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The Impact of the Bipartisan Tax Fairness and Simplification Act of 2010 ("Wyden-Gregg") on Effective Marginal Tax Rates

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The Bipartisan Tax Fairness and Simplification Act of 2010 ("Wyden-Gregg," introduced as S. 3018) proposes a broad reform of the federal income tax system. This paper examines what the plan's impact would be on individuals' effective marginal tax rates, the incremental amount of tax owed on an additional dollar of income. We examine the impact of Wyden-Gregg on the effective marginal tax rate (EMTR) for both wage income and realized capital gains against current law and current policy baselines.

The Tax Policy Center (TPC) estimates that

- Relative to a current policy baseline that makes the 2001 and 2003 tax cuts permanent, the Wyden-Gregg proposal would reduce the average effective marginal tax rate on wage and salary income for those earning less than $200,000 and raise it for high-income taxpayers; overall, the average EMTR would fall by 0.7 percentage points

- Relative to a current law baseline in which the 2001 and 2003 tax cuts expire at the end of 2010, the proposal would reduce the average EMTR on wages and salaries for all income groups; overall, the average EMTR would fall by 4 percentage points

- Wyden-Gregg would raise the average EMTR on realized long-term capital gains by more than 5 percentage points compared with current policy and by slightly less than 1 percentage point compared with current law

A guide to TPC tables showing the estimates discussed in this paper and the revenue and distributional effects of Wyden-Gregg is available at http://www.taxpolicycenter.org/taxtopics/Wyden-Gregg-Tax-Reform-Tables.cfm.

In February 2010, Senators Ron Wyden (D-OR) and Judd Gregg (R-NH) introduced a plan for comprehensive federal income tax reform titled "The Bipartisan Tax Fairness and Simplification Act of 2010" (S. 3018). In a previous paper, the Urban-Brookings Tax Policy Center (TPC) estimated the distributional and revenue impacts of the bill (Nunns and Rohaly 2010). This paper examines the proposal's impact on individuals' effective marginal tax rates on wage and salary income and on realized capital gains.

An individual's effective marginal tax rate (EMTR) is the percentage of an additional dollar of income that he or she would pay in federal income tax.[1] We examine two types of marginal rates; the EMTR on wage income and the EMTR on realized long-term capital gains. Effective marginal rates deviate from statutory rates because many of the credits and deductions in the tax system phase in and phase out as income changes. An individual's EMTR also differs from her average tax rate, the total amount of tax paid measured as a percentage of income. A proposal that reduces taxes can lower an individual's average tax rate while simultaneously increasing her effective marginal tax rate.

Individuals might alter their behavior in response to changes in their EMTRs because marginal rates measure the additional taxes or benefits of working, saving, engaging in tax avoidance, and realizing capital gains. A higher EMTR on wages reduces the after-tax reward for working more hours or working harder and therefore might encourage people to work less. It also raises the reward for engaging in tax avoidance, such as the restructuring of compensation packages away from taxable wages and salaries and into untaxed fringe benefits. Both the reduction in hours worked and additional tax avoidance resulting from a higher EMTR on wages would reduce taxable income and government revenues, and have the potential to lower economic output. A higher EMTR on capital gains could discourage individuals from selling assets, possibly reducing market liquidity (the "lock-in" effect) and reducing economic output if capital is allocated less efficiently. In addition, high-income individuals, who realize a disproportionate share of capital gains income, likely have a greater ability to avoid the tax on realized gains.

We use TPC's microsimulation model of the federal tax system to calculate effective marginal tax rates. For the household records in our nationally representative tax model database, we determine the EMTR on wages by first calculating individual income tax using the household's actual income.[2] We then add $1,000 to wage and salary income and recompute the household's individual income tax liability. The effective marginal tax rate is the resulting change in individual income tax divided by the $1,000 increase in wages. These estimates are static in the sense that we do not allow the increased tax liability from the higher wages to affect any other reported forms of income or deductions. When

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[1] This analysis only examines the marginal rates under the federal individual income tax; estimates ignore changes in all other federal taxes associated with changes in income.

[2] We restrict the calculation to only those households that report a positive amount of wage and salary income.

calculating the average effective marginal tax rate across income classes, we weight each household's EMTR by the amount of wage and salary income the household reports. The EMTR on long-term capital gains is calculated analogously and equals the change in tax associated with a $1,000 increase in long-term capital gains divided by $1,000.[3] Again, we weight the EMTRs by each household's realized capital gains when we calculate the averages across income classes.

Our analysis measures the Wyden-Gregg plan's impact on effective marginal tax rates in 2014 against a current law baseline as well as against a current policy baseline that assumes permanent extension of many tax provisions scheduled to expire under current law. We focus on 2014 because by then the U.S. economy is projected to have recovered from the current recession, and the Wyden-Gregg proposals would all be fully phased-in.

Table 1
Individual Income Tax Rate Schedules, 2011 Tax Year

Current Law		Current Policy		Wyden-Gregg	
Taxable Income (current dollars)	Rate (Percent)	Taxable Income (current dollars)	Rate (Percent)	Taxable Income (current dollars)	Rate (Percent)
		Single Filers			
0 - 22,450	15	0 - 8,500	10	0 - 37,500	15
22,450 - 83,700	28	8,500 - 34,550	15	37,500 - 70,000	25
83,700 - 174,650	31	34,550 - 83,700	25	70,000 and up	35
174,650 - 379,650	36	83,700 - 174,650	28		
379,650 and up	39.6	174,650 - 379,650	33		
		379,650 and up	35		
		Married Filing Jointly			
0 - 44,900	15	0 - 17,000	10	0 - 75,000	15
44,900 - 167,400	28	17,000 - 69,100	15	75,000 - 140,000	25
167,400 - 212,600	31	69,100 - 139,500	25	140,000 and up	35
212,600 - 379,650	36	139,500 - 212,600	28		
379,650 and up	39.6	212,600 - 379,650	33		
		379,650 and up	35		
		Head of Household Filers			
0 - 36,000	15	0 -12,150	10	0 - 56,250	15
36,000 - 119,550	28	12,150 - 46,300	15	56,250 - 105,000	25
119,550 - 193,600	31	46,300 - 119,550	25	105,000 and up	35
193,600 - 379,650	36	119,550 - 193,600	28		
379,650 and up	39.6	193,600 - 379,650	33		
		379,650 and up	35		

[3] We restrict the calculation to only those households that report net positive long-term capital gains.

Table 2
Tax Law Parameters, 2011 Tax Year

Current Law	Current Policy	Wyden-Gregg
Standard Deduction		
$9,700 MFJ $8,500 HOH $5,800 Single indexed for inflation	$11,600 MFJ $8,500 HOH $5,800 Single indexed for inflation	$30,000 MFJ $22,500 HOH $15,000 Single indexed for inflation
Personal Exemption Amount		
$3,700 indexed for inflation	same as current law	same as current law
Treatment of Capital Gains		
10% if in bottom bracket 20% otherwise special 5-year holding period rates of 8%/18%	0% if in bottom 2 brackets 15% otherwise	65% of gains included in taxable income and taxed at ordinary rates
Treatment of Qualified Dividends		
100% of dividends included in income and taxed at ordinary rates	0% if in bottom 2 brackets 15% otherwise	65% of dividends included in income and taxed at ordinary rates
Alternative Minimum Tax Exemption Amount		
$45,000 MFJ $33,750 others not indexed	$72,200 MFJ $47,500 others indexed for inflation	no AMT
Limitation on Itemized Deductions		
deductions phased out by 3% of AGI in excess of $169,750 (indexed)	no limitation	no limitation
Personal Exemption Phase-out		
exemptions phased out by 2% for every $2,500 by which AGI exceeds: $254,650 MFJ $212,200 HOH $169,750 single indexed for inflation	no phase out	no phase out
Child Tax Credit		
$500 per child limited refundability only for those with 3 or more children	$1,000 per child refundable amount equals 15% of earnings above $12,750 (indexed for inflation)	same as current policy

Notes: MFJ = married filing jointly; HOH = head of household; AGI = adjusted gross income; AMT = alternative minimum tax

Beginning in 2011, the Wyden-Gregg plan would reduce the number of statutory tax rates to three: 15, 25, and 35 percent (table 1). The top tax rate, however, would begin to apply at a significantly lower level of taxable income than under either current law or current policy.

Many other provisions in the Wyden-Gregg plan would alter effective marginal tax rates. The proposal would increase the standard deduction and repeal certain itemized deductions and tax credits (table 2). It would repeal the exclusion from taxable income of certain forms of compensation, including benefits under Section 125 cafeteria plans. Wyden-Gregg would also repeal the limitation on itemized deductions, the personal exemption phaseout, and the alternative minimum tax (AMT). It would also replace the preferential rates for capital gains and qualified dividends with a 35-percent exclusion. For a detailed description of the plan, see Nunns and Rohaly (2010).

I. Changes in Average Effective Marginal Rates

We compare marginal rates under the Wyden-Gregg plan to two different baselines. The first is the standard *current law baseline*, the tax code that would prevail absent any legislative changes. Under this baseline, most federal individual income tax and estate tax provisions will revert to their pre-2001 status in 2011 as the 2001–2003 tax changes expire and the AMT parameters maintain their permanent un-indexed values.[4] The second baseline, *current policy*, assumes permanent extension of tax provisions enacted in 2001 and 2003 and indexation of the 2009 AMT parameters for inflation in 2010 and all future years.

Marginal Tax Rates under Current Law and Current Policy

Marginal tax rates will be higher in 2014 under current law than under current policy. Overall, the 2014 average EMTR on wages would be 26.8 percent if tax law doesn't change compared with 23.4 percent if Congress extends current policy (table 3).[5] Under current law, the 10 percent tax bracket will disappear and the 25, 28, 33, and 35 percent rates will revert to 28, 31, 36, and 39.6 percent, respectively. These higher statutory tax rates raise average EMTRs on wages. Average EMTRs on wages for low-income tax units would be higher under current law because various benefits in current policy would expire: expanded refundability of the child tax credit, the higher phaseout threshold for the earned income tax credit (EITC), the increased standard deduction for married couples, and the 10 percent tax bracket. For high-income individuals, the higher regular rates under current law interact with the AMT. Individuals in the $500,000 to $1 million income class would have a current law average EMTR on wages that is over 8 percent higher than that under current policy. With the lower tax rates that apply under current policy, many of these

[4] Congress has "patched" the AMT annually for the past several years, raising the exemption amounts to prevent the levy from affecting millions of taxpayers. See http://www.cbo.gov/ftpdocs/108xx/doc10800/01-15-AMT_Brief.pdf for further discussion.

[5] Text tables provide estimates by cash income category; appendix tables A2-A7 show results by cash income percentile.

taxpayers would pay AMT at a 28 percent statutory rate. The higher current law tax rates keep them off the AMT, however, so they face the regular tax system's statutory marginal rate of 39.6 percent.[6] Tax units with more than $1 million in cash income face an average current law EMTR of 40.1 percent, higher than the top statutory rate, because of the phaseout of personal exemptions and itemized deductions for high-income individuals that is absent from current policy. The higher AMT exemption amounts under current policy likely lower rates for many individuals because most AMT taxpayers—particularly those at the lower income levels that would be taken off the AMT rolls by the increased exemption—would face lower rates under the regular tax than under the AMT (Burman et al 2008).

Table 3
Bipartisan Tax Fairness and Simplification Act of 2010 ("Wyden-Gregg")
Effective Marginal Individual Income Tax Rates by Cash Income Level, 2014

Cash Income Class (thousands of 2009 dollars)[a]	Tax Units (thousands)[b]	Average Effective Marginal Tax Rate (Percent)					
		Current Law		Current Policy		Wyden-Gregg	
		Wages and Salaries	Capital Gains	Wages and Salaries	Capital Gains	Wages and Salaries	Capital Gains
Less than 10	16,395	-4.0	1.8	-4.5	1.8	-5.0	0.1
10-20	24,950	8.3	5.3	3.4	2.7	-0.9	2.4
20-30	21,464	16.7	5.8	13.9	1.5	10.7	1.5
30-40	16,563	19.3	7.0	18.1	0.6	15.1	3.0
40-50	13,107	18.7	9.7	17.2	1.6	14.2	5.8
50-75	22,796	22.5	13.6	19.7	7.0	17.5	7.6
75-100	14,829	24.8	15.4	19.5	7.5	18.8	11.3
100-200	22,547	28.1	19.1	25.5	13.5	24.7	14.3
200-500	6,681	34.0	22.5	31.7	17.8	33.5	19.5
500-1,000	1,152	38.7	19.5	30.3	15.8	34.3	21.3
More than 1,000	598	40.1	19.7	33.7	14.9	34.6	21.8
All	161,771	26.8	19.6	23.4	14.8	22.8	20.1

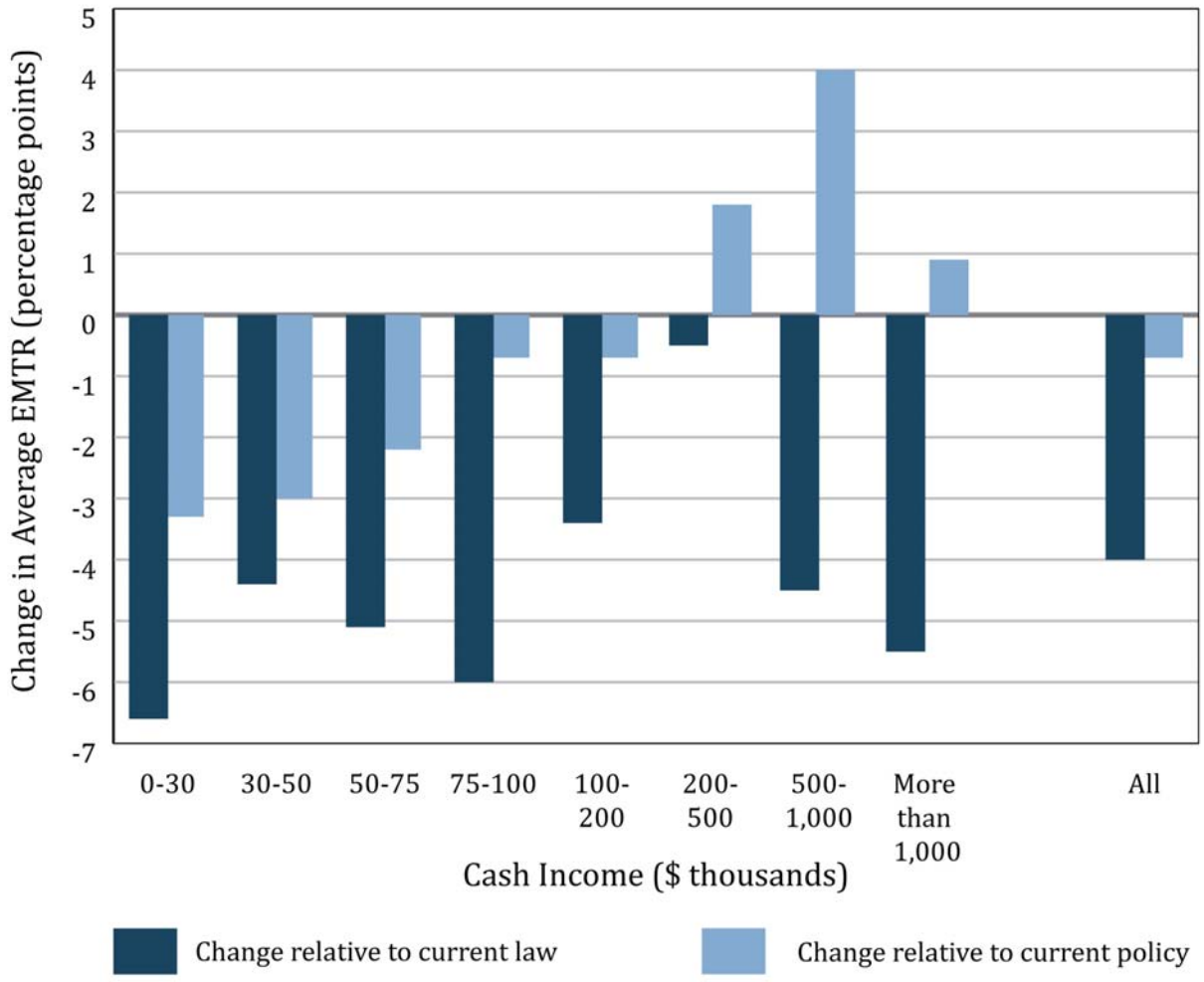
Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0509-4).
Note: Calendar year. Effective marginal rate is determined by calculating individual income tax, and then adding $1,000 to the appropriate income source (wages and salaries or long-term capital gains) and recomputing individual income tax. The effective marginal rate is the resulting change in tax divided by $1,000. The averages are weighted by the appropriate income source. Average for capital gains is restricted to those with net positive long-term gains. Estimates do not include the Medicare surtax enacted as part of the health reform legislation.
a. 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
b. Includes both filing and nonfiling units but excludes those that are dependents of other tax units.
See appendix table A2 for the distribution by cash income percentiles.

Similarly, average effective marginal tax rates on capital gains are higher under current law than under current policy. Under current policy, individuals in the 10 and 15 percent tax brackets pay no tax on long-term capital gains; tax units in higher brackets face a 15 percent capital gains rate. The current law capital gains rate in 2014 is scheduled to be

[6] Under current policy, some AMT taxpayers face not the 28 percent AMT rate but rather an effective rate of 35 percent because the AMT exemption phases out at a 25 percent rate. Even these taxpayers would still face a lower rate than the 39.6 percent top bracket rate under current law.

10 percent for individuals in the 15 percent tax bracket and 20 percent for tax units in higher brackets. (Gains on assets held at least five years would face 8 and 18 percent rates, respectively.) For all income classes, the EMTR on capital gains is 19.6 percent under current law, a third higher than the 14.8 percent under current policy (table 3). Under both baselines, tax units with cash income between $200,000 and $500,000 face an average EMTR on gains that exceeds the statutory rate because the AMT exemption phases out over this income range.

Figure 1. Change in Average Effective Marginal Tax Rates on Wage and Salary Income under Wyden-Gregg Proposal, 2014



See appendix table A1 for the underlying data and table A3 for the effect by cash income percentiles.

Changes to Marginal Tax Rates on Wage and Salary Income

Compared with current law, the Wyden-Gregg proposal would lower the average EMTR on wage and salary income for all income classes in 2014 (figure 1 and appendix table A1). Compared with current policy, the proposal would lower average EMTRs on wages for individuals making less than $200,000 but raise them on higher-income taxpayers. Overall, the average EMTR on earnings under the Wyden-Gregg plan would be 22.8 percent, 0.7 percentage points lower than current policy and 4 percentage points lower than current law. The plan would more than double the standard deduction and have only three statutory rates: 15, 25, and 35 percent.[7] Under Wyden-Gregg, the 15 and 25 percent rates would extend to higher levels of income than under current law and current policy because the plan would include a much larger standard deduction (Nunns and Rohaly 2010). This would tend to lower EMTRs on wages for low- and middle-income tax units. In contrast, upper-income households would get hit by the fact that the 35 percent rate would kick in at a much lower level of taxable income than under current policy. Under Wyden-Gregg in 2014, the top rate would apply to taxable income above $144,050 for couples and $77,150 for others, compared with a $393,100 threshold under current policy. Compared with current law, high-income individuals would tend to face lower marginal tax rates under Wyden-Gregg, since the top statutory rate would be 35 percent compared with 39.6 percent. High-income taxpayers would also benefit from Wyden-Gregg's repeal of the current-law limitations on itemized deductions and personal exemptions.

Like current policy, the proposal would extend the $1,000 child tax credit (CTC) and its expanded refundability, the higher EITC phaseout threshold for married couples, and the expanded child and dependent care tax credit (CDCTC). None of these provisions alone would change the EMTR on wages compared with current policy, but they would alter rates relative to current law. Because of the larger per child amount, the CTC would phase out over a larger income range, thus raising EMTRs for tax units with income too high to qualify for the CTC under current law who would be in the phaseout range under Wyden-Gregg.[8] The expanded refundability of the credit would decrease EMTRs on wages for low-income tax units who otherwise would not benefit from the credit.[9] The expansions of the EITC and the CDCTC would also affect marginal tax rates. The higher EITC phaseout threshold would lower EMTRs for families with income in the extended credit plateau (who would see benefits phasing out under current law) but raise EMTRs for couples with income too high to claim the credit under current law but who would become eligible with the higher phaseout range. Individuals who would benefit from the extension of a higher CDCTC rate and amount would see lower EMTRs on wages under the proposal. Compared with current law, the Wyden-Gregg plan would increase the phaseout threshold for the

[7] The standard deduction would be $30,000 for married couples, $22,500 for heads of household, and $15,000 for single individuals. These amounts would be indexed for inflation after 2011.
[8] The CTC decreases by $50 for each $1,000 by which AGI exceeds an unindexed threshold of $110,000 for married couples filing jointly and $75,000 for others.
[9] Under Wyden-Gregg, the refundable component of the child tax credit phases in at a rate of 15 percent of earned income above a threshold of $12,750, indexed for inflation. The credit would thus lower marginal tax rates by 15 percentage points for families with income in the phase-in range.

CDCTC, increasing EMTRs on individuals who would enter the phaseout range and decreasing them for individuals who would now have incomes below it.

Other provisions in the plan would also increase EMTRs on wages for high-income individuals. The proposal would eliminate miscellaneous itemized deductions subject to the 2 percent of AGI floor, including those for unreimbursed employee business expenses. This would raise taxable income for itemizers claiming these deductions. The plan would replace the exclusion from taxable income of the interest on state and local bonds with a 25 percent nonrefundable credit and repeal the exclusion from income for benefits from Section 125 cafeteria plans. Both of these changes would raise taxable income, which could push taxpayers into higher rate brackets.

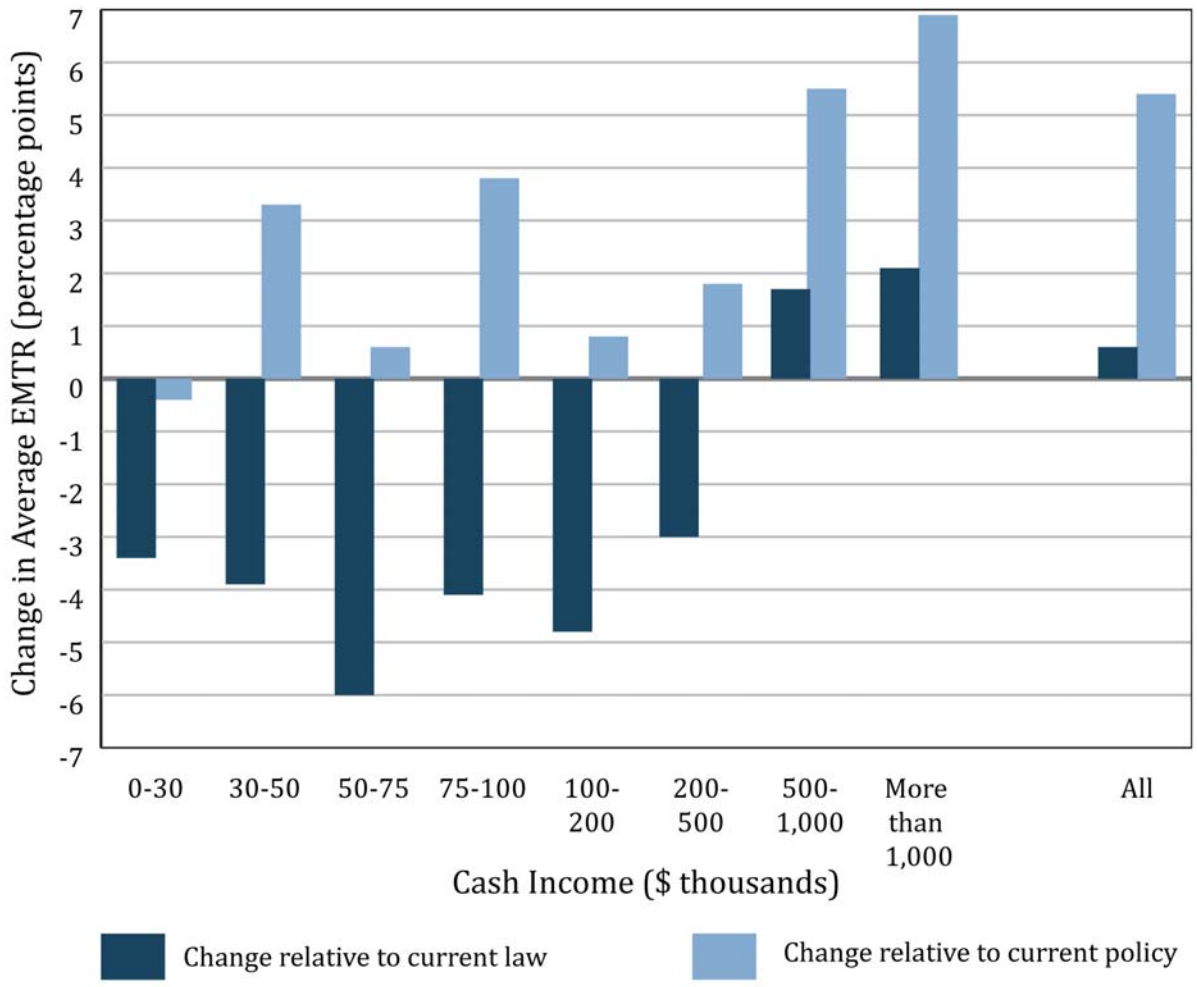
Figure 2. Effective Marginal Individual Income Tax Rate
Married Couple with Two Children, 2014

Wyden-Gregg would eliminate the AMT, which could raise or lower statutory marginal rates depending on an individual's regular tax bracket rate. The Wyden-Gregg plan would apply the top tax rate at a lower income threshold than under either current law or current policy so repealing the AMT would likely increase EMTRs for many individuals as they move from a 26 or 28 percent rate under the AMT to a 35 percent statutory rate. The proposal would permanently repeal the personal exemption phaseout and limitation on itemized deductions, which would lower EMTRs on wages compared with current law, but leave them unchanged relative to current policy, which also repeals those provisions (see figure 2 for the impact of all these provisions on the effective marginal rate for a family of 4 at various income levels).

Changes to Marginal Tax Rates on Capital Gains

Rather than have a reduced tax rate on capital gains and qualified dividends, the Wyden-Gregg plan would provide a 35 percent exclusion and tax the remaining 65 percent of gains as regular income. As a result, the statutory rate on gains would be 65 percent of the individual's regular statutory rate. This would make the capital gains schedule more progressive than current law or current policy because the 35 percent exemption would apply to all rates. In contrast, under current law with a 20 percent maximum capital gains rate for example, the biggest percentage reduction from the preferential rates goes to taxpayers in the highest bracket.

Figure 3. Change in Average Effective Marginal Tax Rates on Capital Gain Income under Wyden-Gregg Proposal, 2014



See appendix table A1 for the underlying data and table A3 for the effect by cash income percentiles.

Under Wyden-Gregg, the maximum rate on long-term gains and qualified dividends would be 22.75 percent (65 percent of the top 35 percent tax rate). That top effective rate would exceed the top rates of 20 percent under current law and 15 percent under current policy. Except for very low-income individuals, tax units would face a higher average EMTR on gains under Wyden-Gregg than current policy (figure 3).

Low- and middle-income tax units would have lower EMTRs on gains under the Wyden-Gregg plan than under current law, but individuals with more than $500,000 of income would face a higher average EMTR. Compared with current law, average EMTRs on gains would not increase on individuals with income between $200,000 and $500,000 because most of them are currently subject to the AMT on their gains. Although the AMT generally preserves the preferential rates applied to capital gains under the regular tax, the phaseout of the AMT exemption causes an increase in effective marginal rates throughout the phaseout range under both current law and current policy. The 20.1 percent overall EMTR on gains under the Wyden-Gregg proposal would be 0.6 percentage points higher than under current law because gains are concentrated among those high-income individuals whose EMTR would increase.[10] The increase would be much greater compared with current policy: average EMTR on gains would jump by more than 5 percentage points.

II. How Individuals' Effective Marginal Tax Rates Change

The Wyden-Gregg proposal would either reduce EMTRs on wages or leave them unchanged for the vast majority of tax units, relative to either current law or current policy. Only about one-tenth of taxpayers would see their marginal tax rate on wages rise. The proposal would reduce EMTRs on gains for the majority of individuals relative to current law and increase them for the majority relative to current policy.

Marginal Tax Rates on Wage and Salary Income

Compared with current law, the majority of tax units, nearly 55 percent, would see a decrease in their EMTR on wages under the Wyden-Gregg plan, whereas only 9 percent would experience an increase (table 4). More than 95 percent of low- and middle-income individuals would have lower or unchanged EMTRs on wages. More than half of those with income between $20,000 and $50,000 would see no change in their EMTR. Those taxpayers would either have incomes too low to face tax under either current law or Wyden-Gregg or they would continue to pay at the 15 percent rate. Higher-income households would be more likely to face increased marginal rates, although the majority would still experience a decrease. The proposal would affect tax units with incomes between $200,000 and $500,000 quite differently than other high-income taxpayers. Under current law, those households likely pay AMT and many are in the phaseout range for the AMT exemption. As a result, they face an effective marginal rate of 35 percent (the 28 percent top AMT rate plus an additional 25 percent of that rate because of the exemption phaseout). That

[10] For the distribution of capital gains by income class in the Tax Policy Center Model, see http://www.taxpolicycenter.org/numbers/displayatab.cfm?DocID=2588.

matches the top rate under the Wyden-Gregg plan, which explains why 29 percent of individuals in this income class would see no change in their EMTR on wages. About 34 percent of these tax units would see an increase in their EMTR on wages under Wyden-Gregg because the new 35 percent rate would be higher than the 28 percent AMT rate or 31 percent regular rate under current law. In contrast, among the highest income taxpayers (those with incomes over $500,000), the vast majority would see their marginal tax rates on wages fall because the top rate under Wyden-Gregg is lower than the top rate under current law.

Table 4
Bipartisan Tax Fairness and Simplification Act of 2010 vs. Current Law
Number of Tax Units with a Change in Effective Marginal Tax Rate on Wage Income by Cash Income Level, 2014

Cash Income Class (thousands of 2009 dollars)[a]	Tax Units with Wages and Salaries (thousands)	Tax Units with a Change in Effective Marginal Rate on Wages Relative to Current Law		
		Percent with Increase	Percent with Decrease	Percent with No Change
Less than 10	9,529	6.8	8.2	85.0
10-20	14,330	3.2	59.5	37.3
20-30	14,783	1.3	45.0	53.7
30-40	12,639	3.2	39.7	57.1
40-50	10,717	3.6	45.7	50.7
50-75	19,201	2.5	68.7	28.8
75-100	12,777	6.8	78.0	15.3
100-200	19,948	24.5	72.6	3.0
200-500	5,745	36.4	34.6	29.1
500-1,000	914	18.8	76.2	5.0
More than 1,000	465	12.7	84.9	2.4
All	121,293	8.8	54.9	36.3

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0509-4).
Note: Calendar year. Baseline is current law. Effective marginal rate is determined by calculating individual income tax, and then adding $1,000 to wages and salaries and recomputing individual income tax. The effective marginal rate is the resulting change in tax divided by $1,000. Tax units reporting zero wages and salaries are eliminated from the analysis. Estimates do not include the Medicare surtax enacted as part of the health reform legislation.
a. 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
b. Includes both filing and nonfiling units but excludes those that are dependents of other tax units.
See appendix table A4 for the distribution by cash income percentiles.

Most tax units (54 percent) would see no change in their EMTR on wages, relative to the current policy baseline (table 5). Approximately 34 percent would see a decrease and 12 percent would experience an increase in their EMTR. The majority of high-income individuals would experience an increase in rates, while most low-income individuals

would face the same or lower EMTR on wages. Over half of tax units with cash income between $200,000 and $1 million would see an increase in EMTRs relative to current policy because of the proposal's lower starting point for the 35 percent rate.

Table 5
Bipartisan Tax Fairness and Simplification Act of 2010 vs. Current Policy
Number of Tax Units with a Change in Effective Marginal Tax Rate on Wage Income by Cash Income Level, 2014

Cash Income Class (thousands of 2009 dollars)[a]	Tax Units with Wages and Salaries (thousands)[b]	Tax Units with a Change in Effective Marginal Rate on Wages Relative to Current Policy		
		Percent with Increase	Percent with Decrease	Percent with No Change
Less than 10	9,529	6.9	7.5	85.6
10-20	14,330	6.5	44.0	49.5
20-30	14,783	4.4	32.4	63.2
30-40	12,639	3.9	35.7	60.4
40-50	10,717	4.4	39.0	56.6
50-75	19,201	6.1	39.7	54.2
75-100	12,777	8.7	33.4	57.9
100-200	19,948	24.4	40.6	35.0
200-500	5,745	53.4	12.8	33.8
500-1,000	914	56.5	10.4	33.2
More than 1,000	465	31.8	11.1	57.1
All	121,293	11.6	34.1	54.3

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0509-4).
Note: Calendar year. Baseline is current policy. Effective marginal rate is determined by calculating individual income tax, and then adding $1,000 to wages and salaries and recomputing individual income tax. The effective marginal rate is the resulting change in tax divided by $1,000. Tax units reporting zero wages and salaries are eliminated from the analysis. Estimates do not include the Medicare surtax enacted as part of the health reform legislation.
a. 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
b. Includes both filing and nonfiling units but excludes those that are dependents of other tax units.
See appendix table A5 for the distribution by cash income percentiles.

Marginal Tax Rates on Capital Gains

Even though the overall average EMTR on gains would be higher under the Wyden-Gregg plan than under current law, 62 percent of tax units would experience a decrease in their EMTR on gains and only 29 percent would experience an increase. This reflects the fact that, although households throughout the income distribution realize some capital gains, the wealthiest households realize most gains and they would generally face the new

22.75 percent top rate.[11] Effective marginal tax rates on gains would increase for nearly 80 percent of tax units with more than $500,000 of cash income because of this higher top rate on gains (table 6).

Table 6
Bipartisan Tax Fairness and Simplification Act of 2010 vs. Current Law
Number of Tax Units with a Change in Effective Marginal Tax Rate on Capital Gains by Cash Income Level, 2014

Cash Income Class (thousands of 2009 dollars)[a]	Tax Units with Positive Long-Term Gains (thousands)[b]	Tax Units with a Change in Effective Marginal Rate on Capital Gains Relative to Current Law		
		Percent with Increase	Percent with Decrease	Percent with No Change
Less than 10	245	0.0	6.3	93.7
10-20	470	1.1	51.9	46.9
20-30	684	23.9	41.9	34.3
30-40	661	30.5	48.3	21.2
40-50	643	30.9	54.1	15.0
50-75	1,853	21.6	70.4	7.9
75-100	1,745	22.0	72.5	5.5
100-200	4,339	26.4	71.0	2.7
200-500	2,307	27.8	70.0	2.2
500-1,000	540	77.0	20.0	3.0
More than 1,000	351	86.3	11.0	2.7
All	13,910	27.8	62.0	10.2

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0509-4).
Note: Calendar year. Baseline is current law. Effective marginal rate is determined by calculating individual income tax, and then adding $1,000 to long-term capital gains and recomputing individual income tax. The effective marginal rate is the resulting change in tax divided by $1,000. Analysis is restricted to tax units reporting net positive long-term gains. Estimates do not include the Medicare surtax enacted as part of the health reform legislation.
a. 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
b. Includes both filing and nonfiling units but excludes those that are dependents of other tax units.
See appendix table A6 for the distribution by cash income percentiles.

In contrast, EMTRs on gains would fall for about 70 percent of tax units with incomes between $50,000 and $500,000. Many of the tax units with incomes between $50,000 and $200,000 would pay the top rate of 20 percent under current law but only 16.25 percent under Wyden-Gregg (65 percent of the middle statutory rate of 25 percent). In addition, some tax units in the $200,000 to $500,000 range face an EMTR on gains that exceeds 20 percent under current law because of the AMT exemption phaseout. Thus, the

[11] Wyden-Gregg would apply regular tax rates to 65 percent of realized long-term gains and qualified dividends. The top tax rate on that income would thus equal 65 percent of the top statutory rate of 35 percent, or 22.75 percent.

22.75 percent rate they would face under Wyden-Gregg would represent a reduction in their EMTR. Just over 10 percent of tax units experience no change in rates, with low-income individuals much more likely to see no change because their gains are not taxable under either current law or the proposal.

Table 7
Bipartisan Tax Fairness and Simplification Act of 2010 vs. Current Policy
Number of Tax Units with a Change in Effective Marginal Tax Rate
on Capital Gains by Cash Income Level, 2014

Cash Income Class (thousands of 2009 dollars)[a]	Tax Units with Positive Long-Term Gains (thousands)[b]	Tax Units with a Change in Effective Marginal Rate on Capital Gains Relative to Current Policy		
		Percent with Increase	Percent with Decrease	Percent with No Change
Less than 10	245	0.8	2.4	96.9
10-20	470	2.5	7.1	90.4
20-30	684	40.1	8.3	51.6
30-40	661	45.1	9.3	45.6
40-50	643	61.9	11.0	27.1
50-75	1,853	62.5	25.9	11.6
75-100	1,745	82.2	13.7	4.1
100-200	4,339	66.7	29.3	4.0
200-500	2,307	82.5	14.3	3.2
500-1,000	540	88.4	8.4	3.2
More than 1,000	351	90.9	6.4	2.7
All	13,910	65.9	18.8	15.2

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0509-4).
Note: Calendar year. Baseline is current policy. Effective marginal rate is determined by calculating individual income tax, and then adding $1,000 to long-term capital gains and recomputing individual income tax. The effective marginal rate is the resulting change in tax divided by $1,000. Analysis is restricted to tax units reporting net positive long-term gains. Estimates do not include the Medicare surtax enacted as part of the health reform legislation.
a. 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
b. Includes both filing and nonfiling units but excludes those that are dependents of other tax units.
See appendix table A7 for the distribution by cash income percentiles.

In contrast, compared with current policy, the Wyden-Gregg proposal would increase EMTRs on gains for nearly two-thirds of tax units (table 7). About a fifth would see their EMTRs go down and roughly one in seven would have no change. For many individuals, the statutory marginal tax rate on gains under Wyden-Gregg—65 percent of the statutory individual income tax rate—would represent an increase from the current policy rates of 0 percent and 15 percent. Low-income tax units would again be most likely to experience no change in EMTRs because most have income net of deductions and exemptions below the taxpaying threshold. More individuals, however, would face a 0

percent rate on capital gains under current policy than under current law because of the zero rate bracket on gains. The large standard deduction under Wyden-Gregg would mean they continue to face a 0 percent EMTR on gains. The majority of tax units with incomes above $40,000 would face higher EMTRs on gains relative to current policy, and nearly 90 percent of tax units with incomes above $500,000 would see an EMTR increase.

III. Conclusions

The Wyden-Gregg proposal includes many provisions that would alter effective marginal tax rates. Compared with current law, the average EMTR on wages and salaries would fall for all income groups under the plan, resulting in an overall reduction of 4 percentage points. The vast majority of individuals would see either a decrease or no change in their EMTRs on wages; less than 10 percent would experience an increase.

Compared with current policy, most tax units with incomes less than $200,000 would also have lower average EMTRs, although the reductions would be smaller than against current law, and most high-income individuals would face higher average marginal tax rates on wages. Among all taxpayers, the average EMTR would fall by 0.7 percentage points. Effective marginal tax rates on wages would stay the same for more than half of individuals, fall for a third, and go up for about one in eight.

Wyden-Gregg would reduce the average effective marginal tax rate on realized long-term capital gains relative to current law for tax units with incomes under $500,000, but increase the average marginal rate for those with income above $500,000. Relative to current law, 28 percent of individuals with long-term gains would see an increase in their EMTR, 62 percent a decrease, and 10 percent no change. Because gains are highly concentrated at the top of the income distribution, however, the overall average EMTR for gains would be 0.6 percentage points higher under the proposal than under current law.

In contrast, compared with current policy, Wyden-Gregg would raise the EMTR on capital gains for most taxpayers. About two-thirds of tax units would see an increase in their EMTR on gains, 19 percent would see a decrease, and 15 percent would experience no change. The overall average EMTR on capital gains would increase by more than 5 percentage points.

In short, the Wyden-Gregg plan would lower the overall average EMTR on wages relative to both current law and current policy, but would raise the overall average EMTR on gains when compared with those same two baselines. The reduction in the average EMTR on wages is larger, and the increase in the EMTR on capital gains smaller, relative to current law than relative to current policy.

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Appendix Table A1
Bipartisan Tax Fairness and Simplification Act of 2010 ("Wyden-Gregg")
Change in Effective Marginal Individual Income Tax Rates by Cash Income Level, 2014

Cash Income Class (thousands of 2009 dollars)[a]	Tax Units (thousands)[b]	Change in Average Effective Marginal Tax Rates (Percentage Points) Under Wyden-Gregg On:			
		Wages and Salaries Relative		Capital Gains Relative to:	
		Current Law	Current Policy	Current Law	Current Policy
Less than 10	16,395	-1.0	-0.5	-1.8	-1.7
10-20	24,950	-9.2	-4.2	-2.9	-0.4
20-30	21,464	-6.0	-3.3	-4.3	0.0
30-40	16,563	-4.3	-3.0	-3.9	2.4
40-50	13,107	-4.5	-3.0	-3.9	4.1
50-75	22,796	-5.1	-2.2	-6.0	0.6
75-100	14,829	-6.0	-0.7	-4.1	3.8
100-200	22,547	-3.4	-0.7	-4.8	0.8
200-500	6,681	-0.5	1.8	-3.0	1.8
500-1,000	1,152	-4.5	4.0	1.7	5.5
More than 1,000	598	-5.5	0.9	2.1	6.9
All	161,771	-4.0	-0.7	0.6	5.4

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0509-4).
Note: Calendar year. Effective marginal rate is determined by calculating individual income tax, and then adding $1,000 to the appropriate income source (wages and salaries or long-term capital gains) and recomputing individual income tax. The effective marginal rate is the resulting change in tax divided by $1,000. The averages are weighted by the appropriate income source. Average for capital gains is restricted to those with net positive long-term gains. Estimates do not include the Medicare surtax enacted as part of the health reform legislation.
a. 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
b. Includes both filing and nonfiling units but excludes those that are dependents of other tax units.

Appendix Table A2
Bipartisan Tax Fairness and Simplification Act of 2010 ("Wyden-Gregg")
Effective Marginal Individual Income Tax Rates by Cash Income Percentile, 2014

Cash Income Percentile[a,b]	Tax Units (thousands)[c]	Average Effective Marginal Tax Rate (Percent)					
		Current Law		Current Policy		Wyden-Gregg	
		Wages and Salaries	Capital Gains	Wages and Salaries	Capital Gains	Wages and Salaries	Capital Gains
Lowest Quintile	40,990	5.4	4.3	1.5	2.5	-1.9	1.7
Second Quintile	36,129	18.1	6.6	16.0	1.1	12.8	2.3
Middle Quintile	32,694	20.9	12.0	18.7	5.4	16.0	6.8
Fourth Quintile	27,378	25.2	15.7	20.5	8.0	19.3	11.2
Top Quintile	23,893	32.7	20.1	29.4	15.4	30.4	21.0
All	161,771	26.8	19.6	23.4	14.8	22.8	20.1
Addendum							
80-90	12,051	27.9	18.9	26.4	14.1	25.6	13.7
90-95	5,876	31.2	21.7	27.8	14.9	29.8	16.8
95-99	4,752	35.2	21.8	32.5	17.9	34.2	20.4
Top 1 Percent	1,215	39.8	19.7	32.8	15.0	34.5	21.8
Top 0.1 Percent	123	40.2	19.8	34.1	15.0	34.8	21.9

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0509-4).
Note: Calendar year. Effective marginal rate is determined by calculating individual income tax, and then adding $1,000 to the appropriate income source (wages and salaries or long-term capital gains) and recomputing individual income tax. The effective marginal rate is the resulting change in tax divided by $1,000. The averages are weighted by the appropriate income source. Average for capital gains is restricted to those with net positive long-term gains. Estimates do not include the Medicare surtax enacted as part of the health reform legislation.
a. Tax units with negative cash income are excluded from the lowest quintile but are included in the totals. For a description of cash income, see
http://www.taxpolicycenter.org/TaxModel/income.cfm
b. The cash 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 2009 dollars): 20% $19,925, 40% $38,371, 60% $67,991, 80% $116,859, 90% $169,290, 95% $237,098, 99% $632,966, 99.9% $2,923,051.
c. Includes both filing and nonfiling units but excludes those that are dependents of other tax units.

Appendix Table A3
Bipartisan Tax Fairness and Simplification Act of 2010 ("Wyden-Gregg")
Change in Effective Marginal Individual Income Tax Rates by Cash Income Percentile, 2014

Cash Income Percentile[a,b]	Tax Units (thousands)[c]	Change in Average Effective Marginal Tax Rates (Percentage Points) Under Wyden-Gregg On:			
		Wages and Salaries		Capital Gains Relative	
		Current Law	Current Policy	Current Law	Current Policy
Lowest Quintile	40,990	-7.3	-3.4	-2.6	-0.7
Second Quintile	36,129	-5.2	-3.2	-4.3	1.2
Middle Quintile	32,694	-5.0	-2.7	-5.2	1.4
Fourth Quintile	27,378	-5.9	-1.2	-4.5	3.2
Top Quintile	23,893	-2.3	0.9	0.9	5.6
All	161,771	-4.0	-0.7	0.6	5.4
Addendum					
80-90	12,051	-2.3	-0.8	-5.2	-0.4
90-95	5,876	-1.3	2.1	-4.9	1.8
95-99	4,752	-1.1	1.7	-1.4	2.5
Top 1 Percent	1,215	-5.3	1.7	2.1	6.8
Top 0.1 Percent	123	-5.5	0.6	2.1	6.9

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0509-4).
Note: Calendar year. Effective marginal rate is determined by calculating individual income tax, and then adding $1,000 to the appropriate income source (wages and salaries or long-term capital gains) and recomputing individual income tax. The effective marginal rate is the resulting change in tax divided by $1,000. The averages are weighted by the appropriate income source. Average for capital gains is restricted to those with net positive long-term gains. Estimates do not include the Medicare surtax enacted as part of the health reform legislation.
a. Tax units with negative cash income are excluded from the lowest quintile but are included in the totals. For a description of cash income, see
http://www.taxpolicycenter.org/TaxModel/income.cfm
b. The cash 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 2009 dollars): 20% $19,925, 40% $38,371, 60% $67,991, 80% $116,859, 90% $169,290, 95% $237,098, 99% $632,966, 99.9% $2,923,051.
c. Includes both filing and nonfiling units but excludes those that are dependents of other tax units.

Appendix Table A4
Bipartisan Tax Fairness and Simplification Act of 2010 vs. Current Law
Number of Tax Units with a Change in Effective Marginal Tax Rate on Wage Income by Cash Income Percentile, 2014

Cash Income Percentile[a,b]	Tax Units with Wages and Salaries (thousands)[c]	Tax Units with a Change in Effective Marginal Rate on Wages Relative to Current Law		
		Percent with Increase	Percent with Decrease	Percent with No Change
Lowest Quintile	23,743	4.6	39.0	56.3
Second Quintile	25,802	2.0	43.1	54.9
Middle Quintile	26,964	3.0	57.0	40.0
Fourth Quintile	23,764	8.7	76.8	14.5
Top Quintile	20,775	29.4	60.7	9.9
All	121,293	8.8	54.9	36.3
Addendum				
80-90	10,695	26.8	70.5	2.7
90-95	5,129	40.7	53.4	5.9
95-99	3,993	25.5	38.7	35.8
Top 1 Percent	958	14.3	81.9	3.8
Top 0.1 Percent	97	11.6	86.3	2.2

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0509-4).
Note: Calendar year. Baseline is current law. Effective marginal rate is determined by calculating individual income tax, and then adding $1,000 to wages and salaries and recomputing individual income tax. The effective marginal rate is the resulting change in tax divided by $1,000. Tax units reporting zero wages and salaries are eliminated from the analysis. Estimates do not include the Medicare surtax enacted as part of the health reform legislation.
a. Tax units with negative cash income are excluded from the lowest quintile but are included in the totals. For a description of cash income, see
http://www.taxpolicycenter.org/TaxModel/income.cfm
b. The cash 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 2009 dollars): 20% $19,925, 40% $38,371, 60% $67,991, 80% $116,859, 90% $169,290, 95% $237,098, 99% $632,966, 99.9% $2,923,051.
c. Includes both filing and nonfiling units but excludes those that are dependents of other tax units.

Appendix Table A5
Bipartisan Tax Fairness and Simplification Act of 2010 vs. Current Policy
Number of Tax Units with a Change in Effective Marginal Tax Rate on Wage Income by Cash Income Percentile, 2014

Cash Income Percentile[a,b]	Tax Units with Wages and Salaries (thousands)[c]	Tax Units with a Change in Effective Marginal Rate on Wages Relative to Current Policy		
		Percent with Increase	Percent with Decrease	Percent with No Change
Lowest Quintile	23,743	6.6	29.5	63.9
Second Quintile	25,802	4.2	34.1	61.7
Middle Quintile	26,964	5.1	39.9	54.9
Fourth Quintile	23,764	11.7	37.5	50.8
Top Quintile	20,775	35.0	28.3	36.7
All	121,293	11.6	34.1	54.3
Addendum				
80-90	10,695	22.7	39.0	38.2
90-95	5,129	50.3	23.2	26.4
95-99	3,993	46.3	10.0	43.6
Top 1 Percent	958	43.0	11.3	45.8
Top 0.1 Percent	97	27.9	11.6	60.5

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0509-4).
Note: Calendar year. Baseline is current policy. Effective marginal rate is determined by calculating individual income tax, and then adding $1,000 to wages and salaries and recomputing individual income tax. The effective marginal rate is the resulting change in tax divided by $1,000. Tax units reporting zero wages and salaries are eliminated from the analysis. Estimates do not include the Medicare surtax enacted as part of the health reform legislation.
a. 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
b. The cash 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 2009 dollars): 20% $19,925, 40% $38,371, 60% $67,991, 80% $116,859, 90% $169,290, 95% $237,098, 99% $632,966, 99.9% $2,923,051.
c. Includes both filing and nonfiling units but excludes those that are dependents of other tax units.

Appendix Table A6
Bipartisan Tax Fairness and Simplification Act of 2010 vs. Current Law
Number of Tax Units with a Change in Effective Marginal Tax Rate on Capital Gains by Cash Income Percentile, 2014

Cash Income Percentile[a,b]	Tax Units with Positive Long-Term Gains (thousands)[c]	Tax Units with a Change in Effective Marginal Rate on Capital Gains Relative to Current Law		
		Percent with Increase	Percent with Decrease	Percent with No Change
Lowest Quintile	714	0.8	36.3	63.0
Second Quintile	1,219	26.7	44.4	28.9
Middle Quintile	2,059	24.3	64.6	11.1
Fourth Quintile	3,394	24.7	70.6	4.7
Top Quintile	6,451	33.9	63.5	2.6
All	13,910	27.8	62.0	10.2
Addendum				
80-90	2,352	26.9	70.6	2.6
90-95	1,671	20.8	76.4	2.8
95-99	1,776	37.8	59.9	2.3
Top 1 Percent	652	82.5	14.8	2.7
Top 0.1 Percent	86	89.9	7.4	2.6

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0509-4).
Note: Calendar year. Baseline is current law. Effective marginal rate is determined by calculating individual income tax, and then adding $1,000 to long-term capital gains and recomputing individual income tax. The effective marginal rate is the resulting change in tax divided by $1,000. Analysis is restricted to tax units reporting net positive long-term gains. Estimates do not include the Medicare surtax enacted as part of the health reform legislation.
a. Tax units with negative cash income are excluded from the lowest quintile but are included in the totals. For a description of cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm
b. The cash 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 2009 dollars): 20% $19,925, 40% $38,371, 60% $67,991, 80% $116,859, 90% $169,290, 95% $237,098, 99% $632,966, 99.9% $2,923,051.
c. Includes both filing and nonfiling units but excludes those that are dependents of other tax units.

Appendix Table A7
Bipartisan Tax Fairness and Simplification Act of 2010 vs. Current Policy
Number of Tax Units with a Change in Effective Marginal Tax Rate on Capital Gains by Cash Income Percentile, 2014

Cash Income Percentile[a,b]	Tax Units with Positive Long-Term Gains (thousands)[c]	Tax Units with a Change in Effective Marginal Rate on Capital Gains Relative to Current Policy		
		Percent with Increase	Percent with Decrease	Percent with No Change
Lowest Quintile	714	1.9	5.5	92.6
Second Quintile	1,219	41.4	8.5	50.1
Middle Quintile	2,059	59.3	22.3	18.4
Fourth Quintile	3,394	74.5	20.5	5.1
Top Quintile	6,451	76.0	20.5	3.5
All	13,910	65.9	18.8	15.2
Addendum				
80-90	2,352	63.3	33.0	3.7
90-95	1,671	79.9	16.3	3.8
95-99	1,776	84.1	12.7	3.3
Top 1 Percent	652	89.9	7.4	2.8
Top 0.1 Percent	86	92.4	4.9	2.7

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0509-4).
Note: Calendar year. Baseline is current policy. Effective marginal rate is determined by calculating individual income tax, and then adding $1,000 to long-term capital gains and recomputing individual income tax. The effective marginal rate is the resulting change in tax divided by $1,000. Analysis is restricted to tax units reporting net positive long-term gains. Estimates do not include the Medicare surtax enacted as part of the health reform legislation.
a. 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
b. The cash 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 2009 dollars): 20% $19,925, 40% $38,371, 60% $67,991, 80% $116,859, 90% $169,290, 95% $237,098, 99% $632,966, 99.9% $2,923,051.
c. Includes both filing and nonfiling units but excludes those that are dependents of other tax units.