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Expiration and Extension of the Individual Income Tax Cuts Enacted in 2001 Through 2007

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Maxim Shvedov
Analyst in Public Sector Economics
Government and Finance Division

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Summary

This report traces the legislative history of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA; P.L. 107-16) and its extensions, shows their time line, and provides general overview of their implications and revenue effects. The report focuses on the measures that extend or curtail the key tax relief provisions of EGTRRA and the follow-up legislation, rather than modify the respective parts of the tax code in some new way. Many aspects of the tax cuts, such as revenue feedback effects, have been discussed at length elsewhere, including other CRS reports referenced in the text, therefore the details of many issues are beyond the scope of this report.

President Bush has advanced the idea of the across-the-board tax cuts as one of the cornerstones of his economic policy since his first presidential campaign. EGTRRA provided such relief, but all of the act's provisions are scheduled to sunset (revert to prior law levels) at the end of 2010. Thus, Congress faces the issue of whether to let the tax cuts expire or extend them, and if so, how.

In 2001, EGTRRA reduced marginal income tax rates, provided marriage tax penalty relief, provided temporary relief from the alternative minimum tax (AMT), and increased the child tax credit. The Jobs and Growth Tax Relief Reconciliation Act of 2003 (P.L. 108-27) accelerated the implementation of certain tax reductions that were being phased-in under the 2001 act. The 2003 act also reduced the tax rate on dividend and long-term capital gains income, effective through 2008. The Working Family Tax Relief Act of 2004 (P.L. 108-311) extended many of the EGTRRA and JGTRRA provisions scheduled to expire at the end of 2004. The Tax Increase Prevention and Reconciliation Act of 2005 (P.L. 109-222) extended the capital gains and dividend tax reduction through 2010 and the AMT relief for one year.

Additional tax reductions and extensions to these tax acts were included in the Job Creation and Worker Assistance Act of 2002 (P.L. 107-147), the Tax Relief and Health Care Act of 2006 (P.L. 109-432), and Tax Increase Prevention Act of 2007 (P.L. 110-166).

A number of bills, many of them listed in the body of the report, have been introduced to extend all or some of the provisions of these acts. Notably, S.Con.Res. 70, adopted by the Senate on March 14, 2008, included AMT relief and an amendment (S.Amdt. 4160) by Senator Max Baucus that would provide more than $300 billion in middle class tax relief. The corresponding House measure (H.Con.Res. 312) does not include similar language, except for the extension of the AMT relief.

This report, which includes significant contributions from Gregg Esenwein, now retired from CRS, will be updated to reflect legislative activity.

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Tax Legislation: 2001 Through 2007

The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA; P.L. 107-16) provided individual income tax relief to a very large share of the population, reflecting President Bush's emphasis on tax cuts. The act's provisions were scheduled to phase in over several years at an estimated total cost of approximately $1.35 trillion over the FY2001-FY2011 period.[1] EGTRRA reduced marginal income tax rates, created a new 10% income tax bracket, provided marriage-tax penalty relief, increased the child tax credit, increased the alternative minimum tax (AMT) exemption, and changed other elements of the tax system.

All of the changes in EGTRRA were temporary, expiring after 2010 or earlier. Congress included the sunset in EGTRRA to avoid a Byrd rule (Section 313 of the 1974 Congressional Budget Act, as amended) violation in the Senate. The Byrd rule prohibits "extraneous matter" in reconciliation legislation.[2] Under the rule, extraneous matter includes, among other things, language that would cause an increase in the budget deficit (or reduce budget surpluses) in a fiscal year beyond those covered by the reconciliation legislation. As a result of the Byrd rule, EGTRRA contained language providing for the expiration of all of its provisions at the end of calendar year 2010 — the end of the reconciliation budget window.

In 2003, Congress passed the **Jobs and Growth Tax Relief Reconciliation Act (JGTRRA; P.L. 108-27)**. JGTRRA accelerated the implementation of many of the provisions that were being phased in under EGTRRA, including marriage-tax penalty relief, expansion of the 10% tax bracket, and increases in the child tax credit to $1,000 per qualifying child. The 2003 act also included an increase in the AMT exemption (a so-called "AMT patch"). These JGTRRA changes were scheduled to be in effect for only two years, 2003 and 2004.

In addition, JGTRRA lowered the maximum tax rate on qualified dividend income and long-term capital-gains income to 15% (5% for taxpayers in the 10%

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[1] U.S. Congress, Joint Committee on Taxation, *Estimated Budget Effects Of The Conference Agreement For H.R. 1836*, JCX-51-0, May 26, 2001.

[2] For more information see CRS Report RL30862, *The Budget Reconciliation Process: The Senate's "Byrd Rule,"* by Robert Keith. Other procedural aspects related to the budget process are discussed in CRS Report 97-865, *Points of Order in the Congressional Budget Process*, by James V. Saturno; and CRS Report RL32835, *PAYGO Rules for Budget Enforcement in the House and Senate*, by Robert Keith and Bill Heniff Jr.

and 15% marginal income-tax brackets, dropping to 0% for these taxpayers in 2008). As originally enacted, these changes were effective through January 1, 2009. The estimated cost of JGTRRA's tax reduction provisions was $329.7 billion over the FY2003-FY2013 period.[3]

The American Jobs Creation Act of 2004 (AJCA; P.L. 108-357), among other things, contained a provision which allowed taxpayers to take an itemized deduction for state and local general sales taxes in lieu of the itemized deduction for state and local income taxes. This provision was to be in effect for two years, 2004 and 2005, at the cost of $3.6 billion.[4]

In 2004, Congress also passed **the Working Families Tax Relief Act of 2004 (WFTRA; P.L. 108-311)**. WFTRA extended several tax provisions that were set to expire at the end of 2004 under JGTRRA.

WFTRA extended the accelerated marriage-penalty tax relief provisions (the standard deduction and 15% tax bracket for joint returns set at twice the level as those for single returns) through 2008. In 2009 and 2010, this level of tax relief would be maintained due to the full phase-in of the corresponding provisions of EGTRRA. The 2004 act also extended the increase in the 10% income-tax bracket through 2010.

WFTRA maintained the child tax credit at $1,000 through 2009 (for 2010, the EGTRRA provisions apply and the child tax credit will remain at $1,000). In addition, WFTRA accelerated, to 2004, the increase in the refundability of the child tax credit. For 2004 through 2010, the child tax credit will be refundable to 15% of a taxpayer's earned income in excess of the applicable threshold. The 2004 act also allowed including combat pay in earned income for purposes of computing child-tax-credit refundability.[5]

WFTRA included a one-year extension in the increase in the basic exemption for the alternative minimum tax (AMT) originally enacted under JGTRRA. (EGTRRA also included a temporary increase in the AMT exemption which was then superseded by the JGTRRA increases.) The AMT exemption for 2005 was set at $58,000 for joint returns and $40,250 for unmarried taxpayers.

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[3] CRS calculation based on Joint Committee on Taxation, *Estimated Budget Effects Of The Conference Agreement For H.R. 2, The "Jobs And Growth Tax Relief Reconciliation Act Of 2003,"* JCX-55-03, May 22, 2003.

[4] U.S. Congress, Joint Committee on Taxation, *Estimated Revenue Effects of the Chairman's Amendment in the Nature of a Substitute to H.R. 4520, The "American Jobs Creation Act of 2004," Scheduled for Markup by the Committee on Ways and Means on June 14, 2004, Fiscal Years 2004 - 2014*, JCX-43-04, June 10, 2004.

[5] For details see CRS Report RS21860, *The Child Tax Credit*, by Gregg Esenwein and Maxim Shvedov.

In total, the WFTRA provisions were estimated to cost $131.4 billion over the FY2005-FY2014 time period.[6]

The Tax Increase Prevention and Reconciliation Act of 2005 (P.L. 109-222; TIPRA), passed by Congress in May 2006, extended the dividend and capital gains tax reductions through 2010. These reductions were enacted in 2003 and originally scheduled to expire in 2008. The estimated cost of these extensions was $50.8 billion over the FY2006-FY2015 period.[7]

For 2006, TIPRA also increased the basic AMT exemption to $62,550 for joint returns and to $42,500 for unmarried taxpayers. In addition, TIPRA extended through 2006 the provision that allows taxpayers to apply their non-refundable tax credits against their AMT tax liability. The combined cost of these AMT provisions is $33.9 billion.[8] These temporary increases in the basic exemption for the AMT and changes in the treatment of non-refundable tax credits were once again enacted as a means of mitigating the interaction between the reductions in the regular income tax and the AMT. In 2007, the AMT exemption reverted to its pre-EGTRRA-law levels of $45,000 for joint returns and $33,750 for unmarried taxpayers.

The Tax Increase Prevention Act of 2007 (P.L. 110-166; TIPA), passed by Congress in December 2007, extended the AMT tax relief retroactively for one year at a cost of $50.6 billion.[9] TIPA set the 2007 AMT exemption levels at $66,250 for joint returns and $44,350 for single returns. In addition, this bill allowed non-refundable personal tax credits to offset AMT tax liability for 2007.

Additional broad tax reductions or extensions were enacted in the same time frame as parts of the other acts: **the Job Creation and Worker Assistance Act of 2002 (JCWAA; P.L. 107-147)** and **the Tax Relief and Health Care Act of 2006 (TRHCA; P.L. 109-432).** JCWAA's provisions modified depreciation rules at the cost of $17.9 billion over FY2002-FY2012.[10] TRHCA extended the sales tax deductibility provision for tax years 2006 and 2007. The Joint Committee on Taxation estimated that the two-year extension of this provision would reduce federal revenues by approximately $5.5 billion.[11]

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[6] U.S. Congress, Joint Committee on Taxation, *Estimated Revenue Effects Of The Conference Agreement For H.R. 1308, The "Working Families Tax Relief Act Of 2004,"* JCX-60-04, September 23, 2004.

[7] U.S. Congress, Joint Committee on Taxation, *Estimated Revenue Effects Of The Conference Agreement For The "Tax Increase Prevention And Reconciliation Act Of 2005,"* JCX-18-06, May 9, 2006.

[8] Ibid., p. 2.

[9] U.S. Congress, Joint Committee on Taxation, *Estimated Revenue Effects of H.R. 4351, the "Amt Relief Act of 2007," Scheduled for Consideration by the House of Representatives on December 12, 2007,* JCX-114-07, Dec. 12, 2007.

[10] U.S. Congress, Joint Committee on Taxation, *Estimated Revenue Effects Of The "Job Creation And Worker Assistance Act Of 2002,"* JCX-13-02, March 6, 2002.

[11] U.S. Congress, Joint Committee on Taxation, *Estimated Revenue Effects Of The Revenue*

(continued...)

The phase-in and expiration schedules of the various tax provisions enacted under the 2001 through 2007 tax acts are shown in the **Appendix**.

Recent Developments

On March 14, 2008, the Senate passed a budget resolution (S.Con.Res. 70). A significant part of the bill was an amendment (S.Amdt. 4160) by Senator Max Baucus that would provide more than $300 billion in tax cuts for the middle class, homeowners, and active duty military personnel and pay for it with projected surpluses from FY2012 and FY2013. The bill also includes an AMT patch.

In contrast, the corresponding House measure (H.Con.Res. 312), adopted on March 13, 2008, only includes an AMT patch. Unlike in the Senate bill, the patch is offset in the House bill.

Extending the Cuts Past 2010: Key Considerations

Proposals relating to the future of the 2001-2007 tax reductions range from their early recision to unconditional permanent extension. Several aspects of this decision play a key role in shaping the views of many policymakers. They include (1) general desirability of providing tax relief, (2) the cost of the cuts in view of the budgetary constraints, and (3) the distribution of the tax cuts' benefits among different income groups of taxpayers.

In addition, the extension of the tax cuts is intertwined with modifying the AMT. In general, a taxpayer pays either the AMT or regular tax, whichever is higher. Thus, absent congressional action, the AMT will "take back" most of the tax relief granted through the regular income tax, as the AMT becomes higher than ordinary tax for many taxpayers.[12] Hence, Congress faces not only the issue of whether or not to extend or make permanent the reductions in the regular income tax, but it must face the issue of how to coordinate the changes in these two parallel tax systems.[13]

Modifying the AMT is probably the most pressing individual income tax issue currently facing Congress. It is estimated that, if the reductions in the individual income tax are extended beyond 2010, the number of taxpayers subject to the AMT

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[11] (...continued)
Provisions Contained In H.R. 6408, The "Tax Relief And Health Care Act Of 2006," As Introduced In The House Of Representatives On December 7, 2006, JCX-51-06, Dec. 7, 2006.

[12] For more information on the "take back" effect see CRS Report RS21817, *The Alternative Minimum Tax (AMT): Income Entry Points and "Take Back" Effects*, by Steven Maguire.

[13] See CRS Report RL34382, *The Alternative Minimum Tax For Individuals: Legislative Activity in the 110th Congress*, by Steven Maguire and Jennifer Teefy.

will increase from over 1 million in 2001 to about 26 million in 2008, and then to almost 51 million in 2017.[14]

It is difficult to generalize about the economic effects of the 2001-2007 tax cut provisions due to their diverse nature, but economic theory suggests that some of them (for example, lower marginal tax rates) are likely to reduce economic distortions — undesirable changes in behavior of economic agents resulting from imposing a tax. Thus, policymakers will weigh the benefits of tax reduction measures against their budgetary costs and other consequences. Ultimately, the conclusion would depend on many factors: specifics of provisions, time horizon, financing method, to name just a few. Detailed analysis of this issue, however, goes beyond the scope of this paper.[15] In addition, tax reductions might be attractive for political or other reasons unrelated directly to economic performance.

Counterbalancing the desire to provide continued tax relief is the concern over the current and projected size of the federal budget deficit. The revenue effects of extending or making permanent the tax reductions would be substantial. Moreover, once the costs of fixing the AMT are included, the revenue costs associated with maintaining the current level of tax relief increase considerably.

For instance, **Table 1** presents Congressional Budget Office (CBO) estimates of the cost of extending the EGTRRA and JGTRRA tax reductions and reforming the AMT.[16] In addition to the direct costs of these policy options, the table also presents associated debt service costs — indirect costs, which would arise if these policies are deficit financed (that is, if there are no offsetting tax increases or spending reductions). Due to strong interactive effects among various tax provisions and other assumptions, these numbers should be treated as order-of-magnitude estimates.

According to **Table 1,** the estimated total cost of extending the EGTRRA and JGTRRA tax cuts, reforming the AMT, and servicing related debt would be $4.3 trillion over the FY2009-FY2018 period, but only $1.3 trillion over the first five years of this period. The projected cost of the second five years would be almost 2½ times that of the first five.

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[14] U.S. Congress, Joint Committee on Taxation, *Present Law and Background Relating to the Individual Alternative Minimum Tax,* JCX-38-07, June 25, 2007, pp. 11, 17.

[15] For more information see CRS Report RL32502, *What Effects Did the 2001 to 2003 Tax Cuts Have on the Economy?* by Marc Labonte.

[16] Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2008 to 2018,* Jan. 2008, p. 12, and associated data contained in *Backup Data for Table E-1: CBO's Year-by-Year Forecast and Projections for Calendar Years 2008 to 2018,* Excel spreadsheet, downloaded on March 18, 2008, from [http://cbo.gov/ftpdocs/89xx/doc8917/8917_TableC-1.xls].

Table 1. Estimates Illustrating the Revenue Costs Associated with Extending EGTRRA and JGTRRA and Reforming the AMT, FY2009-FY2013 and FY2009-FY2018.

(dollar amounts in billions of dollars)

Policy Alternative	2009-2013	2009-2018
Extend EGTRRA and JGTRRA (excluding AMT-related provisions)	692	2,277
Debt service	46	444
Reform the AMT	313	724
Debt service	45	189
Interaction between the above provisions	148	598
Debt service	9	105
Total direct cost	1,153	3,599
Total cost	**1,253**	**4,337**

Source: Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2008 to 2018,* and CRS calculations.

Better understanding of the cost-increase dynamics is helpful in assessing the long-term revenue implications of extending the tax cuts. **Table 2** uses the data for FY2012, when most of the transitionary effects would become negligible, through FY2018 to estimate annual cost relative to gross domestic product (GDP). It demonstrates that the projected direct cost grows by over 20% over this six-year span. The total cost, including the debt service cost, grows by almost 50% over the same time period. Thus, it appears that if the tax cuts were extended, their cost would likely grow rapidly over time both in real and nominal terms.

Table 2. Annual Projected Cost of Extending the Tax Cuts Including the AMT Relief, as a Share of GDP, FY2012-FY2018

(dollar amounts in billions of dollars)

	2012	2013	2014	2015	2016	2017
Nominal GDP	17,453	18,243	19,062	19,896	20,758	21,654
Total cost, including debt service	386	449	497	552	611	676
above, as a share of GDP	2.2%	2.5%	2.6%	2.8%	2.9%	3.1%
Total cost, excluding debt service	357	399	426	455	486	520
above, as a share of GDP	2.0%	2.2%	2.2%	2.3%	2.3%	2.4%

Source: Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2008 to 2018*, and CRS calculations.

Recent CBO analysis of the effects of extending the tax cuts on the long-term budget picture using a 75-year time horizon confirms that extending the tax cuts would represent a major long-term budgetary commitment.[17] CBO conducted the analysis in terms of the fiscal gap — "the immediate and permanent change in spending or revenues that would reduce the government's projected debt in 2082 to its current level as a share of" GDP.[18] Under the "extended-baseline" scenario, which closely adheres to current law and thus assumes expiration of the tax cuts in 2010, the fiscal gap would be 1.7% of GDP.

CBO analysis indicates that extending the individual income tax portion of the 2001-2007 tax cuts without providing AMT relief past 2007 would result in 0.7% additional fiscal gap, yielding the total fiscal gap of 2.4% of GDP. Assuming AMT relief measures are extended at 2007 levels and then indexed for inflation, the reduction in revenue would double the incremental fiscal gap to 1.4%, leading to 3.1% total. Finally, adding the extension of the estate and gift tax reductions would add 0.7% more to that total.

Some proponents of extending the tax cuts believe that incremental economic activity generated by lowering taxes would largely offset the cuts' cost. While many of their opponents might agree that some positive revenue feedback effect is likely, they believe that its magnitude is considerably smaller than the direct cost of the tax relief. In addition, theory suggests that revenue feedback effects depend on the design of the measures, implying that feedback for some of the provisions of EGTRRA and follow-up legislation would be larger than for others.[19]

Partially extending the cuts might represent a compromise that would continue to provide some tax relief, while keeping its costs lower. Some proposals limit tax reductions by directly setting income limits for their recipients. Other proposals try to extend only those tax reductions that benefit taxpayers at the target income range.

Table 3 reproduces CBO estimates of extending the tax reductions by individual provision or a distinct group of provisions.[20] The estimates provide the general magnitude of the cost and relative size of extending each provision. However, because of the interaction between the provisions, extending all of the tax provisions would produce a greater revenue loss than the revenue loss indicated by summing up the revenue costs of all the extended provisions.

Finally, there is always an option of providing tax relief through a different set of policies, more loosely or not at all related to the 2001 through 2007 tax cuts. For

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[17] Congressional Budget Office, *The Long-Term Budgetary Effects of Three Specified Policy Scenarios,* Letter to the Honorable John M. Spratt Jr., March 14, 2008.

[18] Ibid., p. 2.

[19] For more information on the revenue feedback effects and recent studies on the subject, see CRS Report RL33672, *Revenue Feedback from the 2001-2004 Tax Cuts,* by Jane G. Gravelle.

[20] Congressional Budget Office, *Updated Estimates for Table 4-9, "Effects of Extending Tax Provisions Scheduled to Expire Before 2018," in The Budget and Economic Outlook: Fiscal Years 2008 to 2018,* Jan. 2008, pp. 101-106, downloaded on March 21, 2008, from [https://www.cbo.gov/ftpdocs/90xx/doc9040/ExpiringProvisions.pdf].

example, the reductions of some of the marginal rates might be extended, while others let expire, or modified for years after 2010. A large number of possible alternatives are listed in the CBO *Budget Options* report,[21] as well as in other publications issued by various government and private entities.

[21] Congressional Budget Office, *The Budget Options*, Feb. 2007, p. 922.

Table 3. Estimated Revenue Effects of Extending Certain Major Expiring Tax Provisions of 2001 Through 2007 Acts

(dollar amounts in billions of dollars)

Tax Provision	Expiration	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2009-2013	2009-2018
Deduction of state and local sales taxes	2007	-0.4	-2.4	-2.6	-2.7	-2.9	-2.9	-3.0	-3.0	-3.1	-3.1	-3.2	-13.5	-28.9
Increased AMT exemption amount	2007	-5.4	-72.7	-70.0	-64.1	-36.3	-42.0	-48.9	-56.7	-64.9	-73.5	-83.7	-285.2	-612.8
Personal credits under the AMT	2007	-0.1	-0.4	-0.5	-0.5	-0.2	-0.2	-0.3	-0.4	-0.5	-0.6	-0.7	-1.9	-4.3
Child credit at $1,000	2010	n.a.	n.a.	n.a.	-7.1	-35.4	-35.6	-36.0	-36.4	-36.7	-36.9	-37.0	-78.1	-260.9
Earned income credit modification	2010	n.a.	n.a.	n.a.	0.1	-4.0	-4.0	-4.0	-4.0	-4.1	-4.2	-4.2	-7.9	-28.3
Estate and gift tax changes	2010	n.a.	-1.4	-2.3	-30.5	-69.4	-77.0	-84.2	-90.7	-97.4	-104.9	-112.0	-180.6	-669.8
Expanded 10% bracket	2010	n.a.	n.a.	n.a.	-31.4	-44.9	-44.7	-44.1	-43.4	-43	-42.6	-42.1	-121	-336.2
Income tax rates of 25%-35%	2010	n.a.	n.a.	n.a.	-44.3	-65.7	-68.2	-71.0	-74.5	-78.3	-82.4	-86.6	-178.2	-571.0
Itemized deduction and personal exemption phaseout	2010	n.a.	n.a.	n.a.	-7.2	-14.9	-15.9	-16.9	-18.0	-19.2	-20.4	-21.8	-38.0	-134.2
Joint filers' 15% bracket and standard deduction	2010	n.a.	n.a.	n.a.	-5.6	-7.9	-7.4	-6.9	-6.5	-6.3	-6.0	-5.7	-20.9	-52.3
Other provisions of EGTRRA	2010	n.a.	n.a.	n.a.	-0.3	-1.3	-1.3	-1.4	-1.4	-1.5	-1.4	-1.5	-2.9	-10.2
Reduced tax rates on capital gains	2010	n.a.	n.a.	-2.3	-12.3	2.2	-14.7	-14.6	-14.7	-14.8	-15.1	-15.4	-27.1	-101.5
Reduced tax rates on dividends	2010	n.a.	0.3	0.8	-5.4	-22.3	-26.2	-27.8	-29.7	-31.2	-32.8	-34.4	-52.8	-208.8
Interaction from extending all provisions together[a]	n.a.	0.0	0.0	0.0	-15.2	-52.0	-56.6	-60.5	-63.8	-66.5	-68.5	-69.8	-123.8	-453.0

Source: Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2008 to 2018*.

a. "Interaction from extending all provisions together" accounts for all provisions expiring before 2018, including the ones not listed in **Table 3**.

One of the key considerations in deciding how to proceed might be the distributional effects of the enacted measures. **Table 4** presents CBO data on the effective individual income tax rates in 2000-2005.[22] By 2005 most of the tax reductions were phased in, thus the analysis may serve as a reasonably close approximation to the effects of the fully phased-in tax cuts. The tax cuts were the key, although not the only, factor determining the distribution of the tax burden over the time span shown.

Examination of **Table 4** shows that the effective tax rate for all taxpayers fell by 2.8 percentage points, from 11.8% to 9%. However, the gains are distributed unevenly among taxpayers belonging to different quintiles — groups of one-fifth of all households, arranged by income. Whereas the lowest quintile received a 1.9 percentage point cut, the top quintile's cut was 3.4 percentage points. None of the bottom four quintiles received a cut exceeding 2.5 percentage points, but the taxpayers in the top 1% received a reduction of 4.8 percentage points. Expanding the analysis to include the reductions in the estate tax would likely exacerbate the difference.

Table 4. Effective Individual Income Tax Rate for All Households, by Comprehensive Household Income Quintile, 2000-2005

(percentage points)

Year	Lowest Quintile	Second Quintile	Middle Quintile	Fourth Quintile	Highest Quintile	All Quintiles	Top 10%	Top 5%	Top 1%
2000	-4.6	1.5	5.0	8.1	17.5	11.8	19.7	21.6	24.2
2001	-5.6	0.3	3.9	7.1	16.3	10.3	18.7	20.8	24.1
2002	-6.0	-0.2	3.6	6.7	15.5	9.7	17.9	20.0	23.7
2003	-6.0	-1.1	2.8	5.9	13.7	8.4	15.8	17.7	20.4
2004	-6.2	-0.9	3.0	5.9	13.9	8.7	15.9	17.6	19.7
2005	-6.5	-1.0	3.0	6.0	14.1	9.0	16.0	17.6	19.4
Change from 2000 to 2005	-1.9	-2.5	-2.0	-2.1	-3.4	-2.8	-3.7	-4.0	-4.8

Source: Congressional Budget Office, *Historical Effective Federal Tax Rates: 1979 to 2005,* and CRS calculations.

Depending on the policymaker's view, such a distribution might or might not be desirable. At the same time, it is possible to make the cuts more affordable and more evenly spread across taxpayers at all income levels, because the budgetary cost of a single percentage point reduction in taxes for the highest-income taxpayers is much higher than a single-point reduction for the lower-income taxpayers. Detailed discussion of the trade-off involved goes beyond the scope of this report.[23]

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[22] Congressional Budget Office, *Historical Effective Federal Tax Rates: 1979 to 2005,* December 2007, Data Files, Appendix: Detailed Tables for 1979 to 2005, Appendix_tables_toc.xls, downloaded on March 24, 2008, from [http://www.cbo.gov/ftpdoc.cfm?index=8885&type=2].

[23] For more information see CRS Report RL32693, *Distribution of the Tax Burden Across Individuals: An Overview,* by Jane G. Gravelle and Maxim Shvedov.

Legislative Initiatives in the 110th Congress

To date, a number of bills extending or curtailing all or part of the tax reductions enacted in 2001 through 2007 have been introduced in the 110th Congress. Due to the large number of separate provisions and various approaches to their modification, the list focuses on the measures that extend or curtail the key tax relief provisions of EGTRRA and the follow-up legislation, rather than those that would modify the respective parts of the tax code in some new way. For example, bills increasing the AMT deduction are listed, but bills repealing the AMT completely are not.

House Bills

- **H.R. 60.** Introduced January 4, 2007, by Representative Brian Baird. This bill would make the deduction for state and local sales taxes permanent.
- **H.R. 87.** Introduced January 4, 2007, by Representative Judy Biggert. This bill would extend and broaden certain educational provisions.
- **H.R. 163.** Introduced January 4, 2007, by Representative Bobby Jindal. This bill would make the marriage penalty tax relief provisions permanent.
- **H.R. 273.** Introduced January 5, 2007, by Representative Dave Camp. This bill would make the expansion of the adoption tax credit and adoption assistance programs permanent.
- **H.R. 411.** Introduced January 11, 2007, by Representative Mario Diaz-Balart. This bill would make the state sales tax deduction, the increase in the child tax credit, the repeal of the estate tax, and the change in the deduction for higher education expenses permanent.
- **H.R. 471.** Introduced January 12, 2007, by Representative Joe Wilson. This bill would make the expansion of the adoption tax credit and the adoption assistance programs permanent.
- **H.R. 686.** Introduced January 24, 2007, by Representative Earl Pomeroy. This bill would make permanent the tax deduction for qualified tuition and related expenses.
- **H.R. 834.** Introduced February 6, 2007, by Representative Jerry Weller. This bill would make the marriage tax penalty relief provisions permanent.
- **H.R. 1074.** Introduced February 15, 2007, by Representative Tim Ryan. This bill would make, among other things, modifications made by EGTRRA to the adoption credit permanent.
- **H.R. 1112.** Introduced February 16, 2007, by Representative Thomas Reynolds. This bill would provide AMT relief.
- **H.R. 1406.** Introduced March 8, 2007, by Representative Brad Ellsworth. This bill would make an increased child tax credit permanent.
- **H.R. 1407.** Introduced March 8, 2007, by Representative Phil English. This bill would repeal EGTRRA sunset applicability to certain education provisions.

- **H.R. 1421.** Introduced March 8, 2007, by Representative Lee Terry. Among other things, this bill would eliminate the marriage penalty in all income tax brackets and make permanent increases in the child tax credit.
- **H.R. 1437.** Introduced March 9, 2007, by Representative Dan Burton. This bill, among other education-related provisions, would make the deduction for higher education expenses permanent.
- **H.R. 1586.** Introduced March 20, 2007, by Representative Mac Thornberry. This bill would repeal the federal estate, gift, and generation-skipping transfer taxes.
- **H.Con.Res. 99.** Introduced March 23, 2007, by Representative John Spratt. This resolution, among other things, declares the policy on middle-income tax relief, including the immediate AMT relief and extension of select tax cuts.
- **H.Con.Res. 109.** Introduced March 29, 2007, by Representative Paul Ryan. This resolution, among other things, calls for an extension of the tax cuts enacted in 2001 and 2003.
- **H.R. 1871.** Introduced April 14, 2007, by Representative Kirsten Gillibrand. This bill would extend, with modifications, the provisions of EGTRRA related to the dependent care tax credit.
- **H.R. 1923.** Introduced April 18, 2007, by Representative Kevin McCarthy. This bill would increase and index the basic exemption for the AMT and increase the point at which the basic exemption is phased out.
- **H.R. 1942.** Introduced April 19, 2007, by Representative Scott Garrett. Among other things, this bill would increase and index the basic AMT exemption.
- **H.R. 2222.** Introduced May 8, 2007, by Representative Bill Pascrell. This bill would increase and make permanent the marriage penalty relief for the earned income tax credit (EITC).
- **H.R. 2312.** Introduced May 15, 2007, by Representative Eric Cantor. This bill would make the lower tax rates on capital gains and dividends permanent.
- **H.R. 2380.** Introduced May 17, 2007, by Representative Kenny Hulshof. This bill would permanently repeal the estate and generation-skipping transfer taxes.
- **H.R. 2588.** Introduced June 6, 2007, by Representative Thelma Drake. This bill would extend certain educational provisions.
- **H.R. 2734.** Introduced June 14, 2007, by Representative Timothy Walberg. This bill would extend many of the provisions first enacted by EGTRRA, JGTRRA, and other bills.
- **H.R. 2902.** Introduced June 28, 2007, by Representative Thomas Allen. This bill would make the child credit permanent, expand the dependent care credit, make changes to educational provisions, and increase the AMT deduction.
- **H.R. 3135.** Introduced July 23, 2007, by Representative Dave Weldon. This bill would make permanent the increase in the child tax credit and provide for an annual inflation adjustment to child tax credit amounts, beginning in 2007.

- **H.R. 3170.** Introduced July 24, 2007, by Representative Harry Mitchell. This bill, among other things, would make permanent the reduction in capital gains tax rates enacted by JGTRRA.
- **H.R. 3192.** Introduced July 26, 2007, by Representative Lincoln Davis. This bill would make permanent modifications to the adoption credit.
- **H.R. 3388.** Introduced August 3, 2007, by Representative Kirsten Gillibrand. This bill would extend the deduction for higher education expenses.
- **H.R. 3418.** Introduced August 3, 2007, by Representative Sander Levin. This bill would make the exclusion of employer-provided educational assistance permanent.
- **H.R. 3475.** Introduced September 5, 2007, by Representative Michael Capuano. This bill, among other things, would repeal some of the EGTRRA provisions related to the estate tax.
- **H.R. 3590.** Introduced September 19, 2007, by Representative Nick Lampson. This bill would extend AMT relief for a year.
- **H.R. 3592.** Introduced on September 19, 2007, by Representative Nick Lampson. This bill would make permanent the deduction for state and local sales taxes
- **H.R. 3758.** Introduced October 4, 2007, by Representative John Hall. This bill would make AMT relief permanent.
- **H.R. 3818.** Introduced October 10, 2007, by Representative Paul Ryan. This bill, among other things, would make the lower tax rates on capital gains and dividends permanent.
- **H.R. 3831.** Introduced October 15, 2007, by Representative Phil English. This bill would make permanent amendments to the child tax credit made by EGTRRA relating to offset against the alternative minimum tax, refundability, and inflation adjustment, along with increasing the credit amount.
- **H.R. 3906.** Introduced October 18, 2007, by Representative Christopher Murphy. This bill, among other things, would make permanent the tax deduction for state and local sales taxes and the tax deduction for qualified tuition and related expenses as well as EGTRRA provisions that increased dollar limitations on the tax credit for dependent care expenses.
- **H.R. 3970.** Introduced October 25, 2007, by Representative Charles Rangel. Along with numerous other changes to the tax code, this bill would extend AMT relief provisions.
- **H.R. 3996.** Introduced October 30, 2007, by Representative Charles Rangel. This bill became P.L. 110-166, extending AMT relief provisions. It is described elsewhere in this report.
- **H.R. 4039.** Introduced November 1, 2007, by Representative John Barrow. This bill would extend, with modifications, the provisions of EGTRRA related to the dependent care tax credit.
- **H.R. 4086.** Introduced November 6, 2007, by Representative Ron Klein. Among other things, this bill would extend the tax deduction for state and local general sales taxes.

- **H.R. 4172.** Introduced November 14, 2007, by Representative Dennis Moore. This bill, among other things, would restore the tax on estates and generation-skipping transfers.
- **H.R. 4235.** Introduced November 15, 2007, by Representative Nita Lowey. This bill, among other things, would repeal some of the EGTRRA provisions related to the estate tax.
- **H.R. 4242.** Introduced November 15, 2007, by Representative Earl Pomeroy. This bill, among other things, would repeal some of the EGTRRA provisions related to the estate tax.
- **H.R. 4351.** Introduced December 11, 2007, by Representative Charles Rangel. This bill, among other things, would extend AMT relief by one year.
- **H.R. 5031.** Introduced January 17, 2008, by Representative Thomas Reynolds. This bill would increase the exemption from the AMT in 2008 and extend through 2008 the allowance of certain non-refundable tax credits against AMT liability.
- **H.R. 5105.** Introduced January 23, 2008, by Representative David Dreier. This bill would, among other things, repeal the sunset provisions of EGTRRA and JGTRRA, repeal the estate and gift tax, and adjust the increased AMT exemption amounts for inflation after 2007 and make such exemptions permanent.
- **H.R. 5242.** Introduced February 6, 2008, by Representative Bill Young. This bill would make permanent the deduction of state and local general sales taxes.
- **H.Con.Res. 312.** Introduced March 7, 2008, by Representative John Spratt. This FY2009 budget resolution, approved by the House on March 13, 2008, did not explicitly assume extension of all of the tax cuts enacted in 2001 through 2007, but did provide an AMT relief extension for one year.
- **H.R. 5655.** Introduced March 14, 2008, by Representative Anthony Weiner. This bill would extend some of provisions of EGTRRA related to the dependent care tax credit.

Senate Bills

- **S. 102.** Introduced January 4, 2007, by Senator John Kerry. This bill would provide AMT relief and repeal the provisions lowering the capital gains rates.
- **S. 141.** Introduced January 4, 2007, by Senator Maria Cantwell. This bill would extend and broaden certain educational provisions.
- **S. 143.** Introduced January 4, 2007, by Senator Maria Cantwell. This bill would make the deduction of state and local sales taxes permanent.
- **S. 157.** Introduced January 4, 2007, by Senator Maria Cantwell. This bill would extend and broaden provisions related to Coverdell education savings account.
- **S. 180.** Introduced January 4, 2007, by Senator Kay Bailey Hutchison. This bill would make the deduction for state and local sales taxes permanent.

- **S. 181.** Introduced January 4, 2007, by Senator Kay Bailey Hutchison. This bill would make the marriage tax penalty relief provisions permanent.
- **S. 359.** Introduced January 22, 2007, by Senator Edward Kennedy. This bill, among other education-related provisions, would make the deduction for higher education expenses permanent.
- **S. 454.** Introduced January 31, 2007, by Senator Susan Collins. This bill would repeal the EGTRRA sunset for certain education provisions.
- **S. 502.** Introduced February 6, 2007, by Senator Mike Crapo. This bill would make the lower tax rates on capital gains and dividends permanent.
- **S. 554.** Introduced February 12, 2007, by Senator Byron Dorgan. This bill would repeal the reduction in marginal income tax and capital gains tax rates, repeal the phase-out of limits on personal exemptions and itemized deductions for taxpayers with incomes over $1 million.
- **S. 561.** Introduced February 13, 2007, by Senator Jim Bunning. This bill would make modifications made by EGTRRA to the adoption tax credit permanent.
- **S. 614.** Introduced February 15 , 2007, by Senator Charles Schumer. Among other things this bill would make an increased child credit permanent, expand the dependent care credit, make changes to educational provisions, and increase the AMT deduction.
- **S. 816.** Introduced March 8, 2007, by Senator Sam Brownback. Among other things, this bill would eliminate the marriage penalty in all income tax brackets and make permanent increases in the child tax credit.
- **S. 818.** Introduced March 8, 2007, by Senator Bernard Sanders. This bill would rescind EGTRRA and JGTRRA tax reductions after 2008 for taxpayers with gross incomes over $400,000.
- **S. 851.** Introduced March 13, 2007, by Senator Charles Schumer. Among other things this bill would repeal the deduction for qualified tuition and related expenses.
- **S.Con.Res. 21.** Introduced March 16, 2007, by Senator Kent Conrad. This bill addresses certain issues related to extending tax relief.
- **S. 14.** Introduced April 17, 2007, by Senator Jon Kyl. This bill would repeal the sunset provisions of EGTRRA, make cuts to the capital gains tax rates permanent, repeal the AMT, make changes to the expensing rules, and make other changes.
- **S. 1333.** Introduced May 8, 2007, by Senator John Kerry. This bill, among other things, would make permanent the reduction in the marriage penalty applicable to the EITC.
- **S. 2185.** Introduced October 17, 2007, by Senator Lindsey Graham. This bill would make permanent the reductions in individual income tax rates enacted by EGTRRA.
- **S. 2233.** Introduced October 25, 2007, by Senator Kay Bailey Hutchison. This bill would make permanent the tax deduction for state and local sales taxes.

- **S. 2318.** Introduced November 7, 2007, by Senator John Ensign. This bill, among other things, would make permanent the reductions in income tax rates enacted by EGTRRA and capital gains and dividends tax rates enacted by JGTRRA.
- **S. 2407.** Introduced December 4, 2007, by Senator Robert Casey. This bill would make EGTRRA modifications to the adoption tax credit permanent.
- **S. 2416.** Introduced December 5, 2007, by Senator Jim DeMint. This bill would, among other things, make permanent the capital gains and dividends rate reductions.
- **S. 2547.** Introduced January 23, 2008, by Senator Christopher Bond. This bill would, among other things, repeal the sunset provisions of EGTRRA and JGTRRA, repeal the estate and gift tax, and adjust the increased alternative minimum tax (AMT) exemption amounts for inflation after 2007 and make such exemptions permanent.
- **S. 2648.** Introduced February 14, 2008, by Senator Charles Schumer. This bill, among other things, would extend some EGTRRA provisions related to EITC.
- **S. 12.** Introduced February 29, 2008, by Senator Mitch McConnell. This bill would, among other things, repeal the sunset provisions of EGTRRA and JGTRRA.
- **S.Con.Res. 70.** Introduced March 7, 2008, by Senator Kent Conrad. In addition to the AMT patch, this FY2009 budget resolution, approved by the Senate on March 14, 2008, included the amendment S.Amdt. 4160 that would extend some of the tax cuts for middle income taxpayers.

Appendix. Phase-in and Expiration Schedule of Select Major Tax Cut Provisions Under EGTRRA, JGTRRA, WFTRA, TIPRA, and Other Relevant Acts, 2001-2011

<table>
<tr><th>Provision</th><th>2001</th><th>2002</th><th>2003</th><th>2004</th><th>2005</th><th>2006</th><th>2007</th><th>2008</th><th>2009</th><th>2010</th><th>2011</th></tr>
<tr><td colspan="12">Tax Rates and Brackets</td></tr>
<tr><td>Create 10 percent tax bracket</td><td colspan="2">EGTRRA: $12,000 / $6,000 brackets for couples / singles.</td><td colspan="2">JGTRRA: $14,000 / $7,000 for couples / singles. Index in 2004.</td><td colspan="3">WFTRA: $14,000 / $7,000 for couples / singles.</td><td colspan="3">EGTRRA: $14,000 / $7,000 for couples / singles. Index in 2009.</td><td>Bracket expires.</td></tr>
<tr><td rowspan="5">Reduce tax rates in top four tax brackets</td><td>EGTRRA:</td><td>EGTRRA:</td><td colspan="3">JGTRRA:</td><td colspan="5">EGTRRA:</td><td>Reverts to:</td></tr>
<tr><td>39.1%</td><td>38.6%</td><td colspan="3">35%</td><td colspan="5">35%</td><td>39.6%</td></tr>
<tr><td>35.5%</td><td>35%</td><td colspan="3">33%</td><td colspan="5">33%</td><td>36%</td></tr>
<tr><td>30.5%</td><td>30%</td><td colspan="3">28%</td><td colspan="5">28%</td><td>31%</td></tr>
<tr><td>27.5%</td><td>27%</td><td colspan="3">25%</td><td colspan="5">25%</td><td>28%</td></tr>
<tr><td>Reduce tax rates on capital gains and dividends</td><td colspan="2">No change.</td><td colspan="5">JGTRRA: 15% / 5% rate structure.</td><td>JGTRRA: 15% / 0%</td><td colspan="2">TIPRA: 15% / 0%</td><td>Up to 20% or regular tax rates.</td></tr>
<tr><td colspan="12">Limits on Itemized Deductions and Personal Exemptions</td></tr>
<tr><td>Reduce or eliminate limits on itemized deductions and personal exemptions</td><td colspan="5">No change.</td><td colspan="2">EGTRRA: Reduce limits by one-third.</td><td colspan="2">EGTRRA: Reduce limits by two-thirds.</td><td>EGTRRA: Repeal limits.</td><td>Limits reinstated.</td></tr>
<tr><td colspan="12">Alternative Minimum Tax</td></tr>
<tr><td>Increase exemption for the alternative minimum tax for couples/singles</td><td colspan="2">EGTRRA: Increase to $49,000 / $35,750.</td><td colspan="2">JGTRRA: $58,000 / $40,250</td><td>WFTRA: $58,000 / $40,250</td><td>TIPRA: $65,550 / $42,500</td><td>TIPA: $66,250 / $44,350</td><td colspan="4">Reverts to $45,000 / $33,750 couple / single exemption structure.</td></tr>
<tr><td colspan="12">Deduction for State and Local General Sales Taxes</td></tr>
<tr><td>Allow deduction for sales taxes</td><td colspan="3">No change.</td><td colspan="2">AJCA: allow the deduction.</td><td colspan="2">TRHCA: extend the deduction.</td><td colspan="4">Deduction expires.</td></tr>
</table>

Provision	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Bonus Depreciation											
Increase first-year depreciation allowance	JCWAA: Additional 30% allowance.		JGTRRA: Additional 50% allowance.		Reverts to pre-2001 law.						
Children and Married Couples											
Increase child tax credit	EGTRRA: Increase credit to $600.		JGTRRA: $1000 credit.		WFTRA: $1000 credit.					EGTRRA: $1000 credit.	Reverts to $500 credit.
Expand refundability of child tax credit	EGTRRA: Expanded eligibility, Refundable up to 10% over indexed threshold.			WFTRA: Refundable up to 15%.	EGTRRA: Expanded eligibility, refundable up to 15% over indexed threshold.						Limited eligibility.
Increase dependent care credit	No change.	EGTRRA: Maximum credit of $3,000 for one child and $6,000 for two or more children.									Reverts to $2400 / $4800.
Increase standard deduction for married couples	No change.		JGTRRA: Deduction for couples is 200% of the deduction for singles.		WFTRA: Deduction for couples is 200% of the deduction for singles.				EGTRRA: Deduction for couples is 200% of the deduction for singles.		Reverts to 167%.
Expand 15 percent bracket for married couples	No change.		JGTRRA: Maximum income for couples is 200% of the maximum for singles.		WFTRA: Maximum income for couples is 200% of the maximum for singles.			EGTRRA: Maximum income for couples is 200% of the maximum for singles.			Reverts to 167%.
EITC phase-out income for married couples	No change.	EGTRRA: Increase by $1,000.			EGTRRA: Increase by $2,000.			EGTRRA: Increase by $3,000. Index in 2009.			No increase.
Estate Tax											
Change exemption level / top rate structure	No change.	EGTRRA: $1 million / 50%	EGTRRA: $1 million / 49%	EGTRRA: $1.5 million / 48%	EGTRRA: $1.5 million / 47%	EGTRRA: $2 million / 46%	EGTRRA: $2 million / 45%		EGTRRA: $3.5 million / 45%	EGTRRA: Estate tax repealed.	Changes to $1 million / 55%.

Source: CRS adaptation of Congressional Budget Office and Joint Committee on Taxation tables and publications

Note: EGTRRA — Economic Growth and Tax Relief Reconciliation Act of 2001 (P.L. 107-16, 2001, introduced as H.R. 1836); JCWAA — Job Creation and Worker Assistance Act of 2002 (P.L. 107-147, 2002, introduced as H.R. 3090); JGTRRA — Jobs and Growth Tax Relief Reconciliation Act of 2003 (P.L. 108-27, 2003, introduced as H.R. 2); WFTRA — Working Families Tax Relief Act of 2004 (P.L. 108-311, 2004, introduced as H.R. 1308); AJCA — American Jobs Creation Act of 2004 (P.L. 108-357, 2004, introduced as H.R. 4520); TIPRA — Tax Increase Prevention and Reconciliation Act of 2005 (P.L. 109-222, 2006, introduced as H.R. 4297); TRHCA — The Tax Relief and Health Care Act of 2006 (P.L. 109-432, 2006, introduced as H.R. 6111); TIPA — Tax Increase Prevention Act of 2007 (P.L. 110-166, 2007, introduced as H.R. 3996).