

T10-0238

Tax Units in Top Two Brackets Affected by Pease and PEP under Administration's Proposal, 2011 ^{1,2}

Bracket under Administration's Proposal	Tax Units									
	All tax units in bracket	affected by limitation on itemized deductions (Pease) ³			affected by personal exemption phaseout (PEP) ⁴			affected by either Pease or PEP		
		Number (thousands)	Number (thousands)	Percent	Average phaseout amount (Pease) ^{5,6}	Number (thousands)	Percent	Average phaseout amount (PEP) ^{5,6}	Number (thousands)	Percent
36% bracket	416	414	99.5	3,457	416	100.0	7,236	416	100.0	10,693
39.6% bracket	840	839	99.9	31,045	840	100.0	10,605	840	100.0	41,650
Either 36% or 39.6% bracket	1,256	1,253	99.8	21,910	1,256	100.0	9,490	1,256	100.0	31,400
All tax units	155,368									

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0509-6).

(1) Calendar year. The Administration's proposal extends 2009 estate tax law and all the individual income tax provisions in the 2001-2003 tax cuts other than the high-income provisions. The proposal: retains a 20 percent rate on qualified dividends and capital gains for taxpayers in the top 2 tax brackets; retains the limitation on itemized deductions (Pease) and the personal exemption phaseout (PEP) for taxpayers with income greater than \$250,000 for married couples (\$200,000 for unmarried individuals), indexed for inflation after 2009; retains a top statutory tax rate of 39.6 percent; retains the 36 percent tax rate and adjusts the threshold for the 36-percent bracket to equal \$250,000 less the standard deduction and two personal exemptions for married couples, \$200,000 less the standard deduction and one personal exemption for singles, and an amount equal to the midpoint of the married and single thresholds for heads of household, with the dollar values indexed for inflation after 2009.

(2) The analysis excludes tax units that are dependents of other taxpayers.

(3) The limitation on itemized deductions (Pease) cuts itemized deductions by 3 percent of adjusted gross income above specified thresholds but not by more than 80 percent. The income threshold—projected to be \$169,750 in 2011 (\$84,850 for married couples filing separately)—is indexed for inflation. See http://www.taxpolicycenter.org/taxtopics/2011_reinstate_exemption.cfm for more detail.

(4) The personal exemption phaseout (PEP) reduces the value of each personal exemption from its full value by 2 percent for each \$2,500 or part thereof above specified income thresholds that depend on filing status. Personal exemptions are thus fully phased out over a \$122,500 range. See http://www.taxpolicycenter.org/taxtopics/2011_reinstate_exemption.cfm for more detail.

(5) Phaseout amount is the amount (in dollars) by which taxable income increases as a result of Pease and/or PEP.

(6) Values are expressed in 2011 dollars.