

Table T06-0074
Possible Major Individual Income Tax Provisions in 2006 Tax Reconciliation Bill
Fully-Phased In Impact at 2006 Income Levels
Distribution of Federal Tax Change by Cash Income Percentile ¹

| Cash Income Percentile ² | Percent of Tax Units ³ | | Percent Change in After-Tax Income ⁴ | Share of Total Federal Tax Change | Average Federal Tax Change | | Share of Federal Taxes | | Average Federal Tax Rate ⁵ | |
|-------------------------------------|-----------------------------------|-------------------|---|-----------------------------------|----------------------------|---------|------------------------|--------------------|---------------------------------------|--------------------|
| | With Tax Cut | With Tax Increase | | | Dollars | Percent | Change (%) Points) | Under the Proposal | Change (%) Points) | Under the Proposal |
| Lowest Quintile | 0.4 | 0.0 | 0.0 | 0.0 | 0 | 0.0 | 0.0 | 0.4 | 0.0 | 3.3 |
| Second Quintile | 4.4 | 0.1 | 0.0 | 0.3 | -6 | -0.4 | 0.1 | 2.3 | 0.0 | 7.5 |
| Middle Quintile | 10.6 | 0.1 | 0.1 | 0.9 | -20 | -0.4 | 0.2 | 8.0 | -0.1 | 14.4 |
| Fourth Quintile | 29.5 | 0.1 | 0.2 | 5.1 | -115 | -1.0 | 0.4 | 17.7 | -0.2 | 18.5 |
| Top Quintile | 75.9 | 0.3 | 1.5 | 93.7 | -2,099 | -4.3 | -0.7 | 71.4 | -1.1 | 24.4 |
| All | 24.2 | 0.1 | 0.9 | 100.0 | -448 | -3.3 | 0.0 | 100.0 | -0.7 | 20.6 |
| Addendum | | | | | | | | | | |
| Top 10 Percent | 88.7 | 0.4 | 1.7 | 79.9 | -3,577 | -4.7 | -0.8 | 55.8 | -1.3 | 25.8 |
| Top 5 Percent | 92.9 | 0.6 | 1.9 | 64.0 | -5,732 | -4.8 | -0.7 | 43.7 | -1.4 | 26.9 |
| Top 1 Percent | 86.1 | 0.5 | 1.7 | 30.9 | -13,849 | -3.9 | -0.2 | 26.0 | -1.2 | 29.1 |
| Top 0.5 Percent | 86.0 | 0.1 | 1.8 | 25.9 | -23,177 | -4.1 | -0.2 | 21.0 | -1.3 | 29.8 |
| Top 0.1 Percent | 90.8 | 0.1 | 2.3 | 18.4 | -82,415 | -4.8 | -0.2 | 12.7 | -1.6 | 31.3 |

Baseline Distribution of Income and Federal Taxes
by Cash Income Percentile, 2006 ¹

| Cash Income Percentile ² | Tax Units ³ | | Average Income (Dollars) | Average Federal Tax Burden (Dollars) | Average After-Tax Income ⁴ (Dollars) | Average Federal Tax Rate ⁵ | Share of Pre-Tax Income | Share of Post-Tax Income | Share of Federal Taxes | |
|-------------------------------------|------------------------|------------------|--------------------------|--------------------------------------|---|---------------------------------------|-------------------------|--------------------------|------------------------|--|
| | Number (thousands) | Percent of Total | | | | | Percent of Total | Percent of Total | Percent of Total | |
| Lowest Quintile | 28,703 | 19.6 | 7,923 | 265 | 7,659 | 3.3 | 2.5 | 3.0 | 0.4 | |
| Second Quintile | 29,289 | 20.0 | 20,116 | 1,513 | 18,603 | 7.5 | 6.4 | 7.5 | 2.3 | |
| Middle Quintile | 29,279 | 20.0 | 35,940 | 5,180 | 30,761 | 14.4 | 11.4 | 12.4 | 7.7 | |
| Fourth Quintile | 29,283 | 20.0 | 62,270 | 11,614 | 50,656 | 18.7 | 19.8 | 20.5 | 17.3 | |
| Top Quintile | 29,282 | 20.0 | 189,863 | 48,401 | 141,462 | 25.5 | 60.3 | 57.1 | 72.1 | |
| All | 146,417 | 100.0 | 62,970 | 13,418 | 49,552 | 21.3 | 100.0 | 100.0 | 100.0 | |
| Addendum | | | | | | | | | | |
| Top 10 Percent | 14,642 | 10.0 | 281,205 | 75,989 | 205,216 | 27.0 | 44.7 | 41.4 | 56.6 | |
| Top 5 Percent | 7,323 | 5.0 | 421,832 | 119,075 | 302,757 | 28.2 | 33.5 | 30.6 | 44.4 | |
| Top 1 Percent | 1,464 | 1.0 | 1,159,675 | 351,130 | 808,546 | 30.3 | 18.4 | 16.3 | 26.2 | |
| Top 0.5 Percent | 732 | 0.5 | 1,825,082 | 567,752 | 1,257,330 | 31.1 | 14.5 | 12.7 | 21.2 | |
| Top 0.1 Percent | 146 | 0.1 | 5,274,153 | 1,734,728 | 3,539,426 | 32.9 | 8.4 | 7.1 | 12.9 | |

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0305-3A).

(1) Calendar year. Provisions include: increase the individual alternative minimum tax (AMT) exemption to \$62,550 for married couples filing a joint return, \$42,500 for singles and heads of household, and \$31,275 for married individuals filing a separate return; allow personal non-refundable credits against the regular tax and AMT, regardless of tentative AMT; extend the reduction in the tax rate on qualifying dividends and long-term capital gains to 15 percent (the rate for individuals in the 10- and 15-percent brackets would be 0 percent); remove income limitation on contributions to Roth IRAs; eliminate the income limitation on Roth IRA conversions, with four-year averaging (the amount of conversion activity has been calibrated to match the revenue estimate from the Joint Committee on Taxation dated March 1, 2006 and published at <http://www.cbpp.org/4-25-06tax.htm>). Baseline is current law without the provisions described above that are already in place for 2006.

(2) Tax units with negative cash income are excluded from the lowest quintile but are included in the totals. For a description of cash income, see <http://www.taxpolicycenter.org/TaxModel/income.cfm>

(3) Includes both filing and non-filing units. Tax units that are dependents of other taxpayers are excluded from the analysis.

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

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