Some Background

What did the 2008–10 tax stimulus acts do?

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A. The 2008 and 2009 tax acts provided large temporary tax cuts to most households, with the goal of helping the economy recover from the Great Recession. The 2010 tax act extended specific provisions of the 2009 act through 2012, along with most of the 2001 and 2003 income tax cuts. It also replaced the Making Work Pay credit with a 2 percentage point reduction in the 2011 payroll tax rate for workers.

ECONOMIC STIMULUS ACT OF 2008

The Economic Stimulus Act of 2008 had three main parts: an individual income tax rebate sent in mid-2008 and two business provisions to encourage investment during 2008.

Tax Credits for Individuals

People who filed tax returns for either 2007 or 2008 could qualify for "recovery rebates." In total, the rebates lowered federal taxes by about 5 percent in 2008, reducing the estimated average effective federal tax rate from 19.6 percent to 18.6 percent and cutting federal revenue by nearly $120 billion in fiscal years 2008 and 2009.

Most tax filers received a basic credit of $600—or $1,200 for joint filers—up to their income tax liability before subtraction of child and earned income credits. Tax filers who qualified for less than $300 of the full basic credit ($600 for joint filers) could get $300 ($600 for joint filers) if they had either (1) at least $3,000 in earnings, Social Security benefits, and veteran's payments or (2) net income tax liability of at least $1 and gross income above specified thresholds.

Those thresholds equaled the sum of the applicable basic standard deduction plus one personal exemption (two personal exemptions for a joint return). That value was $8,750 in 2007 ($17,500 for joint filers and $11,250 for heads of household) and $8,950 in 2008 ($17,900 for joint filers and $11,500 for heads of household).

People who qualified for a basic credit could also receive an extra $300 credit for each child eligible for the regular child credit. The act also reduced the sum of the basic and child credits by 5 percent of the tax filer's adjusted gross income over $75,000 ($150,000 for joint filers).

Investment Incentives for Businesses

Two provisions were designed to help businesses:

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1. A one-year doubling of the limitation on expensing depreciable business assets (that is, deducting their full cost in the year the investment was made). This allowed firms to write off up to $250,000, reduced by the amount of qualifying investment over $800,000. After 2008 the limit reverted to $125,000 (indexed from 1997), reduced by the amount of qualifying investment over $500,000 (also indexed from 1997).

2. A "special depreciation allowance for certain property" allowed firms to claim an additional first-year depreciation of 50 percent of the cost of qualifying investments contracted for and placed in service during 2008 (in addition to the amount of investment firms could expense).

The estimated cost of the two provisions over 10 years: $7.5 billion. Specifically, the Joint Committee on Taxation estimated that revenues would drop $51 billion in fiscal 2008 and 2009, offset by $43.5 billion of additional revenue in subsequent years because firms would be unable to depreciate previously expensed investments.

AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009

The American Recovery and Reinvestment Act reduced federal taxes by an estimated $287 billion over 10 years. Over 80 percent of the tax cuts—$232 billion—were for individuals; smaller cuts subsidized investment in renewable energy and a handful of provisions for businesses. The Urban-Brookings Tax Policy Center (2009) evaluated each of the act's major provisions, grading them on how large and quick a boost they would give the economy. Provisions that increased households' after-tax income quickly—and thus were most likely to increase spending quickly—received the highest grades. But no provision earned an A.

The "Making Work Pay" Tax Credit

Effective for 2009 and 2010, the Making Work Pay (MWP) tax credit accounted for half of individual tax cuts. The credit equaled 6.2 percent of earned income up to a maximum of $400 ($800 per couple) and phased out at 2 percent of income over $75,000 ($150,000 for couples). As a result, individuals with earnings between about $6,450 and $75,000 (between about $12,900 and $150,000 for couples) could get the maximum credit. Those with incomes exceeding $95,000 ($190,000 for couples) received no credit (Urban-Brookings Tax Policy Center 2009).

A nontax provision extended "economic recovery payments" to certain individuals who did not qualify for the MWP credit. Payments totaling an estimated $14.2 billion went to recipients of Social Security, supplemental security income, railroad retirement benefits, and veterans' disability compensation or pension benefits (Urban-Brookings Tax Policy Center 2009).

The Alternative Minimum Tax Patch

A one-year extension of the alternative minimum tax (AMT) "patch" temporarily raised the AMT exemption. The cost: about $70 billion over 10 years. The patch saved affected taxpayers an estimated average of about $2,400. Under permanent AMT law, roughly 30 million taxpayers would have owed the additional levy (Urban-Brookings Tax Policy Center 2009).

Other Individual Tax Provisions

Other major provisions in the American Recovery and Reinvestment Act replaced the HOPE education credit with the more generous and more refundable American opportunity credit (at a 10-year cost of $14.8 billion), increased the refundability of the child credit ($13.9 billion), boosted the earned income tax credit (EITC—

$4.7 billion), and temporarily suspended taxation of the first $2,400 of unemployment benefits ($4.7 billion). All gave taxpayers more money to spend and thus help boost the economy. Two other provisions—the automobile sales tax credit ($1.7 billion) and the homeownership tax credit ($6.6 billion)—subsidized the purchase of cars along with homes for first-time buyers, thus targeting benefits for two industries hit hard by the Great Recession (Urban-Brookings Tax Policy Center 2009).

Business Tax Provisions

A broad range of provisions included incentives for the production of "clean" energy ($20 billion), funding to finance infrastructure development ($19.6 billion), tax benefits for business investment ($8 billion), and other economic recovery tools ($6.5 billion). The largest single provision extended tax incentives to produce electricity from renewable fuels for three years at an estimated cost of $13 billion. Among a variety of infrastructure development tools, school construction bonds ($10 billion), Build America bonds ($4.3 billion), and help for financial institutions ($3.2 billion) provided the most assistance. Special allowances for business investment in 2009 ($6 billion) and provisions related to net operating losses ($3.2 billion) gave additional assistance to firms.

TAX RELIEF UNEMPLOYMENT INSURANCE REAUTHORIZATION AND JOB CREATION ACT OF 2010

Faced with the scheduled sunset of all provisions of the 2001 and 2003 Bush tax cuts and the 2009 stimulus act (as well as several other tax laws), and unable to agree on permanent changes, Congress temporarily extended many provisions in the Tax Relief Unemployment Insurance Reauthorization and Job Creation Act of 2010. The law had diverse effects on the tax code:

- It extended all of the 2001 and 2003 individual income tax cuts for two years through 2012.
- It extended selected provisions of the 2009 act for two years through 2012, including
  - the higher EITC phaseout threshold for married couples filing jointly ($5,000 above the threshold for single filers, indexed for inflation);
  - the 45 percent EITC phase-in rate for families with three or more children;
  - the $3,000 threshold (unindexed) for refundability of the child tax credit; and
  - the American Opportunity Tax Credit for higher education.
- It set an effective exemption of $5 million and a 35 percent tax rate for the estate tax for 2011 and 2012, and replaced the state death tax credit with a deduction.
- It reduced the Social Security tax rate on employees to 4.2 percent for 2011 and the self-employment tax rate by 2 percentage points for 2011. (However, the act did not reduce the amount of self-employment tax that taxpayers could deduct on their income tax returns.)
- It raised the AMT exemption to $47,450 for single filers and $72,450 for married couples filing jointly for 2010 and to $48,450 and $74,450, respectively, for 2011.
- It extended other expiring tax provisions, including the deduction for state and local general sales taxes, the above-the-line deduction for education expenses, and the educator expense deduction, through 2011.

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What did the 2008–10 tax stimulus acts do?

The temporary reduction in the Social Security tax effectively replaced the MWP credit from the 2009 stimulus. That swap reduced the tax savings for low-income workers—single people with earnings under $20,000 and couples with earnings under $40,000—and provided large new tax breaks for high earners. Recall that single workers with income over $95,000 and couples with income over $190,000 got no MWP credit. In contrast, the cut in the Social Security tax rate saved high earners—those with earnings at or above the $106,800 cap on earnings subject to the tax in 2011—$2,136 in payroll taxes and double that for high-earning couples.

A Tax Policy Center analysis showed that, while about two-thirds of households in the lowest income quintile (income under about $18,000) would have gotten either credit, their average MWP credit would have been twice their payroll tax savings—$371 versus $178. Meanwhile, nearly 90 percent of households in the top quintile (income over about $105,000) got an average payroll tax cut of about $2,250, compared with just 60 percent who would have gotten MWP credits averaging about $650.

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Data Sources

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Further Reading

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