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TOPPLING OFF THE FISCAL CLIFF: WHOSE TAXES RISE AND HOW MUCH?

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ABSTRACT

The fiscal cliff threatens an unprecedented tax increase at year end. Taxes would rise by more than \$500 billion in 2013—an average of almost \$3,500 per household—as almost every tax cut enacted since 2001 would expire. Middle-income households would see an average increase of almost \$2,000. Policymakers are rightly concerned about the potential impact on families and the economy of such a sudden tax increase and are considering proposals to delay, repeal, or offset parts of the cliff. To inform that discussion, this report provides a detailed look at the revenue, distributional, and incentive effects of these increases. Almost 90 percent of Americans would see their taxes rise if we topple off the cliff. For most households, the two biggest increases would be the expiration of the temporary cut in Social Security taxes and the expiration of the 2001/2003 tax cuts. Households with low incomes would be particularly affected by the expiration of tax credits expanded or created by the 2009 stimulus. And households with high incomes would be hit hard by the expiration of the 2001/2003 tax cuts that apply at upper income levels and the start of the new health reform taxes. Taken together, the scheduled changes would significantly increase the marginal tax rates that can influence behavior. Average marginal tax rates would increase by 5 percentage points on labor income, by 7 points on capital gains, and by more than 20 points on dividends.

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TOPPLING OFF THE FISCAL CLIFF: WHOSE TAXES RISE AND HOW MUCH?

The United States is fast approaching what many observers call the “fiscal cliff.” If the president and Congress do not act, taxes would jump for most Americans and government spending would drop sharply.¹ Those changes would reduce the federal deficit significantly in 2013 and subsequent years, slowing America's build-up of debt and reducing debt as a share of gross domestic product. But the resulting macroeconomic tightening could well push the country back into recession in 2013 (Congressional Budget Office 2012a). Lawmakers could soften that near-term hit by delaying or repealing provisions in the “cliff” or by enacting other spending and tax policies that would provide offsetting support for the economy.

To provide context for these policy discussions, this report provides a detailed look at the pending tax increases and documents their potential effects on federal revenue, the distribution of the tax burden, and economic incentives. Our findings are as follows:

- Absent legislative action, most tax cuts enacted since 2001 will expire on January 1, 2013, raising tax rates, reducing deductions and credits, and throwing millions of taxpayers onto the alternative minimum tax (AMT). The estate tax would hit more than ten times as many estates as in 2012. The 2 percentage point cut in the payroll tax rate would lapse, raising taxes on more than 120 million households with workers.² Short-term tax breaks that Congress regularly renews, some of which have already lapsed, would disappear, boosting taxes for both individuals and businesses. And the 2010 healthcare legislation would impose new taxes on high-income taxpayers.
- Federal tax collections would jump by more than \$500 billion in 2013, more than 20 percent above what they would be without the cliff. Nearly 90 percent of all households would face tax increases averaging nearly \$3,500. Middle-income taxpayers would see an average increase of almost \$2,000.
- For both policy and political reasons, it is important to distinguish among distinct aspects of the fiscal cliff.
 - The expiring cut in Social Security taxes was always intended as a temporary stimulus measure. Policy debate has thus been about when it would expire, not whether.
 - In contrast, most policymakers favor extending the higher exemption for the alternative minimum tax (the “patch,” which expired at the end of 2011) and most of the 2001/2003 tax cuts (all except those that apply to taxpayers whose incomes fall above the thresholds that President Obama has used to identify high-income taxpayers—\$250,000 for married couples and \$200,000 for others).
 - Policymakers generally agree on the need to address the estate tax and the extenders (a diverse group of temporary tax breaks, mostly business but some individual), but they differ on specifics.

¹ The spending cuts in the fiscal cliff include the across-the-board sequesters required by the Budget Control Act of 2011, expiration of extended unemployment insurance benefits, and reduced physician payment rates in Medicare (Congressional Budget Office 2012a, 2012b).

² This analysis examines the effects of scheduled tax changes on tax units—individuals or couples who either file tax returns or would do so if they had enough income. Tax units are not exactly the same as households, but the two terms are used interchangeably in this discussion for expositional simplicity.

- The most disputed provisions in the cliff are the expiring tax cuts for high-income households and the expiring 2009 tax credit expansions that primarily benefit low-income households. The new taxes created by 2010's health reform legislation are also controversial as part of the broader disagreement about that law.
- The components of the fiscal cliff have different effects on households at different income levels.
 - For most households, the two biggest increases would be the expiration of the temporary cut in Social Security taxes and the expiration of the 2001/2003 tax cuts.
 - Households with low incomes would be particularly affected by the expiration of the credits expanded or created by the 2009 stimulus.
 - Households at the highest income levels would be particularly affected by expiration of the 2001/2003 tax cuts that apply to upper income levels and by the new health reform taxes.
 - Upper middle-income households would be particularly affected by the expiration of the AMT patch.
- In addition to raising average tax rates, the fiscal cliff would substantially raise *marginal* tax rates, which can have an important impact on taxpayer behavior. The average marginal tax rate would increase by about 5 percentage points on wages and salaries, by about 5 percentage points on interest income, by about 7 percentage points on long-term capital gains, and by more than 20 percentage points on qualified dividends.

If investors believe it will actually happen, the pending increase in the capital gains tax rate could induce them to sell appreciated stocks, bonds, and other assets before the end of 2012. That would create a temporary spike in realizations, much as happened in 1986.

Impending Tax Increases

Federal taxes are scheduled to rise in 2013 for six reasons.³ First, most of the Bush-era tax cuts that were enacted in 2001 and 2003 and extended for an additional two years at the end of 2010 are again set to disappear. Second, some of the temporary tax cuts that were part of the American Recovery and Reinvestment Act of 2009 (ARRA) and also extended at the end of 2010 will expire. Third, Congress has not acted on dozens of short-term tax breaks that are regularly extended. Fourth, the payroll tax cut, always intended to be temporary, is set to expire after a two-year run. Fifth, new taxes enacted in 2010's Affordable Care Act (ACA) will take effect in tax year 2013. Finally, the AMT "patch" that protects tens of millions of taxpayers from additional taxes expired at the end of 2011. Unless Congress extends the patch retroactively, many taxpayers will owe AMT on their 2012 tax returns (the tax returns that people will file in early 2013).

³ Throughout this paper, we refer to the tax changes scheduled for January 1, 2013, as tax increases. That makes sense, given our focus on how taxes in 2013 would compare to their current levels. Those changes are not tax increases, however, for purposes of federal budgeting. The federal budget process focuses on how future taxes compare to what is implied by already enacted law. Under current law, the upcoming tax changes reflect expiration of temporary tax cuts or, in the case of the health reform taxes, the initiation of previously enacted taxes. Because the scheduled changes are not treated as tax increases, legislation to avoid any of them would be scored as a tax cut.

Bush-Era Tax Cuts. Tax cuts enacted in the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) and the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA) were all given limited life spans in order to get them through Congress without requiring a super-

Box 1

Expiring Provisions from the Bush-Era Tax Cuts

Tax reductions contained in the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) and the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA) were originally scheduled to expire at the end of 2010, but the Tax Relief Unemployment Insurance Reauthorization and Job Creation Act of 2010 (TRUIRJCA) extended those provisions for two years. Most of those tax cuts will expire at the end of 2012 if Congress and the president cannot agree to extend them. The major expiring individual provisions include the following.*

1. **Reduced tax rates.** EGTRRA lowered tax rates for the top four tax brackets and created a new 10 percent bracket for the first dollars of taxable income (table 1).
2. **Repeal of the limitation on itemized deductions (Pease) and the phaseout of personal exemptions (PEP).** EGTRRA phased down these provisions in stages and repealed them entirely in 2010. Pease (named for the congressman who proposed the provision) reduced a taxpayer's itemized deductions by 3 percent of adjusted gross income (AGI) over a single indexed threshold for all taxpayers but not by more than 80 percent. PEP reduced personal exemptions by 2 percent for each \$2,500 of AGI (or part thereof) above specified thresholds.
3. **Increased tax benefits for families with children.** EGTRRA doubled the child credit from \$500 to \$1,000, expanded its refundability, and increased the child and dependent care credit.
4. **Reduced marriage penalties.** EGTRRA set both the standard deduction and the width of the 10 percent and 15 percent tax brackets for married couples filing joint income tax returns at twice those for single filers. It also raised the threshold at which the earned income tax credit (EITC) begins to phase out for married couples.
5. **Reduced Taxes on Long-Term Capital Gains.** JGTRRA phased out taxes on long-term capital gains (profits on the sale of assets held at least one year) for taxpayers in the 15 percent tax bracket and below and reduced the rate from 20 percent to 15 percent for other taxpayers. Previous rates were 10 percent for the former group and 20 percent for the latter.
6. **Reduced Taxes on Qualified Dividends.** JGTRRA reduced the tax on qualified dividends from the rates on ordinary income (as high as 39.6 percent before and 35 percent after EGTRRA) to the rates applicable to long-term capital gains—a maximum rate of 15 percent.

* The Tax Policy Center's (TPC) Tax Policy Briefing Book describes these tax cuts in greater detail at:

<http://www.taxpolicycenter.org/briefing-book/background/bush-tax-cuts/index.cfm>

Note: EGTRRA phased out the estate tax over ten years. TRUIRJCA resurrected the tax with a higher exemption and lower rate than had previously applied.

majority vote in the Senate. Subsequent attempts to make the provisions permanent generally failed, and most of them were scheduled to expire at the end of 2010. In December of that year, the Tax Relief Unemployment Insurance Reauthorization and Job Creation Act of 2010 (TRUIRCA) extended all of the provisions for an additional two years. Absent congressional action, most EGTRRA and JGTRRA provisions will expire at the end of 2012 (box 1).⁴

Expiration of the Bush-era tax cuts would increase tax rates on most ranges of ordinary income and on long-term capital gains and qualified dividends. Elimination of the 10 percent bracket would raise pre-credit tax liability for everyone with taxable income, and rate increases for the top four tax brackets would boost tax bills for high-income households. Married couples would generally pay more tax because their 15 percent tax bracket would narrow and their standard deduction would be lower. Families with children under age 17 would lose half of their child credit and many would get smaller earned income and childcare credits. And high-income taxpayers would pay more tax as the reappearance of Pease and PEP would raise their taxable income.

Table 1			
2013 Federal Individual Income Tax Rates, Standard Deduction, and Personal Exemption under Alternative Tax Rules			
<u>Taxable Income</u>		<u>Tax Cuts</u>	<u>Tax Cuts</u>
<u>Over</u>	<u>But not over</u>	<u>Extended</u>	<u>Expire</u>
Single			
0	8,900	10%	15%
8,900	36,150	15%	15%
36,150	87,550	25%	28%
87,550	182,600	28%	31%
182,600	397,000	33%	36%
397,000	---	35%	39.6%
Married Filing Jointly			
0	17,800	10%	15%
17,800	60,350	15%	15%
60,350	72,300	15%	28%
72,300	145,900	25%	28%
145,900	222,300	28%	31%
222,300	397,000	33%	36%
397,000	---	35%	39.6%
Head of Household			
0	12,700	10%	15%
12,700	48,400	15%	15%
48,400	125,000	25%	28%
125,000	202,450	28%	31%
202,450	397,000	33%	36%
397,000	---	35%	39.6%
Standard Deduction			
Single:		6,050	6,050
Married Filing Jointly:		12,100	10,150
Head of Household:		8,900	8,900
Personal Exemption:		3,850	3,850
Source: Tax Policy Center			

Obama-Era Tax Cuts. Three of the tax provisions in ARRA cut 2009 and 2010 taxes for some low-income families by increasing the child credit and the EITC, and EXPANDED credits available to households with students in college. The 2010 tax act extended those provisions through 2012 but they are now scheduled to expire in 2013 (box 2).

The Estate Tax. EGTRRA phased out the estate tax over ten years, raising the effective exemption in stages from \$675,000 in 2000 (then scheduled to increase to \$1 million by 2006) to \$3.5 million in 2009 and lowering the top tax rate from 55 percent to 45 percent before eliminating the tax entirely for tax year 2010 only. Pre-EGTRRA provisions were scheduled to resume in 2011. TRUIRCA delayed expiration of the EGTRRA tax cuts, restoring the tax at a lower rate and a higher exemption than in 2009. It set the exemption at \$5 million (indexed for inflation) and the top rate at 35 percent for 2011 and 2012.⁵ If Congress fails to extend these

⁴ TPC's Tax Policy Briefing Book describes these tax cuts in greater detail at: <http://www.taxpolicycenter.org/briefing-book/background/bush-tax-cuts/index.cfm>

⁵ TRUIRCA also set those parameters for the estates of people dying in 2010 but gave executors the option of paying no estate tax and accepting the modified carryover basis rules originally provided in EGTRRA. Those rules set the basis of inherited

provisions, the effective exemption would drop from more than \$5 million (indexed for inflation) to \$1 million (unindexed), the top tax rate would increase from 35 percent to 55 percent, and surviving spouses would no longer be allowed to claim the exemption not used by the spouse who died.

Temporary Increase in AMT Exemption. The AMT operates parallel to the regular tax and sets a floor on total tax liability. Taxpayers whose income exceeds the AMT exemption must calculate both regular tax and AMT liabilities and pay the larger amount.⁶ EGTRRA temporarily increased the AMT exemption to preclude the alternative levy's reducing the impact of other tax cuts in the legislation. Since then, Congress has repeatedly "patched" the AMT by setting higher exemptions but only for a year or two at a time. The most recent patch, enacted in 2010, covered tax years 2010 and 2011 and raised the 2011 exemption from \$45,000 to \$74,450 for couples and from \$33,750 to \$48,450 for others. If Congress does not enact another patch and extend it retroactively to the current year, the AMT will hit tens of millions more taxpayers, boosting their 2012 tax liability substantially.

Box 2

Expiring Obama-Era Tax Cuts

1. **Expand the Earned Income Tax Credit (EITC) for Larger Families and Married Couples.** The American Recovery and Reinvestment Tax Act of 2009 (ARRA) increased the EITC wage subsidy rate from 40 percent to 45 percent for families with three or more children and increased the start of the credit phaseout range for married couples filing joint tax returns to \$5,000 more than that for single workers, up from \$3,000 under previous law. (The threshold for couples would revert to that for other filers if the Bush-era tax cuts expire as scheduled.)
2. **Increase Refundability of the Child Tax Credit.** Families can claim a child tax credit (CTC) of up to \$1,000 per child under age 17. If the credit exceeds taxes owed, families can receive some or all of the balance as a refund, known as the additional child tax credit (ACTC). The ACTC is limited to 15 percent of earnings above a threshold—\$12,550 in 2009 (indexed for inflation). ARRA lowered that threshold to an unindexed \$3,000, making the ACTC available to more working parents and increasing its value for others. (The maximum credit would fall by half if the Bush-era tax cuts expire as scheduled.)
3. **Replace the Hope Credit with the American Opportunity Credit (AOTC).** ARRA replaced the Hope credit for college students with the AOTC for two years. The change increased the number of years a student could claim the credit from two to four, raised the maximum credit from \$1,800 to \$2,500, and made the credit 40 percent refundable (i.e., taxpayers could claim as much as 40 percent of the credit in excess of their positive tax liability). If the change is not extended, tuition credits would cover less college cost for fewer years and would no longer be refundable.

property at the smaller of the decedent's basis or its fair market value when the decedent died. The executor could, however, step up the basis of chosen assets by a total of \$1.3 million plus an additional \$3 million for assets left to a surviving spouse.

⁶ TPC's Tax Policy Briefing Book describes the AMT in greater detail at: <http://www.taxpolicycenter.org/briefing-book/key-elements/amt/index.cfm>.

Temporary Payroll Tax Cut. The 2010 tax act reduced the rate for the employee’s share of the payroll tax supporting Social Security from 6.2 percent to 4.2 percent for calendar year 2011. Subsequent legislation extended the rate cut for another year. The rate cut will expire at the end of 2012, returning the tax rate to its permanent level.

Taxes Created by the 2010 Health Care Legislation. The ACA imposed new taxes to help finance new healthcare provisions. Starting in 2013, high-income taxpayers will pay an additional 0.9 percent tax on their earnings above specified thresholds—\$250,000 for married couples and \$200,000 for others.⁷ That would raise from 2.9 to 3.8 percent the combined tax rate that these high-income households and their employers pay on earnings above the thresholds. High-income households will also pay an additional 3.8 percent tax on capital gains, dividend, and interest income over the same thresholds.⁸ In addition, the ACA increased the AGI threshold for deducting medical expenses from 7.5 percent to 10 percent for non-elderly taxpayers.

Extenders. Many short-term tax provisions that Congress regularly extends, known as “extenders,” have either already expired or will expire by the end of 2012. Most of the provisions affect businesses, but some involve individual taxes. The individual provisions cover a broad range of issues, from the deductibility of state and local sales taxes to the adoption credit and the deduction for qualified education expenses. The business provisions include the research and experimentation credit, the work opportunity tax credit, and many other targeted incentives. In addition, the temporary “bonus depreciation” provision will expire for new investments. That provision allowed companies to expense the full cost of qualified machinery and equipment in 2011 (50 percent in 2012) rather than claiming deductions for depreciation over time.

Some of the impending tax increases affect taxpayers independently of others, but many interact. For example, expiration of the temporary payroll tax cut does not affect the amount of income tax that households would pay. In contrast, the AMT would affect fewer taxpayers if other individual income tax cuts expire (because higher regular taxes make AMT liability less likely) and thus reduce the amount of revenue the AMT would collect.

Overall Effects of the Fiscal Cliff

Estimates from the Tax Policy Center and the Joint Committee on Taxation indicate that if all the tax increases scheduled for January 1, 2013, take effect, and if the AMT patch is not extended through 2013, tax liability will increase by \$536 billion—or about 21 percent—in 2013, relative to the taxes people would owe if all pending tax increases were postponed. This estimate takes account of estimated short-run behavioral responses to higher marginal income tax rates and increased taxation of realized capital gains.⁹

Taxes would rise throughout the income distribution, but the increase would vary among income groups (table 2 and figure 1). The average federal tax rate—including individual income taxes, payroll taxes, corporate income taxes, and estate taxes—would increase from 19 percent to 24

⁷ Because the tax will apply only to earnings above the relevant threshold, affected taxpayers will not face a large jump in taxes as soon as their earnings exceed the threshold.

⁸ The 3.8 percent tax applies to the smaller of investment income and the excess of AGI over the thresholds—\$250,000 for married couples filing joint tax returns and \$200,000 for others. Limiting the investment subject to tax in that way prevents taxpayers from facing substantial tax increases over a short income range at the threshold.

⁹ The revenue estimate takes account of short-run behavioral changes but does not consider macroeconomic effects. The distributional effects discussed below do not include either of those effects—they are static estimates.

percent. The average tax burden would increase by almost \$3,500 per tax unit—roughly 5 percent of pretax income. In the middle quintile, tax burdens would increase by an average of almost \$2,000—just short of 4 percent of pretax income. Every income group would see taxes rise by more than 3.5 percent of pretax income. Upper income taxpayers would experience the largest tax increases, both in absolute terms and as a percentage of income. The top quintile would see its tax burden rise by slightly over \$14,000 per tax return, almost 6 percent of pretax income. Taxpayers in the top 1 percent of the distribution would experience an average tax increase of over \$120,000, slightly over 7 percent of their pretax income.

Table 2
Distribution of Federal Tax Change by Cash Income Percentile, 2013

Cash Income Percentile	Tax Units		Percent Change in After-Tax Income	Share of Total Federal Tax Change	Average Federal Tax Change (dollars)	Average Federal Tax Rate	
	Number (thousands)	Percent of Total				Change (% points)	Complete Fiscal Cliff (percent)
Lowest Quintile	40,520	25.6	-3.7	3.1	412	3.7	4.3
Second Quintile	36,208	22.9	-4.5	8.2	1,231	4.1	12.1
Middle Quintile	31,370	19.8	-4.4	11.4	1,984	3.8	17.8
Fourth Quintile	26,062	16.5	-5.1	16.9	3,540	4.2	21.6
Top Quintile	23,189	14.7	-7.7	60.3	14,173	5.8	30.9
All	158,260	100.0	-6.2	100.0	3,446	5.0	24.3
Addendum							
80-90	11,692	7.4	-6.3	13.6	6,359	5.1	24.9
90-95	5,736	3.6	-6.3	8.7	8,271	5.0	26.7
95-99	4,615	2.9	-6.9	12.6	14,871	5.2	29.9
Top 1 Percent	1,147	0.7	-10.5	25.4	120,537	7.2	38.4
Top 0.1 Percent	117	0.1	-11.8	13.6	633,946	7.9	40.5

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0412-7).

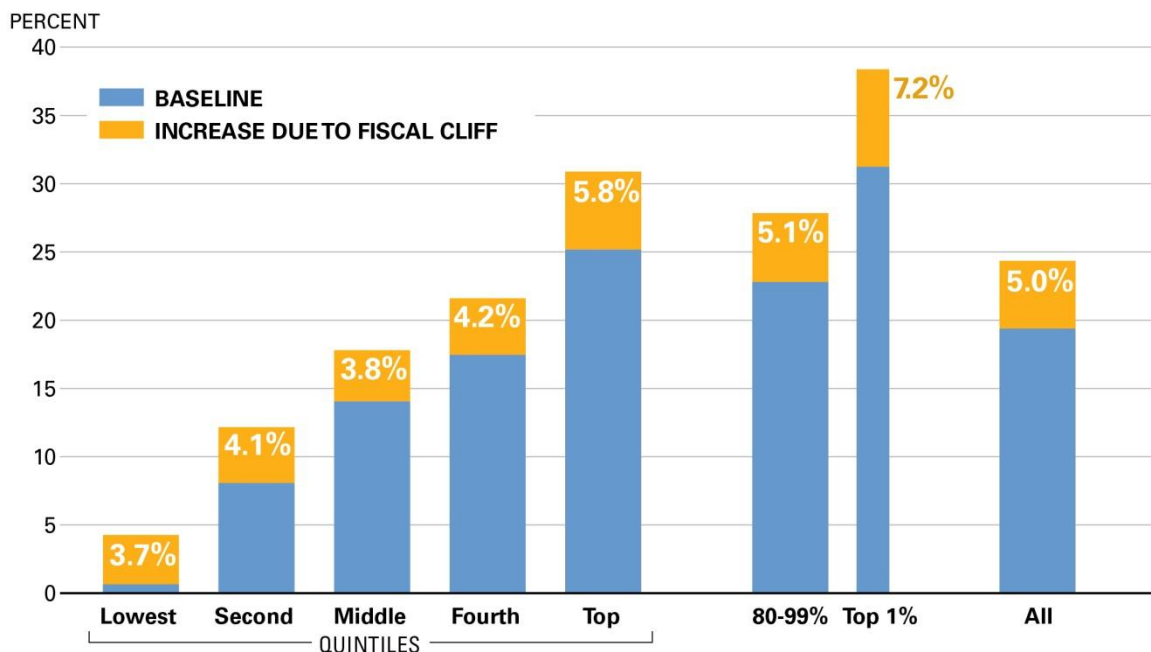
Number of AMT Taxpayers (millions). Baseline: 4.0

Proposal: 21.7

Notes: Includes both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative cash income are excluded from the lowest income class but are included in the totals. For a description of cash income, see <http://www.taxpolicycenter.org/TaxModel/income.cfm>.



FIGURE 1
Average Federal Tax Rate by Cash Income Percentile, 2013



Source: Urban-Brookings Tax Policy Center Table T12-0207

The tax increases include higher marginal tax rates that could, if sustained over time, adversely affect incentives to work and save and would encourage taxpayers to claim more deductions and exemptions. Average effective marginal tax rates—the tax paid on the last dollar of income, which most affects taxpayer decisions—would rise by about 5 percentage points on wages and salaries and on interest income, by about 7 percentage points on realized capital gains, and by more than 20 percentage points on qualified dividends (table 3). Average marginal tax rates would increase for every income group, but would increase the most at the very highest income levels. Taxpayers in the 80th to 99th percentiles would experience somewhat smaller increases in marginal tax rates because many would become newly subject to the alternative minimum tax when the AMT patch expires.

Effects of Separate Provisions

Congress may choose to avoid some of the scheduled tax increases and not others. The separate provisions have very different effects in total and across income groups. Furthermore, the measured effect of the different tax increases depends on the order in which they are considered because the provisions interact with one another. The size of these interaction effects, however, varies among different groups of provisions.

The effects of some provisions are independent of others. The tax increases resulting from expiration of the payroll tax cut, 2009 expansions in refundable credits, the estate tax changes, and most of the extenders are independent of each other and also largely independent of changes in other income tax provisions. They would raise households' tax bills by the same amount, regardless of whether other tax increases occur. But there are substantial interactions among

other provisions. Most obviously, estimating the impact of not patching the AMT before other tax increases would make its effects appear much larger than if it is applied after other changes have raised regular tax liabilities. And the estimated tax increase from allowing the Bush-era tax cuts to expire would be much larger if the AMT patch were extended than if significant portions were allowed to expire.

Table 3
Distribution of Average Effective Marginal Tax Rates
by Cash Income Percentile, 2013

Panel A: Average Effective Marginal Tax Rate on Wages and Salaries										
Cash Income Percentiles	Tax Units (thousands)	Individual Income Tax			Individual Income plus Payroll Tax					
		Baseline	Complete Fiscal Cliff	Change (% points)	Baseline	Complete Fiscal Cliff	Change (% points)			
Lowest Quintile	40,520	-1.0	3.2	4.1	12.0	18.0	6.1			
Second Quintile	36,208	16.7	18.0	1.2	29.6	32.7	3.1			
Third Quintile	31,370	18.3	20.1	1.8	31.0	34.7	3.7			
Fourth Quintile	26,062	18.5	23.7	5.2	31.3	38.4	7.1			
Top Quintile	23,189	28.4	32.0	3.6	35.8	40.5	4.7			
All	158,260	22.2	25.6	3.4	32.5	37.4	4.9			
Addendum										
80-90	11,691	24.3	27.5	3.2	35.2	39.9	4.7			
90-95	5,736	26.8	28.1	1.4	35.3	37.8	2.5			
95-99	4,614	31.6	34.2	2.5	36.8	40.2	3.4			
Top 1 Percent	1,147	32.8	39.9	7.1	35.9	44.0	8.1			
Top 0.1 Percent	117	34.4	40.3	5.9	37.3	44.1	6.8			
Panel B: Average Effective Marginal Individual Income Tax Rate on Long-Term Capital Gains, Qualified Dividends, and Interest Income										
Cash Income Percentiles	Tax Units (thousands)	Long-term Capital Gains			Qualified Dividends			Interest Income		
		Baseline	Complete Fiscal Cliff	Change (% points)	Baseline	Complete Fiscal Cliff	Change (% points)	Baseline	Complete Fiscal Cliff	Change (% points)
Lowest Quintile	40,520	1.0	1.5	0.5	0.9	2.0	1.1	2.5	3.7	1.2
Second Quintile	36,208	0.6	3.1	2.5	0.8	7.7	6.9	6.7	9.1	2.4
Third Quintile	31,370	3.3	9.6	6.3	5.2	18.2	13.0	16.1	19.1	3.0
Fourth Quintile	26,062	5.8	13.0	7.2	8.5	24.3	15.8	20.5	24.5	4.0
Top Quintile	23,189	14.7	22.3	7.5	15.5	37.3	21.8	27.2	33.7	6.5
All	158,260	13.7	20.9	7.2	13.9	34.2	20.3	21.6	26.7	5.1
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80-90	11,691	11.7	16.2	4.5	11.8	27.3	15.5	24.4	27.8	3.4
90-95	5,736	13.0	17.9	4.9	13.6	27.8	14.2	24.8	27.8	3.0
95-99	4,614	16.7	23.4	6.8	18.0	34.9	16.9	30.0	34.2	4.2
Top 1 Percent	1,147	14.6	22.7	8.1	15.3	41.1	25.8	27.4	36.7	9.3
Top 0.1 Percent	117	14.6	23.0	8.4	15.0	42.0	27.0	26.6	36.3	9.7

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0412-7).

Notes: Includes both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative cash income are excluded from the lowest income class but are included in the totals. For a description of cash income, see <http://www.taxpolicycenter.org/TaxModel/income.cfm>. Effective marginal tax rates are weighted by the respective income source.

Rationale for Ordering Used

This analysis divides the tax increases into nine groups and ranks them based on our estimate of their likelihood of occurring. That ranking is obviously subjective—no one knows what Congress and the president will do over coming months. But public discussion, proposals advanced by the two presidential candidates and members of Congress, and past congressional actions provide guidance in choosing the order used to analyze the different provisions. This analysis considers provisions in the following groups and order:

1. *Payroll Tax*. Neither presidential candidate has proposed extending the temporary payroll tax cut, and Congress has shown little interest in further economic stimulus.
2. *Health Care Law Provisions*. Tax increases on high-income households provide important funding for the expanded coverage provided in the 2010 healthcare legislation. They will take effect at the beginning of 2013 unless Congress delays or repeals them, but there appears little likelihood that the current Congress will do so.
3. *High-Income Capital Gains and Dividends*. President Obama has repeatedly proposed allowing the Bush-era tax cuts to expire for high-income taxpayers¹⁰ and the Democratic majority in the Senate has also supported allowing these provisions to expire; they could block an extension if they wanted to. But the Republicans support extension of all the tax cuts. This could occur again as part of a compromise, as it did at the end of 2010.
4. *High-Income Rates, Pease, and PEP*. These increases would also take place under the president's repeated proposals, but the Republican majority in the House would defer or repeal them.
5. *Stimulus Legislation EITC, CTC, and AOTC*. These provisions are also controversial, but in the reverse direction. President Obama has proposed making them permanent, while both the Republican majority in the House of Representatives and candidate Mitt Romney would allow them to expire.
6. *Extenders*. Congress has repeatedly extended this group of short-term tax provisions.
7. *Estate Tax*. Although they differ markedly on specific values, President Obama and Republican and Democratic leaders in Congress all favor increasing the estate tax exemption and lowering the estate tax rate relative to what is scheduled to happen in 2013.
8. *2001/2003 Tax Provisions Primarily Affecting Low- and Middle-Income Households*. President Obama has proposed extending the Bush-era tax cuts for all but the highest-income households and Republicans want to extend the cuts for everyone.¹¹
9. *Alternative Minimum Tax Patch*. Congress has repeatedly enacted temporary increases in the AMT exemption to protect millions of taxpayers from paying the additional tax. The president has proposed an AMT patch in his budget, and Mitt Romney has proposed eliminating the AMT completely.

¹⁰ In his first three budgets, President Obama proposed to continue taxing qualified dividends the same as long-term capital gains. However, his 2013 budget proposed to revert to taxing all dividends the same as ordinary income for higher-income taxpayers.

¹¹ These provisions include all those listed in box 1. The president would make those provisions permanent for married couples filing jointly with AGI under \$250,000 and others with AGI under \$200,000 (indexed for inflation from 2009).

In summary, items 1 and 2 represent scheduled tax increases that are the most likely to occur—the first is an expiring temporary tax cut that neither side has proposed to extend and the second is a key component of legislation that the president and his supporters are adamant about protecting. Items 3 through 5 are tax issues on which the two parties disagree, with Republicans favoring extension of items 3 and 4 and Democrats favoring extension of item 5. Items 6 and 7 are potential tax increases that both sides would most likely avoid, although they differ about details. Items 8 and 9 are potential tax increases that both sides want to prevent, although they could take place in the event of gridlock caused by disagreement on other tax proposals or on spending cuts.

Revenue Effects

Expiration of many tax provisions in 2013 would cause federal tax liability to jump by more than \$500 billion in that year alone (table 4).¹² That amount would represent more than a 20 percent increase in revenue, relative to the amount that would be collected if none of the provisions in the cliff took effect.

Table 4
Estimated Increases in Revenue by Tax Provisions, 2013

Provision	Billions of Dollars	Percentage of Total
1. Payroll Tax	115	22
2. Health Care Law Provisions	24	5
3. High Income Capital Gains and Dividends	8	2
4. High Income Rates, Pease, and PEP	44	8
5. Stimulus Legislation EITC, CTC, and AOTC	27	5
6. Extenders	75	14
7. Estate Tax	31	6
8. Remainder of 2001-03 Tax Provisions	171	32
9. Alternative Minimum Tax Patch	40	8
Total: Complete Fiscal Cliff	536	100

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0412-7) and TPC calculations based on CBO and JCT estimates.

By itself, expiration of the 2 percentage point payroll tax cut would reduce workers' paychecks by \$115 billion in 2013. The new healthcare taxes would collect about \$24 billion. Expiration of

¹² The estimates in table 4 show effects on 2013 calendar year tax liability, but the timing of actual collections may vary. The effect on the timing of receipts will be influenced by many factors, including when and how Treasury decides to alter withholding schedules in the event tax cuts are not extended and on whether or not Congress decides to waive penalties for those who end up paying too little withholding or estimated tax in 2012 due to expiration of the AMT patch.

EGTRRA and JGTRRA tax cuts on the highest incomes would raise \$52 billion in additional income taxes, about a sixth of that because of the increase in tax rates on long-term capital gains and dividends, but mostly because of the increase in the top two income tax rates and the return of Pease and PEP. Expiration of the remaining cuts from the 2009 stimulus bill would raise tax bills for low- and middle-income households by \$27 billion. Expiration of the extenders would raise about \$75 billion and the estate tax would bring in an additional \$31 billion. Nearly a third of the total revenue increase—just over \$170 billion—would come from expiration of the 2001/2003 tax cuts for low- and middle-incomes. Finally, not patching the AMT would raise \$40 billion in 2013.

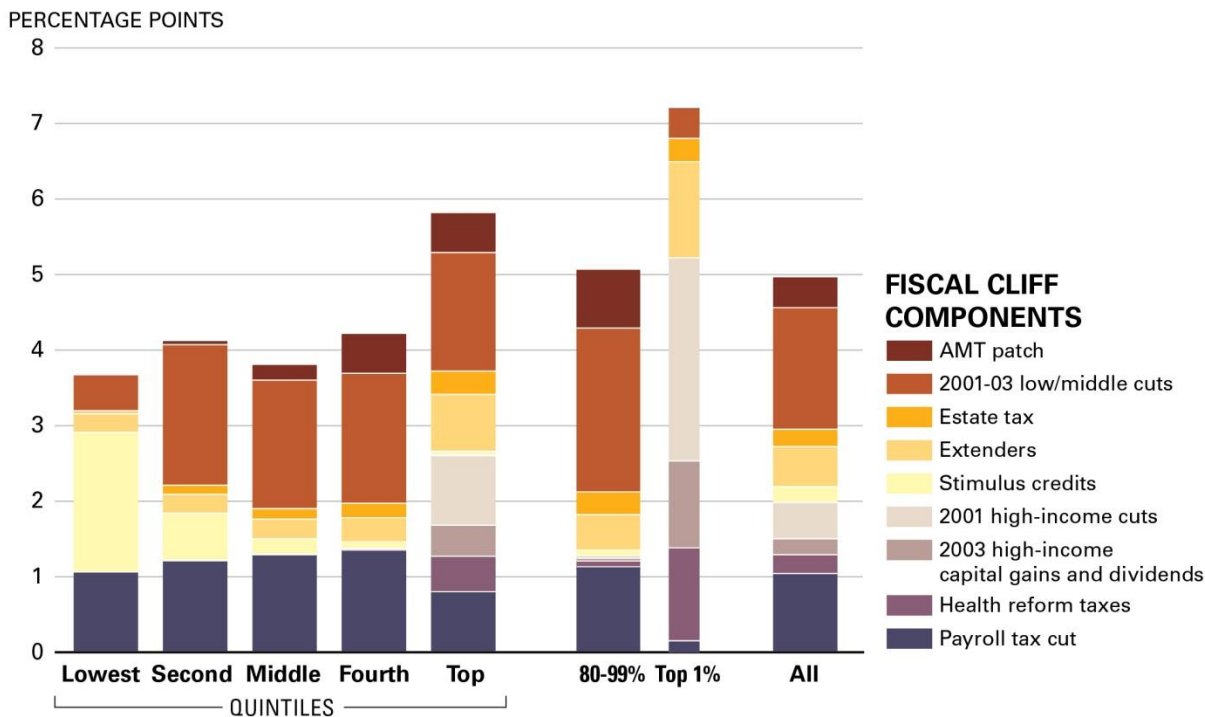
Those estimates take into account short-term behavioral responses of taxpayers, who would report less taxable income and realize fewer capital gains because of the increase in marginal tax rates on ordinary income and capital gains. Those responses would be largest for the provisions affecting only high-income taxpayers (provisions 3 and 4 of table 4). For both these groups of provisions, the tax increase absent behavior would be larger than the estimates shown in table 4.

Distributional Effects of Tax Changes

The various tax components of the fiscal cliff would have markedly different effects on the distribution of the tax burden (figure 2 and tables 5 and 6). Some components would affect high-income taxpayers more than others. The new ACA taxes; expiration of tax cuts on high-income gains and dividends; expiration of high-income rates, Pease, and PEP; and expiration of



FIGURE 2
Change in Average Federal Tax Rate by Cash Income Percentile, 2013



Source: Urban-Brookings Tax Policy Center Tables T12-0208 to T12-0216

extenders would all primarily affect the top quintile of tax units and raise taxes most as a share of income at the very top of the distribution. The estate tax provisions would also affect high income taxpayers the most, but would raise effective tax rates about the same for different groups within the top quintile because their primary effect would be to lower the wealth threshold at which taxpayers become subject to the tax. The AMT provisions would raise taxes most as a share of income for tax units in the top two quintiles of the distribution, but would have little effect on the very highest income taxpayers, most of whom would continue to pay the regular tax even after expiration of the AMT patch.

Table 5
Change in Effective Tax Rates by Income Percentile, 2013
 (percentage point change)

Tax Provisions	Quintile					All	Top 1%
	Lowest	Second	Middle	Fourth	Top		
1. Payroll Tax	1.1	1.2	1.3	1.4	0.8	1.0	0.2
2. ACA Taxes	0.0	0.0	0.0	0.0	0.5	0.3	1.2
3. 2003 - High Incomes	0.0	0.0	0.0	0.0	0.4	0.2	1.2
4. 2001 - High Incomes	0.0	0.0	0.0	0.0	0.9	0.5	2.7
5. 2009 Provisions	1.9	0.6	0.2	0.1	0.0	0.2	0.0
6. Tax Extenders	0.3	0.3	0.3	0.3	0.8	0.5	1.3
7. Estate Tax	0.0	0.1	0.1	0.2	0.3	0.2	0.3
8. Rest of 2001-03 Cuts	0.5	1.9	1.7	1.7	1.6	1.6	0.4
9. AMT Patch	0.0	0.0	0.2	0.5	0.5	0.4	0.0
All Provisions	3.7	4.1	3.8	4.2	5.8	5.0	7.2

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0412-7)

In contrast, expiration of the 2009 tax cuts would have the biggest impact on taxpayers at the bottom of the distribution, who would lose some benefits from refundable credits. Expiration of the payroll tax cuts would be slightly progressive through the bottom four quintiles, but would raise the effective tax rate least for the top quintile and, within the top quintiles, least at the very top. The highest-income taxpayers would experience a relatively smaller tax increase because, compared with other groups, they receive more of their income from capital returns than from wages and because much of their earnings is over the cap on earnings subject to the Social Security payroll tax and thus did not benefit from the 2 percent cut in that tax.

Expiration of the 2001/2003 lower- and middle-income tax cuts (i.e., those not applying to high incomes) would primarily affect taxpayers in the middle three quintiles of the distribution and those in the top quintile, but not those at the very top. The highest-income taxpayers would experience some tax increase from the higher rates on the first \$250,000 of their income, but measured as a share of income, that tax increase would be smaller than the average for all

taxpayers. The bottom quintile would experience some increase from the reduction in the child credit and the elimination of the 10 percent bracket, but many in that group would be unaffected because they would remain below or only slightly above relevant tax entry thresholds.

Table 6
Change in Average Tax Liability by Income Percentile, 2013
(change in dollars)

Tax Provisions	Quintile					All	Top 1%
	Lowest	Second	Middle	Fourth	Top		
1. Payroll Tax	120	364	672	1,135	1,950	721	2,542
2. ACA Taxes	0	2	7	13	1,141	171	20,583
3. 2003 - High Incomes	0	0	0	0	996	146	19,198
4. 2001 - High Incomes	0	0	0	0	2,282	334	45,002
5. 2009 Provisions	209	185	103	73	103	144	0
6. Tax Extenders	28	74	135	267	1,848	367	21,232
7. Estate Tax	3	37	75	158	747	161	5,210
8. Rest of 2001-03 Cuts	53	558	888	1,453	3,841	1,120	6,546
9. AMT Patch	0	12	104	440	1,265	281	222
All Provisions	412	1,231	1,984	3,540	14,173	3,446	120,537

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0412-7)

If all the scheduled increases take effect, the top 1 percent would experience the largest tax increase as a share of income—7.2 percent, or an average of over \$120,000 per taxpayer. More than half of that increase—3.8 percent— would come from expiration of the 2001/2003 tax cuts and another 2.5 percent from expiration of the extenders and the beginning of the new ACA taxes. At the other end of the distribution, the bottom quintile would see its effective tax rate rise by 3.7 percent of income—mostly because of expiration of the 2009 tax cuts (1.9 percent of income) and the payroll tax cut (1.1 percent of income). The 3.8 percentage point tax rate increase for the middle quintile would also come mostly from two components of the fiscal cliff—expiration of the majority of the 2001/2003 tax cuts (1.7 percent of income) and expiration of the payroll tax cut (1.3 percent of income).

Taxpayers Affected

Almost 90 percent of households would experience a tax increase if all the fiscal cliff provisions took effect as scheduled, including almost all tax units in the top 60 percent of the income

distribution (table 7).¹³ Only about two-thirds of taxpayers in the bottom quintile would see their taxes rise, however, most of them because of the expiration of the payroll tax cut. That cut (which would affect 77 percent of all households) and expiration of the 2001/2003 tax cuts at incomes below \$250,000 (71 percent) would be the two single components of the fiscal cliff that would affect the largest numbers of tax units. In contrast, relatively few tax units would be affected by the ACA taxes (5 percent), the 2001/2003 cuts for high-income capital gains and dividends (1 percent), other high-income provisions (1 percent), the estate tax (less than half of 1 percent), and certain individual extenders (9 percent).

Table 7
Tax Units Affected by Income Percentile, 2013
(percent of tax units)

Tax Provisions	Quintile					All	Top 1%
	Lowest	Second	Middle	Fourth	Top		
1. Payroll Tax	62.4	74.7	81.0	85.8	89.5	76.6	90.2
2. ACA Taxes	0.4	2.5	4.7	5.1	18.1	5.1	98.9
3. 2003 - High Incomes	0.0	0.0	0.0	0.0	6.8	1.0	81.1
4. 2001 - High Incomes	0.0	0.0	0.0	0.0	7.3	1.1	81.6
5. 2009 Provisions	22.4	19.6	13.5	7.9	7.6	15.4	*
6. Tax Extenders	0.7	4.1	9.6	17.8	21.9	9.2	1.2
7. Estate Tax	0.0	*	*	0.1	0.1	*	0.3
8. Rest of 2001-03 Cuts	20.9	74.8	92.4	98.2	97.7	71.3	88.8
9. AMT Patch	0.0	1.4	8.4	28.2	47.8	13.6	5.5
All Provisions	67.1	88.5	98.6	99.8	99.9	88.4	100.0

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0412-7)

* Less than 0.05

Some of these components of the fiscal cliff, however, would affect mostly very high-income taxpayers. Within the top 1 percent, the ACA taxes would affect 99 percent of returns and expiration of the 2001/2003 tax cuts for high-income taxpayers would affect 81 percent of returns. Expiration of the AMT patch would affect 14 percent of tax units overall and 48 percent of taxpayers in the top quintile, but less than 6 percent of taxpayers in the top 1 percent.

¹³ This analysis of how many people would be affected by the fiscal cliff omits many of the extenders. Expiration of extenders related to corporate income would affect almost all taxpayers through lower earnings and investment income. Some of the individual extenders, such as the adoption credit, would affect a relatively small number of returns but we have no way to identify which returns and how much those returns would be affected by other provisions. Table 7 thus includes only those extenders for which it is possible to assign benefits to the representative tax units in TPC's microsimulation tax model.

Encouraging Investors to Realize Capital Gains Early

One implication of increasing marginal tax rates is that some investors would have an incentive to sell appreciated stocks, bonds, and other assets before the end of the year, if they believe the capital gains rate will go up as scheduled and then remain in place for tax year 2013.

In 2012, investors face a top marginal tax rate of 15 percent on long-term capital gains.¹⁴ That rate is scheduled to increase to 20 percent in 2013. The new ACA tax on unearned income would add another 3.8 percent for high-income investors (couples with AGI over \$250,000 and others with AGI over \$200,000, with no indexing for inflation). And the newly reinstated Pease limitation on itemized deductions for high-income taxpayers (those with AGI over \$177,550 in 2013, indexed for inflation) would add as much as another 1.2 percent.¹⁵

In combination, these changes would increase the effective marginal tax rate on capital gains for many high-income investors from 15 percent this year to at least 23.8 percent and as high as 25 percent next year. For that reason, the average effective marginal rate on capital gains for all taxpayers in the top quintile would increase from 14.7 percent to 22.3 percent. In anticipation of that increase, investors may choose to sell some appreciated assets in late 2012.

That is exactly what happened following the enactment of the Tax Reform Act of 1986, which increased the top capital gains tax rate from 20 percent to 28 percent. Capital gains realizations almost doubled in 1986 and then fell back in 1987 as investors rushed to take advantage of the soon-to-expire 20 percent rate (Auten 1999). Similar behavior is likely this year unless investors believe that the scheduled tax increases will be averted.

¹⁴ Taxpayers in the exemption phaseout range of the AMT face a marginal rate of 18.75 percent. For those taxpayers, an additional dollar of long-term capital gains reduces the AMT exemption by 25 cents, thus adding to the 15-percent statutory rate.

¹⁵ An affected investor who realizes an additional dollar of capital gains would lose 3 cents of itemized deductions; an investor in the 39.6 percent bracket would thus lose 1.2 cents—39.6 percent of 3 cents. Pease would increase marginal tax rates less for investors in lower tax brackets.

References

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- Congressional Budget Office. 2012a. *Economic Effects of Reducing the Fiscal Restraint that is Scheduled to Occur in 2013*. Washington, DC: Congressional Budget Office. May 22.
- _____. 2012b. *An Update to the Budget and Economic Outlook: Fiscal Years 2012 to 2022*. Washington, DC: Congressional Budget Office. August 22.

Description of the Tax Policy Center's Microsimulation Model

The Tax Policy Center employs a large-scale microsimulation model to develop revenue and distribution estimates of the U.S. federal tax system. Based primarily on a public-use sample of information taken from tax returns, the model projects incomes and other tax-related variables for subsequent years and simulates actual and proposed tax laws to estimate and compare their effects on tax units. The model is similar to those used by the Congressional Budget Office, the Joint Committee on Taxation, and the Treasury's Office of Tax Analysis.

A detailed description of TPC's microsimulation model is available at

<http://taxpolicycenter.org/taxtopics/TPC-Model-Overview-2012.cfm>

APPENDIX TABLES

Note: This table includes only those extenders for which it is possible to assign benefits to the representative tax units in TPC's microsimulation model; see footnote 13 on page 16.

**Percent of Tax Units Affected and Average Tax Change
by Cash Income Percentile, 2013**

Cash Income Percentile	Tax Units		Tax Units with a Tax Increase					
	Number (thousands)	Percent of Total	Complete Fiscal Cliff		1. Payroll Tax		2. Health Care Provisions	
			Percent within Class	Avg Tax Increase (\$)	Percent within Class	Avg Tax Increase (\$)	Percent within Class	Avg Tax Increase (\$)
Lowest Quintile	40,520	25.6	67.1	590	62.4	192	0.4	43
Second Quintile	36,208	22.9	88.5	1,327	74.7	487	2.5	80
Middle Quintile	31,370	19.8	98.6	1,942	81.0	830	4.7	151
Fourth Quintile	26,062	16.5	99.8	3,415	85.8	1,324	5.1	260
Top Quintile	23,189	14.7	99.9	12,964	89.5	2,179	18.1	6,311
All	158,260	100.0	88.4	3,637	76.6	942	5.1	3,360
Addendum								
80-90	11,692	7.4	100.0	6,162	89.2	1,902	5.0	464
90-95	5,736	3.6	100.0	7,830	90.2	2,297	4.2	614
95-99	4,615	2.9	99.7	14,085	89.0	2,572	48.5	1,088
Top 1 Percent	1,147	0.7	100.0	103,445	90.2	2,820	98.9	20,807
Top 0.1 Percent	117	0.1	100.0	532,351	90.6	2,940	99.7	119,037

Cash Income Percentile	Tax Units with a Tax Increase							
	3. High Income Capital Gains and Dividends		4. High Income Rates, Pease, and PEP		5. 2009 EITC, CTC, and Education Provisions		6. Tax Extenders	
	Percent within Class	Avg Tax Increase (\$)	Percent within Class	Avg Tax Increase (\$)	Percent within Class	Avg Tax Increase (\$)	Percent within Class	Avg Tax Increase (\$)
Lowest Quintile	0.0	0	0.0	0	22.4	934	0.7	63
Second Quintile	0.0	0	0.0	0	19.6	943	4.1	121
Middle Quintile	0.0	0	0.0	0	13.5	762	9.6	149
Fourth Quintile	0.0	0	0.0	0	7.9	928	17.8	245
Top Quintile	6.8	14,566	7.3	31,093	7.6	1,349	21.9	433
All	1.0	14,566	1.1	31,093	15.4	937	9.2	275
Addendum								
80-90	0.0	0	0.0	0	10.2	1,123	23.7	397
90-95	0.1	846	0.1	149	9.7	1,843	30.9	475
95-99	14.1	1,662	16.5	1,695	0.4	1,078	11.3	488
Top 1 Percent	81.1	23,684	81.6	55,158	*	**	1.2	129
Top 0.1 Percent	92.6	133,620	90.0	281,328	*	**	0.3	121

Cash Income Percentile	Tax Units with a Tax Increase					
	7. Estate Tax		8. Remainder of 2001-03 Tax Provisions		9. Alternative Minimum Tax	
	Percent within Class	Avg Tax Increase (\$)	Percent within Class	Avg Tax Increase (\$)	Percent within Class	Avg Tax Increase (\$)
Lowest Quintile	0.0	0	20.9	255	0.0	0
Second Quintile	*	**	74.8	746	1.4	861
Middle Quintile	*	**	92.4	961	8.4	1,231
Fourth Quintile	0.1	420,493	98.2	1,479	28.2	1,563
Top Quintile	0.1	1,021,626	97.7	3,973	47.8	2,657
All	*	**	71.3	1,579	13.6	2,069
Addendum						
80-90	0.1	495,156	98.9	2,934	44.5	2,126
90-95	0.1	736,449	99.0	3,857	43.4	2,030
95-99	0.2	1,143,538	95.4	5,850	72.3	3,923
Top 1 Percent	0.3	2,063,900	88.8	8,292	5.5	4,259
Top 0.1 Percent	0.5	3,910,597	74.9	10,385	0.2	2,658

* Less than 0.05 ** Insufficient data to calculate an average

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0412-7).

Notes: Includes both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative cash income are excluded from the lowest income class but are included in the totals. For a description of cash income, see <http://www.taxpolicycenter.org/TaxModel/income.cfm>. The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2012 dollars): 20% \$20,113; 40% \$39,790; 60% \$64,484; 80% \$108,266; 90% \$143,373; 95% \$204,296; 99% \$506,210; 99.9% \$2,655,675.

Step 1 of 9: Allow Payroll Tax Cut to Expire
Distribution of Federal Tax Change by Cash Income Percentile, 2013

Cash Income Percentile	Tax Units		Percent Change in After-Tax Income	Share of Total Federal Tax Change	Average Federal Tax Change (dollars)	Average Federal Tax Rate	
	Number (thousands)	Percent of Total				Change (% points)	After Step 1 (percent)
Lowest Quintile	40,520	25.6	-1.1	4.3	120	1.1	1.7
Second Quintile	36,208	22.9	-1.3	11.6	364	1.2	9.3
Middle Quintile	31,370	19.8	-1.5	18.5	672	1.3	15.3
Fourth Quintile	26,062	16.5	-1.6	25.9	1,135	1.4	18.7
Top Quintile	23,189	14.7	-1.1	39.6	1,950	0.8	25.9
All	158,260	100.0	-1.3	100.0	721	1.0	20.4
Addendum							
80-90	11,692	7.4	-1.7	17.4	1,697	1.4	21.2
90-95	5,736	3.6	-1.6	10.4	2,073	1.2	23.0
95-99	4,615	2.9	-1.1	9.3	2,290	0.8	25.5
Top 1 Percent	1,147	0.7	-0.2	2.6	2,542	0.2	31.4
Top 0.1 Percent	117	0.1	-0.1	0.3	2,663	0.0	32.6

Number of AMT Taxpayers (millions). Baseline: 4.0

Proposal: 4.0

Step 2 of 9: Allow Health Care Law Related Taxes to Take Effect
Distribution of Federal Tax Change by Cash Income Percentile, 2013

Cash Income Percentile	Tax Units		Percent Change in After-Tax Income	Share of Total Federal Tax Change	Average Federal Tax Change (dollars)	Average Federal Tax Rate	
	Number (thousands)	Percent of Total				Change (% points)	After Step 2 (percent)
Lowest Quintile	40,520	25.6	0.0	0.0	0	0.0	1.7
Second Quintile	36,208	22.9	0.0	0.3	2	0.0	9.3
Middle Quintile	31,370	19.8	0.0	0.8	7	0.0	15.3
Fourth Quintile	26,062	16.5	0.0	1.3	13	0.0	18.8
Top Quintile	23,189	14.7	-0.6	97.6	1,141	0.5	26.4
All	158,260	100.0	-0.3	100.0	171	0.3	20.7
Addendum							
80-90	11,692	7.4	0.0	1.0	23	0.0	21.2
90-95	5,736	3.6	0.0	0.5	26	0.0	23.0
95-99	4,615	2.9	-0.3	9.0	528	0.2	25.7
Top 1 Percent	1,147	0.7	-1.8	87.1	20,583	1.2	32.6
Top 0.1 Percent	117	0.1	-2.2	51.1	118,720	1.5	34.1

Number of AMT Taxpayers (millions). Baseline: 4.0

Proposal: 4.0

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0412-7).

Notes: Includes both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative cash income are excluded from the lowest income class but are included in the totals. For a description of cash income, see <http://www.taxpolicycenter.org/TaxModel/income.cfm>. The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2012 dollars): 20% \$20,113; 40% \$39,790; 60% \$64,484; 80% \$108,266; 90% \$143,373; 95% \$204,296; 99% \$506,210; 99.9% \$2,655,675.

Step 3 of 9: Allow 2003 Tax Cuts on Capital Gains & Dividends to Expire for High Incomes
Distribution of Federal Tax Change by Cash Income Percentile, 2013

Cash Income Percentile	Tax Units		Percent Change in After-Tax Income	Share of Total Federal Tax Change	Average Federal Tax Change (dollars)	Average Federal Tax Rate	
	Number (thousands)	Percent of Total				Change (% points)	After Step 3 (percent)
Lowest Quintile	40,520	25.6	0.0	0.0	0	0.0	1.7
Second Quintile	36,208	22.9	0.0	0.0	0	0.0	9.3
Middle Quintile	31,370	19.8	0.0	0.0	0	0.0	15.3
Fourth Quintile	26,062	16.5	0.0	0.0	0	0.0	18.8
Top Quintile	23,189	14.7	-0.6	100.0	996	0.4	26.8
All	158,260	100.0	-0.3	100.0	146	0.2	20.9
Addendum							
80-90	11,692	7.4	0.0	0.0	0	0.0	21.2
90-95	5,736	3.6	0.0	0.0	1	0.0	23.0
95-99	4,615	2.9	-0.1	4.7	235	0.1	25.8
Top 1 Percent	1,147	0.7	-1.7	95.3	19,198	1.2	33.7
Top 0.1 Percent	117	0.1	-2.4	62.5	123,786	1.6	35.7

Number of AMT Taxpayers (millions). Baseline: 4.0

Proposal: 4.0

Step 4 of 9: Allow 2001 Tax Cuts to Expire for High Incomes
Distribution of Federal Tax Change by Cash Income Percentile, 2013

Cash Income Percentile	Tax Units		Percent Change in After-Tax Income	Share of Total Federal Tax Change	Average Federal Tax Change (dollars)	Average Federal Tax Rate	
	Number (thousands)	Percent of Total				Change (% points)	After Step 4 (percent)
Lowest Quintile	40,520	25.6	0.0	0.0	0	0.0	1.7
Second Quintile	36,208	22.9	0.0	0.0	0	0.0	9.3
Middle Quintile	31,370	19.8	0.0	0.0	0	0.0	15.3
Fourth Quintile	26,062	16.5	0.0	0.0	0	0.0	18.8
Top Quintile	23,189	14.7	-1.3	100.0	2,282	0.9	27.8
All	158,260	100.0	-0.6	100.0	334	0.5	21.4
Addendum							
80-90	11,692	7.4	0.0	0.0	0	0.0	21.2
90-95	5,736	3.6	0.0	0.0	0	0.0	23.0
95-99	4,615	2.9	-0.1	2.4	280	0.1	25.9
Top 1 Percent	1,147	0.7	-4.1	97.6	45,002	2.7	36.4
Top 0.1 Percent	117	0.1	-4.9	55.8	253,262	3.2	38.8

Number of AMT Taxpayers (millions). Baseline: 4.0

Proposal: 3.3

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0412-7).

Notes: Includes both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative cash income are excluded from the lowest income class but are included in the totals. For a description of cash income, see <http://www.taxpolicycenter.org/TaxModel/income.cfm>. The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2012 dollars): 20% \$20,113; 40% \$39,790; 60% \$64,484; 80% \$108,266; 90% \$143,373; 95% \$204,296; 99% \$506,210; 99.9% \$2,655,675.

Step 5 of 9: Allow 2009 Tax Cuts to Expire
Distribution of Federal Tax Change by Cash Income Percentile, 2013

Cash Income Percentile	Tax Units		Percent Change in After-Tax Income	Share of Total Federal Tax Change	Average Federal Tax Change (dollars)	Average Federal Tax Rate	
	Number (thousands)	Percent of Total				Change (% points)	After Step 5 (percent)
Lowest Quintile	40,520	25.6	-1.9	37.1	209	1.9	3.5
Second Quintile	36,208	22.9	-0.7	29.4	185	0.6	9.9
Middle Quintile	31,370	19.8	-0.2	14.2	103	0.2	15.5
Fourth Quintile	26,062	16.5	-0.1	8.4	73	0.1	18.8
Top Quintile	23,189	14.7	-0.1	10.5	103	0.0	27.8
All	158,260	100.0	-0.3	100.0	144	0.2	21.6
Addendum							
80-90	11,692	7.4	-0.1	5.9	115	0.1	21.3
90-95	5,736	3.6	-0.1	4.5	179	0.1	23.1
95-99	4,615	2.9	0.0	0.1	4	0.0	25.9
Top 1 Percent	1,147	0.7	0.0	0.0	0	0.0	36.4
Top 0.1 Percent	117	0.1	0.0	0.0	0	0.0	38.8

Number of AMT Taxpayers (millions). Baseline: 3.3

Proposal: 3.3

Step 6 of 9: Allow Tax Extenders to Expire
Distribution of Federal Tax Change by Cash Income Percentile, 2013

Cash Income Percentile	Tax Units		Percent Change in After-Tax Income	Share of Total Federal Tax Change	Average Federal Tax Change (dollars)	Average Federal Tax Rate	
	Number (thousands)	Percent of Total				Change (% points)	After Step 6 (percent)
Lowest Quintile	40,520	25.6	-0.3	1.9	28	0.3	3.8
Second Quintile	36,208	22.9	-0.3	4.6	74	0.3	10.1
Middle Quintile	31,370	19.8	-0.3	7.3	135	0.3	15.8
Fourth Quintile	26,062	16.5	-0.4	12.0	267	0.3	19.2
Top Quintile	23,189	14.7	-1.1	73.7	1,848	0.8	28.6
All	158,260	100.0	-0.7	100.0	367	0.5	22.1
Addendum							
80-90	11,692	7.4	-0.5	9.2	459	0.4	21.7
90-95	5,736	3.6	-0.6	8.2	826	0.5	23.6
95-99	4,615	2.9	-0.9	14.5	1,821	0.6	26.5
Top 1 Percent	1,147	0.7	-2.0	41.9	21,232	1.3	37.7
Top 0.1 Percent	117	0.1	-2.4	23.7	118,151	1.5	40.3

Number of AMT Taxpayers (millions). Baseline: 3.3

Proposal: 3.3

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0412-7).

Notes: Includes both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative cash income are excluded from the lowest income class but are included in the totals. For a description of cash income, see <http://www.taxpolicycenter.org/TaxModel/income.cfm>. The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2012 dollars): 20% \$20,113; 40% \$39,790; 60% \$64,484; 80% \$108,266; 90% \$143,373; 95% \$204,296; 99% \$506,210; 99.9% \$2,655,675.

Step 7 of 9: Allow Estate Tax to Revert to Pre-2001 Law
Distribution of Federal Tax Change by Cash Income Percentile, 2013

Cash Income Percentile	Tax Units		Percent Change in After-Tax Income	Share of Total Federal Tax Change	Average Federal Tax Change (dollars)	Average Federal Tax Rate	
	Number (thousands)	Percent of Total				Change (% points)	After Step 7 (percent)
Lowest Quintile	40,520	25.6	0.0	0.5	3	0.0	3.8
Second Quintile	36,208	22.9	-0.1	5.3	37	0.1	10.2
Middle Quintile	31,370	19.8	-0.2	9.3	75	0.1	15.9
Fourth Quintile	26,062	16.5	-0.2	16.2	158	0.2	19.3
Top Quintile	23,189	14.7	-0.4	68.2	747	0.3	28.9
All	158,260	100.0	-0.3	100.0	161	0.2	22.3
Addendum							
80-90	11,692	7.4	-0.2	10.1	219	0.2	21.9
90-95	5,736	3.6	-0.4	10.6	469	0.3	23.9
95-99	4,615	2.9	-0.6	24.0	1,323	0.5	27.0
Top 1 Percent	1,147	0.7	-0.5	23.5	5,210	0.3	38.0
Top 0.1 Percent	117	0.1	-0.4	7.6	16,509	0.2	40.5

Number of AMT Taxpayers (millions). Baseline: 3.3

Proposal: 3.3

Step 8 of 9: Allow Remaining 2001/2003 Tax Cuts to Expire
Distribution of Federal Tax Change by Cash Income Percentile, 2013

Cash Income Percentile	Tax Units		Percent Change in After-Tax Income	Share of Total Federal Tax Change	Average Federal Tax Change (dollars)	Average Federal Tax Rate	
	Number (thousands)	Percent of Total				Change (% points)	After Step 8 (percent)
Lowest Quintile	40,520	25.6	-0.5	1.2	53	0.5	4.3
Second Quintile	36,208	22.9	-2.1	11.4	558	1.9	12.1
Middle Quintile	31,370	19.8	-2.0	15.7	888	1.7	17.6
Fourth Quintile	26,062	16.5	-2.1	21.4	1,453	1.7	21.1
Top Quintile	23,189	14.7	-2.2	50.2	3,841	1.6	30.4
All	158,260	100.0	-2.1	100.0	1,120	1.6	23.9
Addendum							
80-90	11,692	7.4	-3.0	19.1	2,900	2.3	24.2
90-95	5,736	3.6	-3.0	12.4	3,816	2.3	26.2
95-99	4,615	2.9	-2.7	14.5	5,582	1.9	28.9
Top 1 Percent	1,147	0.7	-0.6	4.2	6,546	0.4	38.4
Top 0.1 Percent	117	0.1	0.0	0.1	869	0.0	40.5

Number of AMT Taxpayers (millions). Baseline: 3.3

Proposal: 1.2

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0412-7).

Notes: Includes both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative cash income are excluded from the lowest income class but are included in the totals. For a description of cash income, see <http://www.taxpolicycenter.org/TaxModel/income.cfm>. The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2012 dollars): 20% \$20,113; 40% \$39,790; 60% \$64,484; 80% \$108,266; 90% \$143,373; 95% \$204,296; 99% \$506,210; 99.9% \$2,655,675.

Step 9 of 9: Allow AMT Patch to Expire
Distribution of Federal Tax Change by Cash Income Percentile, 2013

Cash Income Percentile	Tax Units		Percent Change in After-Tax Income	Share of Total Federal Tax Change	Average Federal Tax Change (dollars)	Average Federal Tax Rate	
	Number (thousands)	Percent of Total				Change (% points)	After Step 9 (percent)
Lowest Quintile	40,520	25.6	0.0	0.0	0	0.0	4.3
Second Quintile	36,208	22.9	0.0	1.0	12	0.0	12.1
Middle Quintile	31,370	19.8	-0.2	7.3	104	0.2	17.8
Fourth Quintile	26,062	16.5	-0.7	25.8	440	0.5	21.6
Top Quintile	23,189	14.7	-0.7	65.9	1,265	0.5	30.9
All	158,260	100.0	-0.5	100.0	281	0.4	24.3
Addendum							
80-90	11,692	7.4	-1.0	24.9	946	0.8	24.9
90-95	5,736	3.6	-0.7	11.4	881	0.5	26.7
95-99	4,615	2.9	-1.4	29.1	2,809	1.0	29.9
Top 1 Percent	1,147	0.7	0.0	0.6	222	0.0	38.4
Top 0.1 Percent	117	0.1	0.0	0.0	-14	0.0	40.5

Number of AMT Taxpayers (millions). Baseline: 1.2

Proposal: 21.7

Complete Fiscal Cliff
Distribution of Federal Tax Change by Cash Income Percentile, 2013

Cash Income Percentile	Tax Units		Percent Change in After-Tax Income	Share of Total Federal Tax Change	Average Federal Tax Change (dollars)	Average Federal Tax Rate	
	Number (thousands)	Percent of Total				Change (% points)	Complete Fiscal Cliff (percent)
Lowest Quintile	40,520	25.6	-3.7	3.1	412	3.7	4.3
Second Quintile	36,208	22.9	-4.5	8.2	1,231	4.1	12.1
Middle Quintile	31,370	19.8	-4.4	11.4	1,984	3.8	17.8
Fourth Quintile	26,062	16.5	-5.1	16.9	3,540	4.2	21.6
Top Quintile	23,189	14.7	-7.7	60.3	14,173	5.8	30.9
All	158,260	100.0	-6.2	100.0	3,446	5.0	24.3
Addendum							
80-90	11,692	7.4	-6.3	13.6	6,359	5.1	24.9
90-95	5,736	3.6	-6.3	8.7	8,271	5.0	26.7
95-99	4,615	2.9	-6.9	12.6	14,871	5.2	29.9
Top 1 Percent	1,147	0.7	-10.5	25.4	120,537	7.2	38.4
Top 0.1 Percent	117	0.1	-11.8	13.6	633,946	7.9	40.5

Number of AMT Taxpayers (millions). Baseline: 4.0

Proposal: 21.7

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0412-7).

Notes: Includes both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative cash income are excluded from the lowest income class but are included in the totals. For a description of cash income, see <http://www.taxpolicycenter.org/TaxModel/income.cfm>. The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2012 dollars): 20% \$20,113; 40% \$39,790; 60% \$64,484; 80% \$108,266; 90% \$143,373; 95% \$204,296; 99% \$506,210; 99.9% \$2,655,675.