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DISTRIBUTIONAL EFFECTS OF THE PRESIDENT'S NEW TAX PROPOSALS

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ABSTRACT

The White House announced a package of tax proposals as part of what President Obama called “Middle Class Economics” in the State of the Union Address. This paper summarizes and discusses TPC’s distributional estimates, focusing on the distribution of all income tax cuts, the major tax cut provisions, and the largest tax increase provisions including the new fee on financial institutions. The tax cuts primarily benefit low-income single workers and working age households with children. The income tax increases primarily affect those with very high incomes and those with a substantial amount of capital assets.

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INTRODUCTION

The White House announced a package of tax proposals¹ as part of what President Obama called “Middle Class Economics” in the State of the Union Address. For the most part, the proposals would continue the President’s pattern of raising taxes on high-income households and cutting them for those with lower incomes.

The Treasury Department estimates that the proposals would raise \$210 billion over ten years by increasing the top tax rate on long-term capital gains from 24.2 percent to 28 percent and taxing unrealized capital gains at death. A new financial fee would raise another \$110 billion. Part of that revenue would finance a package of middle-class tax cuts (\$175 billion) and retargeted education tax benefits would cost about \$50 billion.² In addition, some of the revenue would finance new spending initiatives for early childhood education and community college, which are not considered here.

Based on the White House Fact Sheet,³ the President’s tax proposals would:

- allow married couples to claim a 5-percent nonrefundable credit for the first \$10,000 of earnings of the lower-earning spouse (a maximum credit of \$500);
- double the Earned Income Tax Credit (EITC) for workers without custodial children and raise the income level at which the credit phases out, increasing the maximum credit to about \$1,000;
- increase the Child and Dependent Care Tax Credit (CDCTC) for middle-income families, especially those with young children: maximum expenses used to calculate the credit would rise from \$3,000 per child to \$6,000 per child for children under age 5, the credit rate for young children would rise to 50 percent, and middle-income families would be eligible for the maximum credit rate of 35 percent rather than the 20-percent rate that applies to such families under current law;

¹ White House, “Fact Sheet: A Simpler, Fairer Tax Code That Responsibly Invests in Middle Class Families,” January 17, 2015. Available at <http://www.whitehouse.gov/the-press-office/2015/01/17/fact-sheet-simpler-fairer-tax-code-responsibly-invests-middle-class-fami>.

² Since release of the fact sheet, the President decided to withdraw one of the offsetting education tax increases—taxing future withdrawals from Section 529 College Savings Plans. This estimate predates the withdrawal of the proposal. The change in 529 plans was estimated to raise about \$1 billion, so the costs of the education provisions will rise slightly as a result.

³ Details of the plan will be available when the Administration releases its Budget on February 2. Assuming that the Treasury follows past practice, its “Green Book,” which contains detailed explanation and revenue estimates for the Fiscal Year 2016 revenue proposals, will be posted here—http://www.treasury.gov/resource-center/tax-policy/Pages/general_explanation.aspx—sometime on the afternoon of February 2.

- repeal dependent care flexible spending accounts under which employers may allow employees to exclude from taxable income up to \$5,000 (regardless of number of children) to pay for childcare expenses that allow a parent to work;
- make permanent and expand the American Opportunity Tax Credit (AOTC)—up to \$2,500 per year for up to five years of study and available for less than half-time attendance—and repeal the Lifetime Learning Tax Credit (LLTC), the deductibility of student loan interest (for new student loans)⁴, and the tax exclusion for qualifying withdrawals from Section 529 education savings plans (the last proposal has since been withdrawn in response to bipartisan protest);
- enact an “auto-IRA” proposal that would require employers with more than 10 employees who do not offer a retirement plan to allow employees to designate a portion of pay to deposit into an IRA;
- limit the size of accumulated balances in IRA and employer-sponsored retirement plans;
- permanently extend the lower income threshold for refundability of the Child Tax Credit and the expanded EITC provisions that are set to expire after 2017;
- raise the top income tax rate on long-term capital gains and qualified dividends from 20 percent to 24.2 percent (for a top effective rate of 28 percent including the 3.8-percent Affordable Care Act (ACA) net investment income tax on high-income taxpayers);
- include as income on a decedent’s final individual income tax unrealized capital gains, net of a \$100,000 exclusion for singles and \$200,000 for couples; and
- impose a tax on large financial institutions.

If all of the major individual income tax provisions (excluding the financial fee) were fully phased in, the package would raise taxes by an average of \$164 per household in 2016.⁵ (See Table 1.) Winners would outnumber losers by more than seven to one with the tax increases concentrated among the one percent of tax units with the highest incomes. The vast majority of households in the bottom four quintiles who would face an income tax change would pay lower taxes (or receive larger refunds) as a result of the policy proposals. At the top, however, the increase in tax rates on long-term capital gains and dividends as well as the taxation of capital gains at death would loom large. Average taxes among the top one percent would rise by about \$27,000 or 1.8 percent of after-tax income; the richest 0.1 percent would see an average tax increase of \$156,000, cutting their after-tax income by an average of 2.4 percent. Average tax changes would be small for every other income group except the bottom 20 percent—no more than 0.1 percent of income. The average tax change for the middle three quintiles is less than

⁴ Some of this savings will be offset by exempting from tax any student loan forgiveness under income-based repayment. We don’t include the tax exemption of forgiven loan amounts in our estimates.

⁵ Note that TPC’s simulations do not include the effect of eliminating dependent care flexible spending accounts. They also exclude the 529 provision, but the Administration has withdrawn that proposal. The estimates assume that the policies are fully phased in—i.e., the estimates assume that taxation of capital gains at death and elimination of the student loan interest deduction had always been the law. The actual burden on households over the budget period would be lower (for example, because much student loan interest will continue to be deductible; only interest on new debt would be affected by the proposal). Finally, following standard convention, the distributional tables ignore behavioral responses to the tax changes. The Tables also do not reflect the effect of extending the refundable tax credits after 2017 as they would not change tax liability or credits in 2016.

\$100. The lowest income households would see their average after-tax income rise by 1.2 percent, primarily because of the proposed increases in the refundable EITC and AOTC.



TABLE 1. MAJOR INDIVIDUAL INCOME TAX PROVISIONS IN PRESIDENT OBAMA'S 2015 STATE OF THE UNION: DISTRIBUTION OF TAX

Expanded Cash Income Percentile	Tax Units with Tax Increase or Cut				Percent Change in After-Tax Income	Average Federal Tax Change (\$)
	With Tax Cut		With Tax Increase			
	Pct of Tax Units	Avg Tax Cut	Pct of Tax Units	Avg Tax Increase		
Lowest Quintile	30.4	-617	0.8	1,295	1.2	-177
Second Quintile	18.4	-452	3.7	1,549	0.1	-26
Middle Quintile	24.7	-557	6.1	2,076	0.0	-12
Fourth Quintile	43.6	-668	4.1	4,901	0.1	-91
Top Quintile	43.0	-533	6.9	26,308	-0.6	1,590
All	30.4	-580	3.9	8,730	-0.2	164
Addendum						
80-90	58.9	-584	3.7	4,222	0.1	-186
90-95	46.4	-353	0.8	40,005	-0.1	164
95-99	9.2	-731	4.3	33,248	-0.4	1,362
Top 1 Percent	3.2	-1,707	77.8	34,488	-1.8	26,777
Top 0.1 Percent	1.0	-1,818	93.3	167,234	-2.4	156,014

Source: Tax Policy Center, Table T15-0004, <http://taxpolicycenter.org/t15-0004>

¹ Distribution of Federal Tax Change by Expanded Cash Income Percentile, 2016; Baseline: Current law

² Very preliminary, based on White House Factsheet, 1/17/15.

NEW, REFORMED, AND EXPANDED TAX EXPENDITURES

Looking at the tax cut provisions alone shows a much more uniform distribution of tax benefits. (See Table 2.) There is a significant tax cut for the bottom quintile, as seen in Table 1, and a sharp drop-off for the second quintile since they are less likely to benefit from the expansion in the refundable EITC but they still have incomes too low to receive much benefit from nonrefundable tax credits.⁶ The average tax benefits rise all the way up to the 9th decile. Sixty percent of households in this income group benefit from at least one of the tax cut provisions. Overall, households in this income group receive average tax cuts worth \$354 (before considering offsetting revenue increases). These families are most likely to benefit from the expansion of the AOTC and the introduction of the two-earner credit. The credits phase out at higher income levels. However, a few high-income households have workers whose employers do not currently offer retirement plans and would thus benefit from the auto-IRA provision. Even among those

⁶ Some of these families would benefit after 2017 from the permanent extension of the temporary increase in refundable tax credits, but that does not show up in this table since it refers to tax year 2016.

with very high incomes—the top 0.1 percent—about 4 percent qualify for at least one tax benefit, yielding an average tax cut of \$81 (before considering the effect of offsetting tax increases).⁷



TABLE 2. MAJOR TAX REDUCTIONS IN PRESIDENT OBAMA'S 2015 STATE OF THE UNION: DISTRIBUTION OF TAX CHANGES^{1,2}

Expanded Cash Income Percentile	Tax Units with Tax Increase or Cut				Percent Change in After-Tax Income	Average Federal Tax Change (\$)
	With Tax Cut		With Tax Increase			
	Pct of Tax Units	Avg Tax Cut	Pct of Tax Units	Avg Tax Increase		
Lowest Quintile	30.4	-618	0.5	472	1.2	-186
Second Quintile	18.6	-452	1.5	836	0.2	-71
Middle Quintile	25.0	-561	1.7	819	0.2	-126
Fourth Quintile	43.9	-680	1.7	799	0.3	-285
Top Quintile	43.8	-545	0.4	594	0.1	-236
All	30.7	-586	1.1	765	0.2	-171
Addendum						
80-90	60.1	-597	0.9	597	0.3	-354
90-95	46.5	-356	*	**	0.1	-165
95-99	9.3	-731	0.0	0	0.0	-68
Top 1 Percent	5.3	-1,686	0.0	0	0.0	-89
Top 0.1 Percent	4.1	-1,997	0.0	0	0.0	-81

Source: Tax Policy Center, Table T15-0010, <http://taxpolicycenter.org/t15-0010>

¹ Distribution of Federal Tax Change by Expanded Cash Income Percentile, 2016; Baseline: Current law

² Very preliminary, based on White House Factsheet, 1/17/15.

* Less than 0.05

** Insufficient data

CAPITAL GAINS TAX INCREASES

The President proposed two significant tax increases on capital gains. He would raise the top tax rate on long-term capital gains and qualifying dividends from 20 percent to 24.2 percent. Including the effect of the 3.8 percent ACA net investment income tax, that would make a top tax rate of 28 percent. That top rate is well within the range of historical experience; and was the top rate as recently as 1997. However, the proposal also would for the first time tax capital gains at death, subject to a \$100,000 exclusion.⁸ Capital gains on gifts would also be subject to immediate

⁷ Note that Table 2 shows some families as paying higher taxes because repeal of the LLTC is analyzed together with the AOTC expansion in the set of tax cuts. Many households will benefit by switching from the LLTC to the AOTC, but a small fraction would no longer be eligible for any credit under the proposal.

⁸ In 2010, the estate tax was eliminated and a “carryover basis” regime—in which capital gains above a certain exemption were postponed but not forgiven on inherited assets—was implemented. Ultimately, estates were allowed to choose between an estate tax with a large exemption and carryover basis subject to a somewhat lower exemption in that year. Carryover basis had also been enacted in 1976, but postponed and ultimately repealed before it ever took effect. For a discussion of some of the economic issues

taxation. (Currently, recipients of gifts assume the donor's basis and gains are not taxed until the asset is sold.) Individuals could still postpone realizing a capital gain on assets transferred from a spouse at death, and any portion of the \$100,000 exclusion that is not used by the first spouse to die would transfer to the surviving spouse (which effectively makes the combined exclusion for a couple \$200,000). Long-term capital gains on a primary residence held at death would benefit from the ordinary income tax exclusion of up to \$500,000 for couples (\$250,000 for singles), again with carry-over to a surviving spouse. In addition, special rules would postpone recognition of gain on transfers of small businesses

Not surprisingly, the fully phased in tax change resulting from the capital gains and dividends provisions would be heavily concentrated at the top of the income distribution (Table 3). The top quintile would bear 78 percent of the tax increase and 58 percent would fall on the highest-income 1 percent. The effects of the tax rate increase are heavily concentrated at the top because the increase only applies at very high income levels. While the proposal would raise taxes on less than 1 percent of tax units, almost 80 percent in the top 1 percent and 93 percent of the top 0.1 percent would pay higher taxes. More surprising, however, is the fact that 0.1 to 0.2 percent of households in the middle three quintiles would be affected. And those with negative incomes—largely arising from business losses—would also bear a significant share (2.5 percent) of the tax change.

surrounding taxing capital gains at death, see Leonard Burman, "President Obama Targets the 'Angel of Death' Capital Gains Tax Loophole," *TaxVox*, January 19, 2015. Available at <http://taxvox.taxpolicycenter.org/2015/01/18/president-obama-targets-angel-death-capital-gains-tax-loophole/>.



TABLE 3. CAPITAL GAINS AND DIVIDEND PROVISIONS IN PRESIDENT OBAMA'S 2015 STATE OF THE UNION: DISTRIBUTION OF TAX CHANGES^{1,2}

Expanded Cash Income Percentile	Tax Units with Tax Increase or Cut				Percent Change in After-Tax Income	Pct of Tax Increase	Average Federal Tax Change (\$)
	With Tax Cut		With Tax Increase				
	Pct of Tax Units	Avg Tax Cut	Pct of Tax Units	Avg Tax Increase			
Lowest Quintile	0.0	0	*	**	-0.1	0.6	8
Second Quintile	0.0	0	0.1	47,172	-0.1	3.0	43
Middle Quintile	0.0	0	0.2	63,970	-0.2	6.5	105
Fourth Quintile	0.0	0	0.2	80,824	-0.2	9.4	184
Top Quintile	0.0	0	5.1	34,091	-0.7	78.0	1,750
All	0.0	0	0.8	38,421	-0.4	100.0	319
Addendum							
80-90	0.0	0	0.2	63,476	-0.1	3.3	148
90-95	0.0	0	0.4	88,398	-0.2	3.6	327
95-99	0.0	0	4.3	33,352	-0.5	12.7	1,427
Top 1 Percent	0.0	0	79.5	32,177	-1.7	58.4	25,581
Top 0.1 Percent	0.0	0	93.3	160,428	-2.3	35.0	149,633

Source: Tax Policy Center, Table T15-0006, <http://taxpolicycenter.org/t15-0006>

¹ Distribution of Federal Tax Change by Expanded Cash Income Percentile, 2016; Baseline: Current law

² Very preliminary, based on White House Factsheet, 1/17/15.

*Less than 0.05

**Insufficient data

The proposal to tax unrealized gains at death would raise taxes on a small but significant share of people who, despite seemingly modest incomes, have enough capital gains to exceed the exclusion thresholds. Data from the Federal Reserve Board's Survey of Consumer Finances (SCF) indicates that the bottom 80 percent of the income distribution had one quarter of accrued capital gains in 2013. (See Table 4.) After applying the exclusions on gains for owner-occupied housing and a \$100,000 exclusion for singles and \$200,000 for married couples, the share held by the bottom four quintiles falls to about 10 percent. We estimate that a higher share of the tax will be borne by the lower-income groups because the decedents who are affected by the tax tend to be older than the population at large and our model imputations are based on data from an earlier SCF. Our estimates appear to be broadly consistent with the Congressional Budget Office's (CBO) estimate that 35 percent of the tax benefit from not taxing capital gains at death in 2013 benefits the bottom 80 percent of the income distribution. (Note that CBO's estimates did not allow for the exclusions in President Obama's proposals.)



TABLE 4. DISTRIBUTION OF ACCRUED CAPITAL GAINS, BEFORE AND AFTER EXCLUSIONS, BY INCOME PERCENTILE, 2013

Income Percentile ¹	Before Exclusions			After Housing Exclusion			After Housing Exclusion and General \$100,000/\$200,000 Exclusion			
	Number (thousands)	Amount (\$ billions)	Percent of Total	Number (thousands)	Amount (\$ billions)	Percent of Total	Number (thousands)	Percent of Units	Amount (\$ billions)	Percent of Total
Lowest Quintile	10,203	700.1	3.9	2,880	270.3	2.0	345	1.4	219.0	1.8
Second Quintile	14,043	834.4	4.6	4,272	233.8	1.7	552	2.2	103.2	0.9
Middle Quintile	15,341	955.8	5.3	6,436	400.3	2.9	838	3.6	213.1	1.8
Fourth Quintile	20,373	2,058.3	11.4	9,682	1,081.6	7.8	1,616	6.6	712.9	5.9
80-90	10,895	1,575.0	8.7	6,285	1,059.1	7.6	1,105	9.4	805.2	6.7
90-95	5,745	1,599.9	8.9	4,110	1,215.3	8.8	1,355	22.6	918.6	7.6
95-99	4,753	4,626.7	25.6	4,127	4,070.7	29.3	2,183	45.1	3,609.7	29.9
Top 1 Percent	1,218	5,719.4	31.7	1,195	5,560.3	40.0	941	77.0	5,495.9	45.5
All	82,570	18,069.6	100.0	38,987	13,891.6	100.0	8,935	7.3	12,077.5	100.0

Source: 2013 Survey of Consumer Finances

¹Excludes primary economic units with negative income.

The appendix further discusses issues related to the measurement of the distribution of capital gains tax liability.

EFFECTS OF INCLUDING THE FEE ON FINANCIAL INSTITUTIONS

Table 1 excluded one of the biggest tax increases in the package: the 7 basis point (0.07 percent) tax on the liabilities of U.S. financial firms with assets over \$50 billion. The Administration estimates that this would affect “roughly 100 firms.” The burden of taxes is ultimately borne by people, not firms. Table 5 shows the distribution of all the major elements of President Obama’s proposals, including the financial fee, assuming that the financial tax is ultimately borne by investors in the form of lower after-tax rates of return and workers in the form of lower wages.⁹ Under that assumption, part of the burden of the tax ultimately falls on relatively modest-income retirees who have pensions or 401(k) plans. Those households do not benefit from the tax cuts, which are focused on workers and families with children. Including the effects of the financial fee, the average tax increase rises from \$164 to \$209. The highest-income 10 percent of households would face average tax increases, while the other groups would see their taxes go down (other than the middle 20 percent, whose taxes would be virtually unchanged). Overall, however, losers would slightly outnumber winners: one-third of tax units would pay higher taxes, including (indirectly) the financial fee, while about 30 percent would get a net tax cut. (See Table 5.) Only in the bottom quintile would winners outnumber losers. However, the biggest tax increases remain concentrated at the very top. About 98 percent of households in the top one percent would face higher taxes. On average their taxes would rise by about \$39,000 (2 percent

⁹ TPC distributed the tax the same way it distributes the economic incidence of the corporate income tax: 20 percent of the burden falls on labor, 20 percent on the normal return to all capital, and 60 percent on the returns to corporate equity (shareholders). See Jim Nunns, “How TPC Distributes the Corporate Income Tax,” September 13, 2012. Available at <http://www.taxpolicycenter.org/UploadedPDF/412651-Tax-Model-Corporate-Tax-Incidence.pdf>.

of after-tax income); the richest 0.1 percent would pay about \$168,000 more (2.4 percent of income).



TABLE 5. MAJOR TAX PROVISIONS IN PRESIDENT OBAMA'S 2015 STATE OF THE UNION: DISTRIBUTION OF TAX CHANGES^{1,2}

Expanded Cash Income Percentile	Tax Units with Tax Increase or Cut				Percent Change in After-Tax Income	Average Federal Tax Change (\$)
	With Tax Cut		With Tax Increase			
	Pct of Tax Units	Avg Tax Cut	Pct of Tax Units	Avg Tax Increase		
Lowest Quintile	30.3	-616	4.8	237	1.2	-174
Second Quintile	18.3	-447	20.3	305	0.1	-17
Middle Quintile	24.4	-549	48.2	289	0.0	7
Fourth Quintile	42.8	-649	53.9	420	0.1	-51
Top Quintile	38.9	-507	59.9	3,362	-0.7	1,818
All	29.6	-569	33.0	1,140	-0.3	209
Addendum						
80-90	57.1	-543	42.0	462	0.1	-116
90-95	36.1	-330	61.4	660	-0.2	286
95-99	6.4	-843	93.3	1,782	-0.5	1,608
Top 1 Percent	2.3	-1,713	97.6	29,743	-2.0	28,983
Top 0.1 Percent	0.4	-1,786	99.6	168,661	-2.6	168,006

Source: Tax Policy Center, Table T15-0002, <http://taxpolicycenter.org/t15-0002>

¹ Distribution of Federal Tax Change by Expanded Cash Income Percentile, 2016; Baseline: Current law

² Very preliminary, based on White House Factsheet, 1/17/15.

Note that different assumptions about the incidence of the tax and the distribution of the returns to capital could significantly affect the distribution of tax changes and the share of tax units with gains or losses from the proposal. For example, financial sector executives and investors might have benefited disproportionately from excessive risk-taking. To the extent that the tax discouraged such risk-taking, the costs of the policy would be borne primarily by very high-income financial sector participants (and the rest of society would benefit because there would be less risk of another financial sector collapse and resulting recession). In this case, the effect on low- and middle-income households would look more like the results displayed in Table 1.

CONCLUSION

The President's tax plan includes new or expanded tax benefits that are targeted at low- and middle-income households, while the offsetting income tax revenue is targeted at higher-income households. Winners outnumber losers by more than seven to one. About 30 percent of tax units would pay lower income taxes while about 4 percent would pay more. The tax cuts benefit low-

income single workers and working age households with children. The income tax increases primarily affect those with very high incomes and those with a substantial amount of capital assets. Not surprisingly, a revenue increasing package with tax increases targeted at a sliver of the population imposes some substantial tax increases on those with very high incomes. The top 0.1 percent would pay \$156,000 more in income taxes under the proposal, and \$168,000 including the effect of the new tax on large financial institutions.

Despite the careful targeting of the proposal, the Administration has already faced withering—and effective—criticism for a provision that would have scaled back the tax benefits of 529 college savings plans. That proposal would have overwhelmingly affected higher-income households that do not need assistance paying for college and helped to finance a far more generous expansion of aid for higher education through the AOTC. In the face of the resulting uproar, the Administration withdrew the 529 proposal.

Given that any fiscally responsible tax reform would create both winners and losers, that experience does not bode well for the prospects for a major overhaul of our broken tax system any time soon.

Our analysis of the distributional effect of taxing capital gains at death differs significantly from the Treasury Department's.¹⁰ There is an issue about whether income is being properly measured for households with modest incomes but gains over \$100,000. Our income qualifier is a measure we call expanded cash income (ECI), which is adjusted gross income (AGI) plus certain other income items that are excluded from AGI such as nontaxable fringe benefits, tax-exempt interest, and tax-free transfer payments.¹¹ Capital gains are included in ECI when realized—i.e., when people have sold the asset and received the cash proceeds. This may cause an overstatement of “economic income” when gains are realized and an understatement when they are deferred, but it comports with what most people think of as income.

Treasury Deputy Assistant Secretary, Adam Looney, argues that capital gains should be added to income to assess the distribution of tax burden from taxing gains at death.

Importantly, in examining the effect of this proposal on taxpayers at different income levels, it is necessary to take into account the capital gains income that is currently excluded from tax by the loophole. To do otherwise would count the taxes paid by individuals without counting the income, which would be misleading.

Using this metric, Looney estimates that 99 percent of the tax is borne by the less than 1 percent of households whose AGI plus gains taxed at death exceeds \$500,000.

This position seems to argue that taxing capital gains at death has the instant effect of raising the affected decedents' incomes, possibly by hundreds of thousands or even millions of dollars. Of course, the unrealized income was often accrued over many years. The right solution to this puzzle would be to include accrued unrealized capital gains in income and include accrued capital gains tax liability in total taxes every year rather than realized capital gains and the associated tax liability. This measure would increase households' incomes in years when they do not realize capital gains and reduce measured income in years when they realize an unusually large gain. Overall, it is likely that such a measure would show a somewhat smaller share of capital gains and tax liability accruing to very high income taxpayers than a measure based on realizations.¹² And the President's proposal to tax capital gains at death would still impact

¹⁰ Adam Looney, “The President's Proposals to Cut Taxes for Over 44 Million Families,” *Treasury Notes (blog)*, January 29, 2015. Available at

[http://www.treasury.gov/connect/blog/Pages/The%20President%E2%80%99s%20Proposals%20to%20Cut%20Taxes%20by%20Average%20of%20Nearly%20\\$600%20for%20Over%2044%20Million%20Families.aspx](http://www.treasury.gov/connect/blog/Pages/The%20President%E2%80%99s%20Proposals%20to%20Cut%20Taxes%20by%20Average%20of%20Nearly%20$600%20for%20Over%2044%20Million%20Families.aspx).

¹¹ For a full explanation of TPC's income measure, see Joseph Rosenberg, “Measuring Income for Distributional Analysis,” Tax Policy Center, July 25, 2013. Available at <http://www.taxpolicycenter.org/UploadedPDF/412871-measuring-income.pdf>.

¹² Using panel data, I compared the distribution of 10-year average capital gains versus average income with annual snapshot views of realized capital gains and annual income (including capital gains) between 1979 and 1988. The annual distributions showed a smaller share of gains realized by taxpayers in the highest income groups in every year. 10-year average gains are much closer to

moderate-income families by increasing accrued capital gains tax liabilities, although by less than shown in Table 3, since adding accrued unrealized capital gains would tend to push taxpayers with substantial assets into higher income groups, but by less than suggested by Looney.

Note that there are other reasons why our estimates might differ from the Treasury Department's—most notably because Treasury analysts have access to administrative tax data from estate tax returns and other sources that the TPC does not possess. Treasury reports that the Survey of Consumer Finances—the data source our estimates are based on—underreports asset values for very wealthy individuals.¹³ We would likely estimate a different distribution of tax burdens if we had access to those data. The bottom line is that our estimates have a range of uncertainty (as do governmental offices' estimates) and seemingly significant differences may reflect differences in data sources and methodology.

annual accruals. See Leonard E. Burman, *The Labyrinth of Capital Gains Tax Policy: A Guide for the Perplexed* (Washington, DC: Brookings Institution Press, 1999) p. 100.

¹³ U.S. Treasury, "Tax Expenditure for Exclusion of Capital Gains at Death." Available at <http://www.treasury.gov/resource-center/tax-policy/Documents/Analysis-and-Research-Tax-Expenditure-Step-Up-Basis-2014.pdf>.



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