxes, as discussed earlier. Thus, an additional hundred dollars of earnings would translate into only $92.89 in taxable wages—the other $7.11 (7.65 percent of $92.89) is paid by the employer in OASDI taxes. From that taxable wage base, the employee pays another $7.11 in payroll taxes and $9.29 in income taxes (10 percent of $92.89), and loses $19.56 in EITC (21.06 percent of $92.89) because of the phaseout. Thus, after-tax income is $56.93. In other words, taxes took 43.07 percent of the $100.00. Before EGTRRA, there would have been no income tax liability because the unused child tax credit offset any additional income tax. On balance, after-tax income is higher by $9.29, or 9.29 percent of earnings.

percent tax bracket and child credit expansion.[19] By 2010, when the tax cut is fully phased in, taxpayers with AGI above $200,000 receive an average income tax cut that is about 450 times larger than the average cut received by individuals with less than $10,000 in income and about 37 times larger than the average cut for taxpayers making between $10,000 and $20,000 (table 9). The 2.7 percent of taxpayers in the highest income class receive 37 percent of the total tax cut. The 19 percent in the lowest income bracket receive less than 1 percent of the income tax cut; almost three-quarters of them receive no tax cut at all.

The percentage increase in after-tax income, which captures the additional resources available to families for consumption or saving, provides an indication of a family's increase in economic well-being following EGTRRA. By this measure, the poorest individuals, those with incomes below $10,000, receive the smallest benefit from EGTRRA, whereas taxpayers with incomes above $200,000 receive the largest benefit. Among taxpayers with incomes between $10,000 and $200,000, however, the tax cut appears progressive; in this range, the percentage change in after-tax income is substantially larger for those with lower incomes. This result reflects a combination of factors. Measures such as the creation of the 10 percent tax bracket and the changes to the child tax credit benefit low-income taxpayers proportionately more than those with high incomes. In addition, the benefits of EGTRRA for many upper-middle-income taxpayers are "clawed back" by the alternative minimum tax.

One of the largest revenue measures in EGTRRA is the repeal of the estate tax. Following the methodology in Burman (2001), we estimate the distributional impact of repealing

[19] See the appendix for a detailed description of our methodology. Our tax model incorporates the provisions affecting marginal tax rates, the 10 percent tax bracket, the child tax credit, the child and dependent care credit, the limitation of itemized deductions, the personal exemption phaseout, the AMT, as well as the standard deduction, 15 percent bracket, and EITC measures for married couples. The appendix also contains tables showing the distributional impact of EGTRRA in selected calendar years.

Table 9. Distribution of Income Tax Change, 2010 Calendar Year

a) All Returns

AGI Class[ii] (2001$)	Percent of All Returns	Percent with Tax Change	Average Tax Cut[i]		Total Tax Change[i]		Change in After-Tax Income, All Returns[iii]
			All Returns	Returns with Tax Change	Amount (Millions)	Percent of Total	
Less than $10,000	19.4%	28.2%	-$35	-$123	- 988	0.6%	0.51%
$10,000 - $20,000	17.4%	89.0%	-$420	-$472	-10,717	6.3%	2.22%
$20,000 - $30,000	13.1%	98.0%	-$716	-$731	-13,852	8.2%	2.47%
$30,000 - $40,000	9.8%	99.1%	-$822	-$830	-11,853	7.0%	2.07%
$40,000 - $50,000	7.5%	97.8%	-$1,008	-$1,031	-11,060	6.5%	2.00%
$50,000 - $75,000	12.3%	95.1%	-$1,261	-$1,325	-22,798	13.5%	1.84%
$75,000 - $100,000	7.7%	92.3%	-$1,651	-$1,789	-18,772	11.1%	1.77%
$100,000 - $200,000	9.4%	70.9%	-$1,199	-$1,691	-16,628	9.8%	0.85%
$200,000 and over	2.7%	59.9%	-$15,695	-$26,223	-62,132	36.8%	3.31%
Total	100.0%	78.0%	-$1,148	-$1,472	-168,924	100.0%	2.03%

b) Returns with One or More Children

AGI Class (2001$)	Percent of All Returns	Percent with Tax Change	Average Tax Cut		Total Tax Change		Change in After-Tax Income, All Returns
			All Returns	Returns with Tax Change	Amount (Millions)	Percent of Total	
Less than $10,000	4.4%	1.5%	-$19	-$1,305	-124	0.1%	0.20%
$10,000 - $20,000	6.1%	86.9%	-$661	-$ 761	-5,890	3.5%	3.05%
$20,000 - $30,000	4.0%	98.8%	-$1,376	-$1,392	- 8,085	4.8%	4.45%
$30,000 - $40,000	2.8%	99.1%	-$1,512	-$1,525	-6,290	3.7%	3.66%
$40,000 - $50,000	2.4%	97.5%	-$1,596	-$1,637	-5,523	3.3%	3.04%
$50,000 - $75,000	4.6%	93.3%	-$1,605	-$1,720	-10,849	6.4%	2.27%
$75,000 - $100,000	3.7%	90.0%	-$1,645	-$1,827	-8,836	5.2%	1.72%
$100,000 - $200,000	4.8%	60.3%	-$732	-$1,213	-5,165	3.1%	0.50%
$200,000 and over	1.4%	56.0%	-$15,283	-$27,295	-30,638	18.1%	3.37%
Total	34.2%	75.1%	-$1,621	-$2,159	-81,523	48.3%	2.24%

c) Returns with No Children

AGI Class (2001$)	Percent of All Returns	Percent with Tax Change	Average Tax Cut		Total Tax Change		Change in After-Tax Income, All Returns
			All Returns	Returns with Tax Change	Amount (Millions)	Percent of Total	
Less than $10,000	15.0%	36.1%	-$39	-$108	- 864	0.5%	0.69%
$10,000 - $20,000	11.3%	90.1%	-$290	-$322	-4,827	2.9%	1.67%
$20,000 - $30,000	9.1%	97.7%	-$429	-$439	-5,767	3.4%	1.52%
$30,000 - $40,000	7.0%	99.1%	-$542	-$547	-5,562	3.3%	1.38%
$40,000 - $50,000	5.1%	97.9%	-$737	-$753	-5,537	3.3%	1.49%
$50,000 - $75,000	7.7%	96.2%	-$1,055	-$1,096	-11,949	7.1%	1.57%
$75,000 - $100,000	4.1%	94.3%	-$1,657	-$1,757	- 9,936	5.9%	1.81%
$100,000 - $200,000	4.6%	81.9%	-$1,685	-$2,057	-11,463	6.8%	1.23%
$200,000 and over	1.3%	63.8%	-$16,118	-$25,258	-31,494	18.6%	3.26%
Total	65.8%	79.5%	-$902	-$1,135	-87,401	51.7%	1.86%

Source: Urban-Brookings Tax Policy Center Microsimulation Model .

[i] Includes provisions affecting marginal tax rates, the 10% bracket, the child tax credit, the child and dependent care credit, the limitation of itemized deductions, the personal exemption phaseout, the AMT, as well as the standard deduction, 15% bracket, and EITC provisions for married couples. Excludes pension and IRA provisions and phaseout of the estate tax.
[ii] Returns with negative AGI have been excluded from the less than $10,000 income class but are included in the total line.
[iii] After-tax income is AGI less income tax net of refundable tax credits (EITC and child tax credit).

the estate tax, a provision that is not fully phased in until 2010 and that will reduce revenues by about $53 billion.[20] Our estimate, while only an approximation, provides an indication of the degree to which this initiative benefits the small fraction of families at the top of the income distribution. Based on estimates by Cronin (1999), about 97 percent of the benefits of repealing the estate tax go to taxpayers with incomes of $100,000 or more. With the inclusion of the estate tax repeal, taxpayers with AGI of more than $200,000 receive about 46 percent of the overall benefits of EGTRRA, compared with about 37 percent of the benefits when looking only at the income tax components (table 10). In addition, the percentage increase in after-tax income for individuals in the highest AGI class rises by about two-thirds when extending the analysis to include the estate tax repeal (right-hand columns of tables 9 and 10). Finally, although taxpayers with incomes of more than $200,000 will pay a larger share of the overall income tax liability in 2010, including the estate tax in the analysis means that the share of taxes—both income and estate—paid by those high-income individuals will fall slightly (table 11).

One of the defining characteristics of EGTRRA is the gradual phase-in of most of its major provisions, which changes the distribution of the benefits of the legislation over time. Many of the major provisions aimed at high-income taxpayers—the cuts to the top marginal tax rates, the repeals of the limitation on itemized deductions, and the phaseout of personal exemptions—do not occur, or are not completely in place, until late in the decade. Thus, very-high-income taxpayers—those with AGI above $200,000—tend to receive a larger and larger share of the benefits of EGTRRA with each successive year (figure 2).

Low-income taxpayers benefited immediately from the creation of the 10 percent tax bracket and the increase in, and refundability of, the child tax credit. Their share of the tax cut then tends to decline until the middle of the decade, when further increases in the child tax credit,

[20] The $53 billion figure given here is the 2011 fiscal year impact (Joint Committee on Taxation 2001).

Table 10. Estimated Distribution of Income and Estate Tax Changes, 2010 Calendar Year

AGI Class (2001$)	Cumulative Percentage of Taxfilers	Income Tax[i]		Estate Tax[ii]		Percent of Total Income and Estate Tax Cut	Change in After-Tax Income[iv]
		Total Tax Change (Millions)	Percentage of Total	Total Tax Change (Millions)[iii]	Percentage of Total		
Less than $10,000	19.5%	- 988	0.6%	0	0.0%	0.4%	0.52%
$10,000 - $20,000	37.0%	-10,717	6.3%	0	0.0%	4.8%	2.22%
$20,000 - $30,000	50.2%	-13,852	8.2%	0	0.0%	6.2%	2.47%
$30,000 - $40,000	60.1%	-11,853	7.0%	0	0.0%	5.3%	2.07%
$40,000 - $50,000	67.6%	-11,060	6.5%	-200	0.4%	5.1%	2.03%
$50,000 - $75,000	80.0%	-22,798	13.5%	-300	0.6%	10.4%	1.86%
$75,000 - $100,000	87.8%	-18,772	11.1%	-1,200	2.2%	9.0%	1.89%
$100,000 - $200,000	97.3%	-16,628	9.8%	-11,400	21.3%	12.6%	1.47%
$200,000 and over	100.0%	-62,132	36.8%	-40,300	75.5%	46.1%	5.59%
Total	100.0%	-168,924	100.0%	-53,400	100.0%	100.0%	2.69%

Sources: Urban-Brookings Tax Policy Center Microsimulation Model and authors' calculations.
[i] Includes provisions affecting marginal tax rates, the 10% bracket, the child tax credit, the child and dependent care credit, the limitation of itemized deductions, the personal exemption phaseout, the AMT, as well as the standard deduction, 15% bracket, and EITC provisions for married couples. Excludes pension and IRA provisions. Returns with negative AGI have been excluded from the less than $10,000 income class but are included in the total line.
[ii] Assumes that estate taxes are distributed as reported by the Treasury Department, Office of Tax Analysis in table 12 of Cronin (1999). Treasury reports the distribution in terms of family economic income (FEI), a broader measure than AGI. The FEI quintile distribution as reported by Treasury was converted to AGI quintiles and then assigned to the dollar income classes shown in the table. See Burman (2001) for more details.
[iii] The total tax change from the repeal of the estate tax is taken from Joint Committee on Taxation (2001). The 2011 fiscal year budget effect has been used as an approximation for the benefits distributed by repeal of the estate tax. Numbers have been rounded to the nearest 100 million.
[iv] After-tax income is AGI less estate tax and income tax net of refundable tax credits (EITC and child tax credit).

Table 11. Distribution of Federal Tax, 2010 Calendar Year

a) Individual Income Tax

AGI Class (2001$)	Percent of Total Returns	Percent of Total Income Tax Cut[i]	Distribution of Income Tax	
			Pre-EGTRRA	Post-EGTRRA
Less than $10,000	19.4%	0.6%	-0.8%	-1.0%
$10,000 - $20,000	17.4%	6.3%	-0.5%	-1.4%
$20,000 - $30,000	13.1%	8.2%	2.2%	1.5%
$30,000 - $40,000	9.8%	7.0%	3.6%	3.1%
$40,000 - $50,000	7.5%	6.5%	4.2%	3.9%
$50,000 - $75,000	12.3%	13.5%	10.8%	10.5%
$75,000 - $100,000	7.7%	11.1%	11.1%	11.1%
$100,000 - $200,000	9.4%	9.8%	25.3%	27.1%
$200,000 and over	2.7%	36.8%	44.2%	45.1%
Total	100.0%	100.0%	100.0%	100.0%

b) Individual Income and Estate Taxes

AGI Class (2001$)	Percent of Total Returns	Percent of Total Income and Estate Tax Cuts[i, ii, iii]	Distribution of Income and Estate Tax[ii, iii]	
			Pre-EGTRRA	Post-EGTRRA
Less than $10,000	19.4%	0.4%	-0.8%	-1.0%
$10,000 - $20,000	17.4%	4.8%	-0.5%	-1.4%
$20,000 - $30,000	13.1%	6.2%	2.1%	1.5%
$30,000 - $40,000	9.8%	5.3%	3.4%	3.1%
$40,000 - $50,000	7.5%	5.1%	4.1%	3.9%
$50,000 - $75,000	12.3%	10.4%	10.5%	10.5%
$75,000 - $100,000	7.7%	9.0%	10.8%	11.1%
$100,000 - $200,000	9.4%	12.6%	25.1%	27.1%
$200,000 and over	2.7%	46.1%	45.2%	45.1%
Total	100.0%	100.0%	100.0%	100.0%

Sources: Urban-Brookings Tax Policy Center Microsimulation Model and authors' calculations.
[i] Includes provisions affecting marginal tax rates, the 10% bracket, the child tax credit, the child and dependent care credit, the limitation of itemized deductions, the personal exemption phaseout, the AMT, as well as the standard deduction, 15% bracket, and EITC provisions for married couples. Excludes pension and IRA provisions.
[ii] Assumes that estate taxes are distributed as reported by the Treasury Department, Office of Tax Analysis in table 12 of Cronin (1999). Treasury reports the distribution in terms of family economic income (FEI), a broader measure than AGI. The FEI quintile distribution as reported by Treasury was converted to AGI quintiles and then assigned to the dollar income classes shown in the table. See Burman (2001) for more details.
[iii] The total tax change from the repeal of the estate tax is taken from Joint Committee on Taxation (2001). The 2011 fiscal year budget effect has been used as an approximation for the benefits distributed by repeal of the estate tax. Numbers have been rounded to the nearest 100 million.

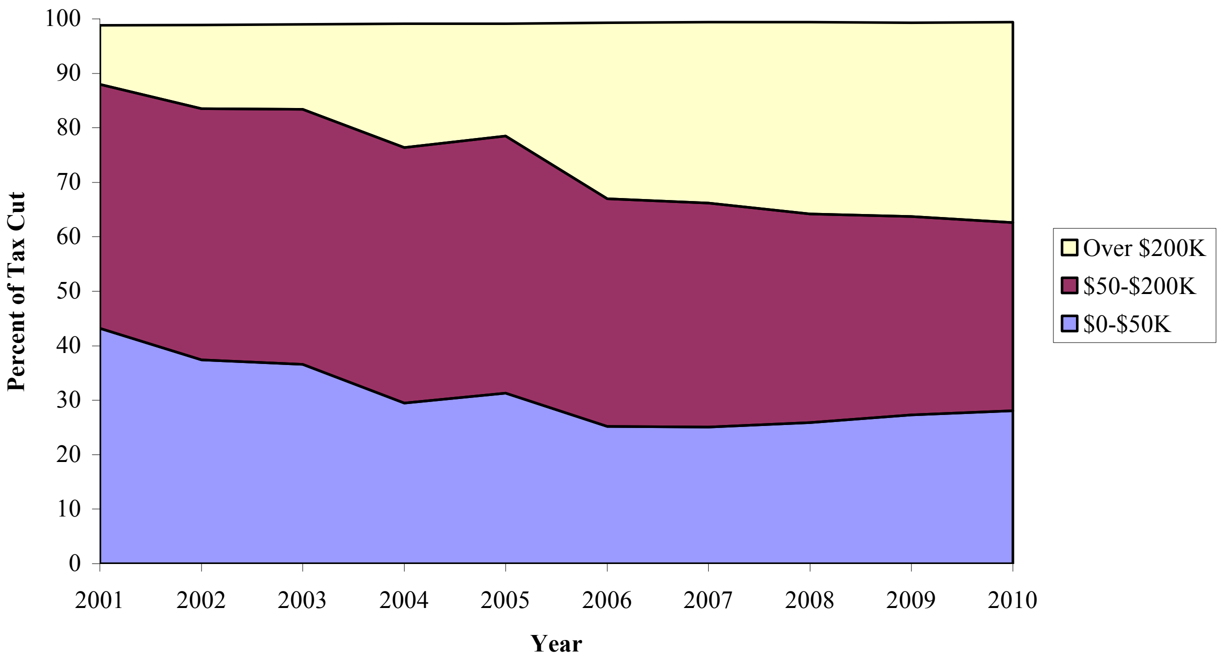
as well as EITC changes and other provisions aimed at married couples, are phased in. Through the latter half of the decade, taxpayers with AGI below $50,000 receive larger and larger shares of the tax cut. Taxpayers in the middle—those with incomes between $50,000 and $200,000—see their share of the tax cut fall through the latter half of the decade. These taxpayers, especially families with incomes above $100,000, are vulnerable to the alternative minimum tax trap. In addition, they do not necessarily benefit from the child tax credit, which is phased out for individuals with higher incomes.

Effects on Taxpayers with Children

Because of the EGTRRA provisions directly aimed at taxpayers with children, parents do tend to fare better overall than those without children. By 2010, when all the child provisions of EGTRRA are fully phased-in, the percentage increase in after-tax income is significantly larger for families with children (table 9). This is particularly true for those individuals making between $10,000 and $50,000. Within this AGI class in 2010, the percentage change in after-tax income for those with children is almost two-and-a-half times larger than it is for individuals without children. In addition, although individuals with children represent only about one-third of the tax-filing population, they receive almost half of the benefits of the tax cut in most of the years under consideration. For example, by 2010, individuals with children represent about 34 percent of the tax-filing population, but they receive just less than half of the total tax cut (table 9).

Taxpayers with children also receive a larger average income tax cut than those without children; for many years, the difference is almost double (figure 3). The gap widens slightly in 2003, primarily because of the increase in the child and dependent care credit. The gap does not increase in 2005, even though the child tax credit increases from $600 to $700 and more of it becomes refundable in that year. This is because the gains for lower-income parents are outweighed by the fact that upper-middle and high-income taxpayers with children are more likely to become subject to the AMT, and thus see their EGTRRA benefits reduced, because exemptions for dependents are not allowed for AMT purposes. [21]

Figure 2. Share of the Income Tax Cut Going to Families at Different Strata of the Income Distribution



Source: Urban-Brookings Tax Policy Center Microsimulation Model.

Notes: Includes provisions affecting marginal tax rates, the 10% bracket, the child credit, the child and dependent care credit, the limitation of itemized deductions, the personal exemption phaseout, the AMT, and the standard deduction, 15% bracket, and EITC provisions for married couples. Excludes pension and IRA provisions and phaseout of the estate tax. AGI measured in 2001 dollars.

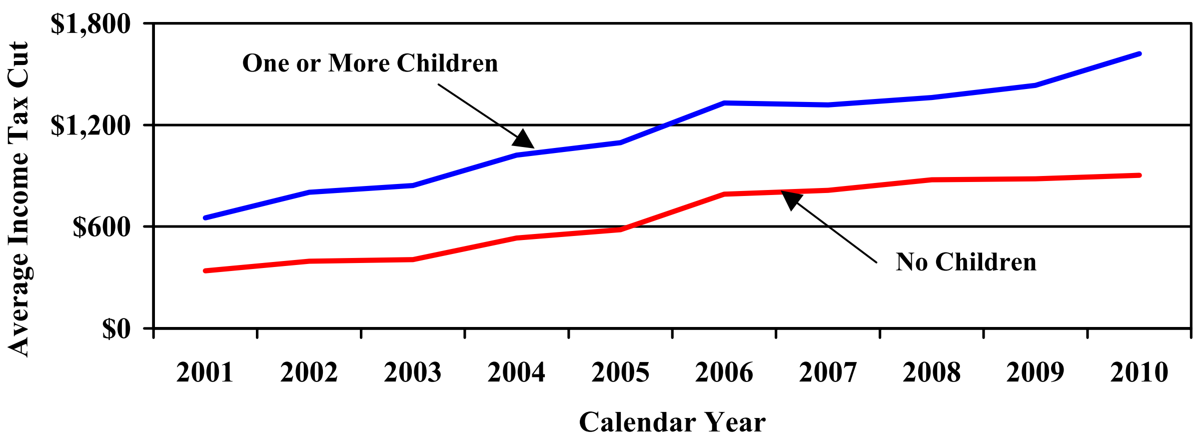
In 2009, the difference grows again because the value of the child tax credit jumps from $700 to $800. Finally, the largest increase in the gap between those with and without children occurs in 2010, when the child tax credit increases by 25 percent, from $800 to $1,000. In that year,

[21] The year 2005 is when the AMT begins to affect a substantially larger and larger number of taxpayers because the temporary increase in the AMT exemption amount enacted by EGTRRA sunsets after the 2004 calendar year.

taxpayers with children receive an average income tax cut of $1,621, almost 80 percent more than the $902 tax cut received by taxpayers without children. Significant jumps in the average tax cut for both groups of taxpayers also occur in 2004 and 2006; these rises largely reflect the last two steps of the phased-in marginal rate reductions.

Figure 4 shows the difference in the average income tax cut received by individuals with and without children, in various income classes.[22] In 2001, low-income individuals with children—those with AGI between $10,000 and $30,000—receive an average tax cut that is more than 70 percent larger than the average for individuals without children ($459

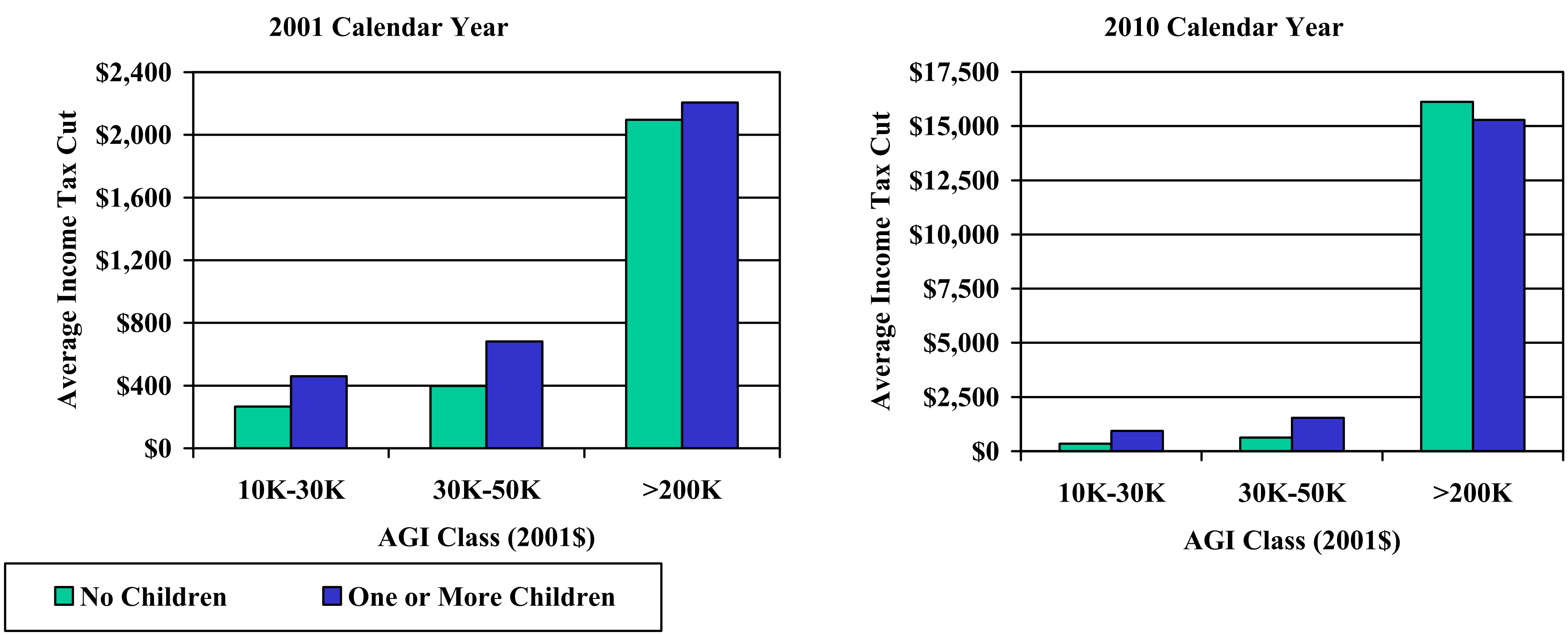
Figure 3. Average Income Tax Cut for Tax Filers with and without Children, 2001-10



Source: Urban-Brookings Tax Policy Center Microsimulation Model.
Notes: Includes provisions affecting marginal tax rates, the 10% bracket, the child credit, the child and dependent care credit, the limitation of itemized deductions, the personal exemption phaseout, the AMT, and the standard deduction, 15% bracket, and EITC provisions for married couples. Excludes pension and IRA provisions and phaseout of the estate tax. The average income tax cut is for all tax filers in each category, including those individuals who do not receive a tax cut.

[22] We restrict the analysis to individuals with incomes above $10,000. Almost 99 percent of families with incomes less than $10,000 who have children receive no tax cut from EGTRRA (table 9). These families typically have enough exemptions to reduce their taxable income to zero and do not benefit from the child tax credit since it is only refundable to the extent that earnings exceed $10,000 (a threshold that is indexed for inflation after 2001).

Figure 4. Average Income Tax Cut for Tax Filers with and without Children, 2001 and 2010



Source: Urban-Brookings Tax Policy Center Microsimulation Model.

Notes: Includes provisions affecting marginal tax rates, the 10% bracket, the child credit, the child and dependent care credit, the limitation of itemized deductions, the personal exemption phaseout, the AMT, and the standard deduction, 15% bracket, and EITC provisions for married couples. Excludes pension and IRA provisions and phaseout of the estate tax. The average income tax cut is for all tax filers in each category, including those individuals who do not receive a tax cut.

versus $267). For those with incomes between $30,000 and $50,000, taxpayers with children also fare better by about the same percentage. Taxpayers at the very high end of the income distribution also benefit from having children, but the relative difference in benefits for those with and without children is much smaller. This less dramatic gap partially reflects the scope of the expanded child tax credit, which took effect in 2001. This credit is generally not available to high-income taxpayers, because it begins to phase out at income levels of $75,000 for singles and $110,000 for married couples filing jointly.[23]

Low- and moderate-income taxpayers with children benefit most in the 2010 calendar year, because the child provisions phase in so slowly (figure 4). In that year, taxpayers with incomes between $10,000 and $30,000 who have children receive an average tax cut that is more than two and a half times larger than that received by taxpayers without children ($945 versus $352). For taxpayers in the $30,000 to $50,000 income range, the cut is also about 2.5 times the size. For individuals in the highest income group, those with children actually receive a smaller average tax cut than those without children. These taxpayers have incomes that are too high to benefit from the child tax credit, although they do see gains from the child and dependent care credit enhancements and the repeal of the phaseout of personal exemptions.[24] The primary reason for this result is that again, higher-income taxpayers with children are more likely to become subject to the AMT, resulting in a reduction of their EGTRRA benefits.

[23] The child tax credit is phased out by $50 for every $1,000 (or fractions thereof) by which the taxpayer's AGI exceeds the threshold level. Thus, in 2001, for a married couple with two children, the child tax credit would be phased out completely for incomes greater than $133,000.

[24] Under pre-EGTRRA law, personal exemptions are phased out by 2 percent for every $2,500 (or fractions thereof) by which AGI exceeds a threshold value. For 2001, the thresholds are $132,950 for singles, $166,200 for heads of household, and $199,450 for married couples filing jointly. The thresholds are indexed for inflation. The size of the phaseout range depends on the number of personal exemptions. EGTRRA reduces the amount of this phaseout by one-third in 2006 and by two-thirds in 2008, and repeals it completely in 2010. Thus EGTRRA eventually allows high-income taxpayers to take a full exemption for each of their dependents.

Overall, it is clear that EGTRRA favors families with children over those individuals without children, especially among lower-income taxpayers. It is also true that EGTRRA favors higher-income people over those with low or moderate incomes.

Unresolved Concerns

As mentioned in the introduction, EGTRRA created a great deal of uncertainty about what the tax system will look like in the years to come, and that uncertainty has been exacerbated by the effects of the terrorist attacks. Many of the provisions of the tax bill phase in very slowly, and all of them are scheduled to expire after 2010. Given the reemergence of budget deficits and the high costs of extending many of the provisions of EGTRRA, it seems likely that some of the tax cuts will be scaled back or eliminated by 2011.

Some provisions are more temporary than others, however. The provision that provides relief from the complicated alternative minimum tax, for example, expires after 2004. This lapse would most affect middle-income families with children. Without relief, more and more of these families will be subject to the AMT. Indeed, by lowering ordinary income tax rates and leaving the AMT rates alone, EGTRRA will roughly double the number of families on the AMT by 2010 (Joint Committee on Taxation 2001).[25]

Beyond the AMT, policymakers should take a serious look at the unnecessary complexity lower-income families must face when they prepare their taxes. EGTRRA did simplify the EITC in several important respects, as described earlier, but it also missed an opportunity to simplify the very complicated refundable child tax credit. In light of the new, simpler refundability provisions, FRED should be eliminated. In addition, by integrating the different child-related tax benefits, Congress could simplify tax preparation considerably. For example, personal

[25] Issues related to the AMT will be addressed in future analysis.

exemptions for children could be combined with the CTC and the EITC into a single child-assistance tax credit (Ellwood and Liebman 2000). This measure would both simplify tax preparation and make the tax system more progressive, since refundable tax credits are more valuable than deductions and nonrefundable credits to low-income families. Personal exemptions for adults could be eliminated in favor of higher standard deductions (Feenberg and Skinner 1993). This change, too, would be progressive because the standard deduction is most valuable to lower- and middle-income families (higher-income families tend to itemize deductions).

President Bush and influential members of Congress signaled interest in tax simplification before the horrendous events of September 11 refigured the policy agenda. Let's hope that the goal to simplify tax policy will not have been forgotten after the crisis has passed.

Appendix. Methodology for Simulating the Effect of EGTRRA on the Distribution of Tax Liabilities

In order to evaluate the overall impact of EGTRRA on individuals at various income levels and with differing family situations, the Urban-Brookings Tax Policy Center's microsimulation model is used to examine the change in federal income tax liability, the distribution of the tax cut, and the percentage change in after-tax income for various AGI classes.

Method. The model estimates the average change in federal income tax liability for tax filing units in various adjusted gross income (AGI) classes, the share of the total income tax cut distributed to these filing units, and the change in after-tax income for taxpayers in these income categories. The model allows us to look at the combined effect of the major income tax provisions (except for the pension expansions) and to determine how they affect individuals and families. Although the model does not incorporate the effects of the estate tax—which will be felt by taxpayers at the highest income levels—we include an approximation of the combined distributional effects of the income tax measures and the repeal of the estate tax.

Data sources. The data in the tax model come from the 1996 public-use file produced by the Statistics of Income (SOI) Division of the Internal Revenue Service. The data set contains about 112,000 records with detailed information based on federal individual income tax returns filed for the 1996 calendar year.[26] In some cases, imputations from other sources such as the Current Population Survey of the U.S. Census Bureau supplement the SOI tax data.

Data simulations. Using forecasts and projections from various government sources, including the Congressional Budget Office, the 1996 SOI data is "aged" to future years. The data

[26] See Weber (2001) for an explanation of the SOI public-use data file, including the sampling methodology and disclosure avoidance procedures used to maintain taxpayer confidentiality.

for the tax filers in our sample are adjusted for projected growth in wages, capital gains, other income and deduction items, as well as for certain demographic changes affecting the growth in the number of tax returns for future years, creating a sample of tax filers for each calendar year from 2001 through 2010. Analysis of the implications of the tax law changes contained in EGTRRA can then be carried out using a sample that is representative of the projected tax filer base for those years. This method is especially useful when evaluating the effects of EGTRRA because most of the major tax measures contained in the legislation are not completely phased in until late in the decade, with some measures not taking full effect until 2010.

Appendix tables 1 through 5, as well as text table 9, provide summary information about the distributional effects of EGTRRA for selected calendar years from 2001 to 2010, with tax filers categorized by AGI measured in 2001 dollars. In order to evaluate the impact of EGTRRA on families, these tables provide a breakdown of the impact of the legislation on individuals with and without children.[27]

[27] The definition of a qualifying child differs among the various tax measures aimed at those with children. For the purpose of the distributional breakdown, a tax filer with children is defined as someone who claims at least one exemption for a child living at home.

Appendix Table 1. Distribution of Income Tax Change, 2001 Calendar Year

a) All Returns

AGI Class[ii] (2001$)	Percent of All Returns	Percent with Tax Change	Average Tax Cut[i] All Returns	Average Tax Cut[i] Returns with Tax Change	Total Tax Change[i] Amount (Millions)	Total Tax Change[i] Percent of Total	Change in After-Tax Income, All Returns[iii]
Less than $10,000	19.2%	28.8%	-$27	-$92	-666	1.1%	0.51%
$10,000 - $20,000	17.6%	85.8%	-$251	-$292	-5,761	9.9%	1.66%
$20,000 - $30,000	14.1%	97.1%	-$419	-$431	-7,708	13.3%	1.79%
$30,000 - $40,000	10.2%	98.9%	-$471	-$476	-6,252	10.8%	1.48%
$40,000 - $50,000	7.8%	99.5%	-$522	-$525	-5,342	9.2%	1.29%
$50,000 - $75,000	13.5%	99.6%	-$608	-$611	-10,747	18.5%	1.12%
$75,000 - $100,000	7.4%	99.7%	-$737	-$739	-7,100	12.2%	0.98%
$100,000 - $200,000	7.1%	99.6%	-$881	-$885	-8,155	14.0%	0.81%
$200,000 and over	2.2%	93.3%	-$2,151	-$2,307	-6,261	10.8%	0.53%
Total	100.0%	82.3%	-$445	-$541	-58,051	100.0%	1.04%

b) Returns with One or More Children

AGI Class (2001$)	Percent of All Returns	Percent with Tax Change	Average Tax Cut All Returns	Average Tax Cut Returns with Tax Change	Total Tax Change Amount (Millions)	Total Tax Change Percent of Total	Change in After-Tax Income, All Returns
Less than $10,000	3.6%	2.3%	-$12	-$526	-56	0.1%	0.16%
$10,000 - $20,000	5.3%	84.4%	-$330	-$391	-2,297	4.0%	1.88%
$20,000 - $30,000	4.4%	96.9%	-$618	-$638	-3,506	6.0%	2.47%
$30,000 - $40,000	3.3%	98.7%	-$665	-$674	-2,842	4.9%	2.00%
$40,000 - $50,000	2.8%	99.7%	-$702	-$704	-2,533	4.4%	1.66%
$50,000 - $75,000	5.8%	99.8%	-$742	-$744	-5,635	9.7%	1.31%
$75,000 - $100,000	3.8%	100.0%	-$827	-$827	-4,088	7.0%	1.08%
$100,000 - $200,000	3.7%	99.8%	-$947	-$949	-4,539	7.8%	0.86%
$200,000 and over	1.1%	96.1%	-$2,207	-$2,296	-3,221	5.5%	0.57%
Total	33.9%	86.1%	-$651	-$756	-28,773	49.6%	1.16%

c) Returns with No Children

AGI Class (2001$)	Percent of All Returns	Percent with Tax Change	Average Tax Cut All Returns	Average Tax Cut Returns with Tax Change	Total Tax Change Amount (Millions)	Total Tax Change Percent of Total	Change in After-Tax Income, All Returns
Less than $10,000	15.6%	34.9%	-$30	-$86	-610	1.1%	0.64%
$10,000 - $20,000	12.3%	86.4%	-$216	-$250	-3,464	6.0%	1.54%
$20,000 - $30,000	9.8%	97.2%	-$330	-$339	-4,202	7.2%	1.46%
$30,000 - $40,000	6.9%	99.0%	-$378	-$382	-3,410	5.9%	1.22%
$40,000 - $50,000	5.1%	99.4%	-$424	-$427	-2,808	4.8%	1.08%
$50,000 - $75,000	7.7%	99.4%	-$508	-$511	-5,112	8.8%	0.96%
$75,000 - $100,000	3.6%	99.4%	-$641	-$645	-3,012	5.2%	0.88%
$100,000 - $200,000	3.4%	99.3%	-$811	-$817	-3,616	6.2%	0.75%
$200,000 and over	1.1%	90.4%	-$2,096	-$2,320	-3,040	5.2%	0.48%
Total	66.1%	80.4%	-$340	-$423	-29,277	50.4%	0.95%

Source: Urban-Brookings Tax Policy Center Microsimulation Model.

[i] Includes provisions affecting marginal tax rates, the 10% bracket, the child tax credit, the child and dependent care credit, the limitation of itemized deductions, the personal exemption phaseout, the AMT, as well as the standard deduction, 15% bracket, and EITC provisions for married couples. Excludes pension and IRA provisions and phaseout of the estate tax.

[ii] Returns with negative AGI have been excluded from the less than $10,000 income class but are included in the total line.

[iii] After-tax income is AGI less income tax net of refundable tax credits (EITC and child tax credit).

Appendix Table 2. Distribution of Income Tax Change, 2003 Calendar Year

a) All Returns

AGI Class[ii] (2001$)	Percent of All Returns	Percent with Tax Change	Average Tax Cut[i]		Total Tax Change[i]		Change in After-Tax Income, All Returns[iii]
			All Returns	Returns with Tax Change	Amount (Millions)	Percent of Total	
Less than $10,000	19.2%	28.9%	-$28	-$96	-712	1.0%	0.51%
$10,000 - $20,000	17.6%	86.9%	-$266	-$306	-6,284	8.5%	1.68%
$20,000 - $30,000	13.9%	97.6%	-$451	-$462	-8,397	11.3%	1.84%
$30,000 - $40,000	10.1%	99.1%	-$500	-$505	-6,766	9.1%	1.49%
$40,000 - $50,000	7.7%	99.5%	-$555	-$558	-5,714	7.7%	1.31%
$50,000 - $75,000	13.4%	99.6%	-$714	-$717	-12,771	17.2%	1.24%
$75,000 - $100,000	7.6%	99.7%	-$982	-$985	-10,042	13.5%	1.24%
$100,000 - $200,000	7.4%	99.6%	-$1,202	-$1,207	-11,908	16.0%	1.04%
$200,000 and over	2.3%	93.3%	-$3,818	-$4,093	-11,598	15.6%	0.91%
Total	100.0%	82.6%	-$555	-$671	-74,260	100.0%	1.23%

b) Returns with One or More Children

AGI Class (2001$)	Percent of All Returns	Percent with Tax Change	Average Tax Cut		Total Tax Change		Change in After-Tax Income, All Returns
			All Returns	Returns with Tax Change	Amount (Millions)	Percent of Total	
Less than $10,000	3.7%	2.0%	-$13	-$636	-64	0.1%	0.16%
$10,000 - $20,000	5.5%	86.0%	-$361	-$420	-2,680	3.6%	1.97%
$20,000 - $30,000	4.3%	98.0%	-$718	-$733	-4,099	5.5%	2.74%
$30,000 - $40,000	3.2%	99.2%	-$757	-$763	-3,223	4.3%	2.16%
$40,000 - $50,000	2.7%	99.7%	-$765	-$767	-2,731	3.7%	1.73%
$50,000 - $75,000	5.6%	99.8%	-$921	-$923	-6,867	9.2%	1.55%
$75,000 - $100,000	3.9%	100.0%	-$1,177	-$1,177	-6,176	8.3%	1.46%
$100,000 - $200,000	3.8%	99.8%	-$1,281	-$1,283	-6,542	8.8%	1.09%
$200,000 and over	1.1%	96.1%	-$3,853	-$4,011	-5,892	7.9%	0.96%
Total	34.0%	86.2%	-$843	-$978	-38,340	51.6%	1.43%

c) Returns with No Children

AGI Class (2001$)	Percent of All Returns	Percent with Tax Change	Average Tax Cut		Total Tax Change		Change in After-Tax Income, All Returns
			All Returns	Returns with Tax Change	Amount (Millions)	Percent of Total	
Less than $10,000	15.5%	35.4%	-$31	-$88	-648	0.9%	0.63%
$10,000 - $20,000	12.1%	87.3%	-$223	-$255	-3,604	4.9%	1.52%
$20,000 - $30,000	9.7%	97.4%	-$332	-$341	-4,298	5.8%	1.40%
$30,000 - $40,000	6.9%	99.0%	-$382	-$386	-3,544	4.8%	1.17%
$40,000 - $50,000	5.0%	99.4%	-$443	-$446	-2,983	4.0%	1.07%
$50,000 - $75,000	7.8%	99.5%	-$566	-$569	-5,903	7.9%	1.01%
$75,000 - $100,000	3.7%	99.4%	-$776	-$781	-3,866	5.2%	1.00%
$100,000 - $200,000	3.6%	99.4%	-$1,118	-$1,125	-5,365	7.2%	0.98%
$200,000 and over	1.1%	90.5%	-$3,782	-$4,181	-5,705	7.7%	0.86%
Total	66.0%	80.8%	-$406	-$503	-35,920	50.2%	1.07%

Source: Urban-Brookings Tax Policy Center Microsimulation Model.

[i] Includes provisions affecting marginal tax rates, the 10% bracket, the child tax credit, the child and dependent care credit, the limitation of itemized deductions, the personal exemption phaseout, the AMT, as well as the standard deduction, 15% bracket, and EITC provisions for married couples. Excludes pension and IRA provisions and phaseout of the estate tax.

[ii] Returns with negative AGI have been excluded from the less than $10,000 income class but are included in the total line.

[iii] After-tax income is AGI less income tax net of refundable tax credits (EITC and child tax credit).

Appendix Table 3. Distribution of Income Tax Change, 2005 Calendar Year

a) All Returns

AGI Class[ii] (2001$)	Percent of All Returns	Percent with Tax Change	Average Tax Cut[i]		Total Tax Change[i]		Change in After-Tax Income, All Returns[iii]
			All Returns	Returns with Tax Change	Amount (Millions)	Percent of Total	
Less than $10,000	19.4%	28.9%	-$30	-$105	-812	0.8%	0.52%
$10,000 - $20,000	17.5%	88.0%	-$326	-$370	-7,824	7.5%	1.96%
$20,000 - $30,000	13.7%	97.8%	-$525	-$537	- 9,877	9.5%	2.05%
$30,000 - $40,000	10.1%	99.1%	-$573	-$578	-7,968	7.7%	1.63%
$40,000 - $50,000	7.5%	99.1%	-$668	-$674	-6,856	6.6%	1.50%
$50,000 - $75,000	13.2%	98.5%	-$927	-$941	-16,795	16.2%	1.53%
$75,000 - $100,000	7.6%	96.9%	-$1,429	-$1,474	-14,919	14.3%	1.72%
$100,000 - $200,000	8.0%	87.9%	-$1,591	-$1,809	-17,399	16.7%	1.31%
$200,000 and over	2.4%	72.9%	-$6,612	-$9,070	-21,448	20.6%	1.52%
Total	100.0%	81.0%	-$757	-$935	-103,983	100.0%	1.58%

b) Returns with One or More Children

AGI Class (2001$)	Percent of All Returns	Percent with Tax Change	Average Tax Cut		Total Tax Change		Change in After-Tax Income, All Returns
			All Returns	Returns with Tax Change	Amount (Millions)	Percent of Total	
Less than $10,000	3.9%	1.8%	-$17	-$952	-93	0.1%	0.20%
$10,000 - $20,000	5.7%	87.0%	-$521	-$599	-4,052	3.9%	2.72%
$20,000 - $30,000	4.2%	98.5%	-$942	-$957	-5,423	5.2%	3.44%
$30,000 - $40,000	3.1%	99.0%	-$947	-$956	-4,034	3.9%	2.57%
$40,000 - $50,000	2.5%	99.2%	-$962	-$969	-3,345	3.2%	2.07%
$50,000 - $75,000	5.3%	98.5%	-$1,115	-$1,132	-8,200	7.9%	1.78%
$75,000 - $100,000	3.8%	96.6%	-$1,499	-$1,552	-7,877	7.6%	1.77%
$100,000 - $200,000	4.1%	83.9%	-$1,355	-$1,615	-7,653	7.4%	1.10%
$200,000 and over	1.2%	72.0%	-$6,386	-$8,871	-10,513	10.1%	1.55%
Total	34.1%	82.3%	-$1,096	-$1,331	-51,274	49.3%	1.75%

c) Returns with No Children

AGI Class (2001$)	Percent of All Returns	Percent with Tax Change	Average Tax Cut		Total Tax Change		Change in After-Tax Income, All Returns
			All Returns	Returns with Tax Change	Amount (Millions)	Percent of Total	
Less than $10,000	15.5%	35.8%	-$34	-$94	-719	0.7%	0.66%
$10,000 - $20,000	11.8%	88.5%	-$232	-$262	-3,771	3.6%	1.50%
$20,000 - $30,000	9.5%	97.5%	-$341	-$350	-4,455	4.3%	1.37%
$30,000 - $40,000	7.0%	99.2%	-$409	-$412	-3,934	3.8%	1.18%
$40,000 - $50,000	4.9%	99.1%	-$518	-$523	-3,511	3.4%	1.18%
$50,000 - $75,000	7.8%	98.6%	-$798	-$810	-8,595	8.3%	1.35%
$75,000 - $100,000	3.8%	97.3%	-$1,358	-$1,396	-7,042	6.8%	1.68%
$100,000 - $200,000	3.8%	92.2%	-$1,842	-$1,998	-9,746	9.4%	1.54%
$200,000 and over	1.2%	73.8%	-$6,846	-$9,271	-10,935	10.5%	1.50%
Total	65.9%	80.3%	-$582	-$725	-52,709	50.7%	1.44%

Source: Urban-Brookings Tax Policy Center Microsimulation Model.

[i] Includes provisions affecting marginal tax rates, the 10% bracket, the child tax credit, the child and dependent care credit, the limitation of itemized deductions, the personal exemption phaseout, the AMT, as well as the standard deduction, 15% bracket, and EITC provisions for married couples. Excludes pension and IRA provisions and phaseout of the estate tax.

[ii] Returns with negative AGI have been excluded from the less than $10,000 income class but are included in the total line.

[iii] After-tax income is AGI less income tax net of refundable tax credits (EITC and child tax credit).

Appendix Table 4. Distribution of Income Tax Change, 2007 Calendar Year

a) All Returns

AGI Class[ii] (2001$)	Percent of All Returns	Percent with Tax Change	Average Tax Cut[i] All Returns	Average Tax Cut[i] Returns with Tax Change	Total Tax Change[i] Amount (Millions)	Total Tax Change[i] Percent of Total	Change in After-Tax Income, All Returns[iii]
Less than $10,000	19.4%	28.5%	-$31	-$110	-862	0.6%	0.52%
$10,000 - $20,000	17.6%	88.6%	-$339	-$382	-8,387	6.0%	1.93%
$20,000 - $30,000	13.4%	97.9%	-$539	-$550	-10,188	7.3%	1.99%
$30,000 - $40,000	10.0%	99.2%	-$598	-$603	- 8,461	6.1%	1.62%
$40,000 - $50,000	7.4%	99.0%	-$753	-$760	- 7,870	5.7%	1.61%
$50,000 - $75,000	12.8%	97.4%	-$1,064	-$1,092	-19,243	13.8%	1.68%
$75,000 - $100,000	7.7%	95.4%	-$1,671	-$1,751	-18,180	13.1%	1.93%
$100,000 - $200,000	8.5%	82.6%	-$1,645	-$1,991	-19,827	14.2%	1.28%
$200,000 and over	2.5%	67.4%	-$13,195	-$19,572	-46,175	33.2%	2.94%
Total	100.0%	80.1%	-$987	-$1,232	-139,278	100.0%	1.93%

b) Returns with One or More Children

AGI Class (2001$)	Percent of All Returns	Percent with Tax Change	Average Tax Cut All Returns	Average Tax Cut Returns with Tax Change	Total Tax Change Amount (Millions)	Total Tax Change Percent of Total	Change in After-Tax Income, All Returns
Less than $10,000	4.1%	1.8%	-$16	-$921	-95	0.1%	0.18%
$10,000 - $20,000	5.9%	87.3%	-$531	-$609	-4,407	3.2%	2.63%
$20,000 - $30,000	4.1%	98.7%	-$955	-$968	-5,489	3.9%	3.31%
$30,000 - $40,000	3.0%	99.0%	-$975	-$985	-4,109	2.9%	2.52%
$40,000 - $50,000	2.5%	99.2%	-$1,029	-$1,038	-3,568	2.6%	2.11%
$50,000 - $75,000	5.0%	96.9%	-$1,143	-$1,180	-8,125	5.8%	1.74%
$75,000 - $100,000	3.8%	94.7%	-$1,497	-$1,580	-7,975	5.7%	1.69%
$100,000 - $200,000	4.4%	76.4%	-$1,122	-$1,468	-6,984	5.0%	0.86%
$200,000 and over	1.3%	64.5%	-$12,729	-$19,745	-22,635	16.3%	2.98%
Total	34.1%	80.0%	-$1,318	-$1,647	-63,472	45.6%	1.99%

c) Returns with No Children

AGI Class (2001$)	Percent of All Returns	Percent with Tax Change	Average Tax Cut All Returns	Average Tax Cut Returns with Tax Change	Total Tax Change Amount (Millions)	Total Tax Change Percent of Total	Change in After-Tax Income, All Returns
Less than $10,000	15.3%	35.7%	-$36	-$100	- 766	0.6%	0.65%
$10,000 - $20,000	11.7%	89.3%	-$241	-$270	-3,979	2.9%	1.50%
$20,000 - $30,000	9.3%	97.6%	-$356	-$365	-4,699	3.4%	1.36%
$30,000 - $40,000	7.0%	99.3%	-$439	-$442	-4,353	3.1%	1.20%
$40,000 - $50,000	5.0%	98.9%	-$614	-$621	-4,302	3.1%	1.34%
$50,000 - $75,000	7.8%	97.8%	-$1,013	-$1,036	-11,117	8.0%	1.64%
$75,000 - $100,000	3.9%	96.1%	-$1,837	-$1,912	-10,205	7.3%	2.16%
$100,000 - $200,000	4.1%	89.2%	-$2,205	-$2,471	-12,844	9.2%	1.75%
$200,000 and over	1.2%	70.5%	-$13,676	-$19,407	-23,540	16.9%	2.91%
Total	65.9%	80.1%	-$815	-$1,017	-75,806	54.4%	1.88%

Source: Urban-Brookings Tax Policy Center Microsimulation Model.

[i] Includes provisions affecting marginal tax rates, the 10% bracket, the child tax credit, the child and dependent care credit, the limitation of itemized deductions, the personal exemption phaseout, the AMT, as well as the standard deduction, 15% bracket, and EITC provisions for married couples. Excludes pension and IRA provisions and phaseout of the estate tax.

[ii] Returns with negative AGI have been excluded from the less than $10,000 income class but are included in the total line.

[iii] After-tax income is AGI less income tax net of refundable tax credits (EITC and child tax credit).

Appendix Table 5. Distribution of Income Tax Change, 2009 Calendar Year

a) All Returns

AGI Class[ii] (2001$)	Percent of All Returns	Percent with Tax Change	Average Tax Cut[i]		Total Tax Change[i]		Change in After-Tax Income, All Returns[iii]
			All Returns	Returns with Tax Change	Amount (Millions)	Percent of Total	
Less than $10,000	19.4%	28.3%	-$33	-$118	- 943	0.6%	0.51%
$10,000 - $20,000	17.4%	88.6%	-$387	-$437	- 9,809	6.3%	2.10%
$20,000 - $30,000	13.2%	98.0%	-$643	-$656	-12,288	7.9%	2.26%
$30,000 - $40,000	9.9%	99.1%	-$731	-$737	-10,458	6.7%	1.88%
$40,000 - $50,000	7.5%	98.2%	-$905	-$921	- 9,835	6.3%	1.84%
$50,000 - $75,000	12.5%	95.8%	-$1,166	-$1,218	-21,179	13.6%	1.74%
$75,000 - $100,000	7.7%	93.6%	-$1,609	-$1,718	-17,874	11.5%	1.76%
$100,000 - $200,000	9.1%	73.2%	-$1,319	-$1,801	-17,470	11.3%	0.97%
$200,000 and over	2.6%	62.0%	-$14,533	-$23,451	-55,322	35.6%	3.13%
Total	100.0%	78.5%	-$1,070	-$1,363	-155,276	100.0%	1.95%

b) Returns with One or More Children

AGI Class (2001$)	Percent of All Returns	Percent with Tax Change	Average Tax Cut		Total Tax Change		Change in After-Tax Income, All Returns
			All Returns	Returns with Tax Change	Amount (Millions)	Percent of Total	
Less than $10,000	4.3%	1.6%	-$18	-$1,103	-113	0.1%	0.19%
$10,000 - $20,000	6.0%	86.5%	-$591	-$683	-5,147	3.3%	2.79%
$20,000 - $30,000	4.0%	98.7%	-$1,152	-$1,167	-6,700	4.3%	3.81%
$30,000 - $40,000	2.9%	99.0%	-$1,221	-$1,233	-5,106	3.3%	3.02%
$40,000 - $50,000	2.4%	98.0%	-$1,297	-$1,324	-4,520	2.9%	2.53%
$50,000 - $75,000	4.8%	94.1%	-$1,316	-$1,399	- 9,195	5.9%	1.90%
$75,000 - $100,000	3.7%	91.7%	-$1,451	-$1,582	-7,702	5.0%	1.55%
$100,000 - $200,000	4.6%	62.7%	-$774	-$1,235	-5,215	3.4%	0.55%
$200,000 and over	1.3%	58.8%	-$14,115	-$24,015	-27,245	17.5%	3.18%
Total	34.2%	76.2%	-$1,433	-$1,879	-71,041	45.8%	2.04%

c) Returns with No Children

AGI Class (2001$)	Percent of All Returns	Percent with Tax Change	Average Tax Cut		Total Tax Change		Change in After-Tax Income, All Returns
			All Returns	Returns with Tax Change	Amount (Millions)	Percent of Total	
Less than $10,000	15.1%	35.8%	-$38	-$106	- 830	0.5%	0.67%
$10,000 - $20,000	11.4%	89.8%	-$281	-$313	-4,663	3.0%	1.65%
$20,000 - $30,000	9.2%	97.7%	-$420	-$430	-5,588	3.6%	1.52%
$30,000 - $40,000	7.0%	99.2%	-$528	-$532	-5,353	3.4%	1.38%
$40,000 - $50,000	5.1%	98.3%	-$719	-$731	-5,315	3.4%	1.49%
$50,000 - $75,000	7.7%	96.8%	-$1,073	-$1,108	-11,983	7.7%	1.64%
$75,000 - $100,000	4.0%	95.4%	-$1,753	-$1,838	-10,172	6.6%	1.97%
$100,000 - $200,000	4.5%	84.2%	-$1,885	-$2,238	-12,255	7.9%	1.42%
$200,000 and over	1.3%	65.3%	-$14,962	-$22,928	-28,077	18.1%	3.08%
Total	65.8%	90.2%	-$882	-$1,107	-84,236	54.2%	1.89%

Source: Urban-Brookings Tax Policy Center Microsimulation Model.

[i] Includes provisions affecting marginal tax rates, the 10% bracket, the child tax credit, the child and dependent care credit, the limitation of itemized deductions, the personal exemption phaseout, the AMT, as well as the standard deduction, 15% bracket, and EITC provisions for married couples. Excludes pension and IRA provisions and phaseout of the estate tax.

[ii] Returns with negative AGI have been excluded from the less than $10,000 income class but are included in the total line.

[iii] After-tax income is AGI less income tax net of refundable tax credits (EITC and child tax credit).

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