



Expiration and Extension of the Individual Income Tax Cuts Enacted in 2001 Through 2008

Maxim Shvedov
Analyst in Public Finance

October 17, 2008

Congressional Research Service

7-5700

www.crs.gov

RL34425

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 a 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 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 these issues are left beyond the scope of this report.

President Bush has advanced the idea of 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 (JGTRRA; 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), Tax Increase Prevention Act of 2007 (P.L. 110-166), and the Emergency Economic Stabilization Act of 2008 (P.L. 110-343).

A number of bills 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) proposes to subject the extension of the tax cuts to the pay-as-you-go rule. The conference agreement, approved by both the House and Senate in early June 2008, accommodates extending some of the tax cuts in a manner consistent with the pay-as-you-go rule.

This report will be updated to reflect legislative activity.

Contents

Tax Legislation: 2001 Through 2008	1
Recent Developments Related to Extension of the Tax Cuts Past 2010.....	3
Extending the Cuts Past 2010: Key Considerations	4

Tables

Table 1. Estimates Illustrating the Revenue Costs Associated with Extending EGTRRA and JGTRRA and Reforming the AMT.....	5
Table 2. Annual Projected Cost of Extending the Tax Cuts Including the AMT Relief, as a Share of GDP, FY2012-FY2018	6
Table 3. Estimated Revenue Effects of Extending Certain Major Expiring Tax Provisions of 2001 Through 2008 Acts.....	8
Table 4. Effective Individual Income Tax Rate for All Households, by Comprehensive Household Income Quintile, 2000-2005	9

Appendixes

Appendix. Phase-in and Expiration Schedule of Select Major Tax Cut Provisions Under EGTRRA, JGTRRA, WFTRA, TIPRA, and Other Relevant Acts, 2001-2011	10
--	----

Contacts

Author Contact Information	13
Acknowledgments	13

Tax Legislation: 2001 Through 2008

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% 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

¹ U.S. Congress, Joint Committee on Taxation (JCT), *Estimated Budget Effects Of The Conference Agreement For H.R. 1836*, JCX-51-01, 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.

³ CRS calculation based on U.S. Congress, 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.

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 is refundable up to 15% of a taxpayer's earned income in excess of the applicable threshold. The 2004 act also allowed inclusion of combat pay in earned income for purposes of computing child-tax-credit refundability.⁵

WFTRA extended for one year 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.

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 (TIPRA; P.L. 109-222), 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 non-refundable tax credits against their AMT tax liability. The combined cost of these AMT provisions was \$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 reduced regular income tax liabilities 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 (TIPA; P.L. 110-166), passed by Congress in December 2007, extended AMT tax relief retroactively for one year at a cost of \$50.6 billion.⁹

⁵ For details see CRS Report RL34715, *The Child Tax Credit*, by Maxim Shvedov.

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, Sept. 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.

TIPA set the 2007 AMT exemption levels at \$66,250 for joint returns and \$44,350 for single returns. In addition, the law allowed non-refundable personal tax credits to offset AMT tax liability for 2007.

The Emergency Economic Stabilization Act of 2008 (EESA; P.L. 110-343), extended AMT relief and expanded refundability of the child tax credit for 2008. EESA increased the AMT exemption amounts to \$46,200 for individuals and \$69,950 for joint returns. Similar to TIPA, the law also allows the personal credits against the AMT. The estimated cost of this provision is \$61.817 billion over 10 years.¹⁰

EESA also extended an itemized deduction for state and local sales taxes through the end of 2009. The JCT estimated the cost of this provision at \$3.304 billion over 10 years.

In addition, EESA reduced the earned income threshold used in calculating the refundable portion of the credit to \$8,500 from \$12,050 for 2008. The change is effective for a single tax year beginning after December 31, 2007. The estimated cost of the proposal is \$3.129 billion over 10 years.¹¹ The change led to an increase in the amount and availability of the refundable child credit for lower income households.

Additional broad tax reductions or extensions were enacted in the same time period 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-FY2012.¹² 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.¹³

The phase-in and expiration schedules of the various tax provisions enacted under the 2001 through 2008 tax acts are shown in the **Appendix**.

Recent Developments Related to Extension of the Tax Cuts Past 2010

On March 14, 2008, the Senate passed an FY2009 budget resolution (S.Con.Res. 70). Revenue aggregates in the measure reflect an amendment (S.Amdt. 4160) by Senator Max Baucus that proposes to accommodate more than \$300 billion in tax cuts for the middle class, homeowners,

¹⁰ U.S. Congress, Senate Finance Committee, *Detailed Summary of Energy, Disaster Relief, AMT, and Other Tax Extender Provisions in Emergency Economic Stabilization Act of 2008*, Oct. 1, 2008, as reported by BNA, Inc., TaxCore - Congressional Documents, Legislation, No. 191, Oct. 2, 2008.

¹¹ U.S. Congress, Joint Committee on Taxation, JCX-78-08, *Estimated Budget Effects of the Tax Provisions Contained in an Amendment in the Nature of a Substitute to H.R. 1424, Scheduled for Consideration on the Senate Floor on October 1, 2008*, Oct. 1, 2008, p. 9.

¹² 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.

¹³ U.S. Congress, Joint Committee on Taxation, *Estimated Revenue Effects Of The Revenue 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, December 7, 2006.

and active duty military personnel over five years and pays for them with projected surpluses in FY2012 and FY2013. The bill also proposes to accommodate an AMT patch.

The corresponding House measure (H.Con.Res. 312), adopted on March 13, 2008, also proposes to accommodate extending some of the expiring tax cuts as well as an AMT patch, but, in contrast to the Senate bill, subjects them to the “pay-as-you-go” rule, requiring offsetting revenue raisers.

The conference agreement, approved by both the House and Senate in early June 2008, supports tax relief consistent with the pay-as-you-go rule. Its baseline projections propose to accommodate such tax relief items as marriage penalty relief, the child tax credit, and the 10% bracket, and a one-year AMT relief.¹⁴

The budget resolution, which is enforced by various points of order, may constrain the size of the tax cuts subsequently considered in revenue measures, but it does not make any changes to the tax code by itself. Revenue legislation, which does make such changes, generally is considered by the House and Senate within the framework established by the annual budget resolution.

Extending the Cuts Past 2010: Key Considerations

Proposals relating to the future of the 2001-2008 tax reductions range from their early rescission to unconditional permanent extension. Several aspects of this decision play a key role in shaping the views of many policymakers. They include (1) the general desirability of providing tax relief, (2) the cost of the cuts in view of 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 the 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 the regular tax for many taxpayers.¹⁵ Hence, Congress faces not only the issue of whether or not to extend or make permanent the reductions in the regular income tax, but also how to coordinate the changes between these two parallel tax systems.¹⁶

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 will increase from over 1 million in 2001 to about 26 million in 2008, and then to almost 51 million in 2017.¹⁷

¹⁴ U.S. Congress, Conference Committees, 2008, *Concurrent Resolution on the Budget for Fiscal Year 2009*, conference report to accompany S.Con.Res. 70, H.Rept. 110-659, 110th Cong., 2nd sess. (Washington: GPO, 2008), pp. 73-75.

¹⁵ 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.

¹⁶ See CRS Report RS22909, *The Alternative Minimum Tax for Individuals: Legislative Activity in the 110th Congress*, by Steven Maguire and Jennifer Teefy.

¹⁷ 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.

It is difficult to generalize about the economic effects of the 2001-2008 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: the specifics of the provisions, the time horizon, and the financing method, to name just a few. Detailed analysis of this issue, however, goes beyond the scope of this paper.¹⁸ 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.¹⁹ 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 between 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.

Table 1. Estimates Illustrating the Revenue Costs Associated with Extending EGTRRA and JGTRRA and Reforming the AMT

(dollar amounts in billions of dollars)

Policy Alternative	FY2009-FY2013	FY2009-FY2018
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

¹⁸ For more information see CRS Report RL32502, *What Effects Did the 2001 to 2003 Tax Cuts Have on the Economy?*, by Marc Labonte.

¹⁹ Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2008 to 2018*, January 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.

Policy Alternative	FY2009-FY2013	FY2009-FY2018
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 more than 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	2018
Nominal GDP (calendar year)	17,453	18,243	19,062	19,896	20,758	21,654	21,654
Total cost, including debt service	386	449	497	552	611	676	748
above, as a share of GDP	2.2%	2.5%	2.6%	2.8%	2.9%	3.1%	3.3%
Total cost, excluding debt service	357	399	426	455	486	520	559
above, as a share of GDP	2.0%	2.2%	2.2%	2.3%	2.3%	2.4%	2.5%

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.²⁰ 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.²¹ 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 2001-2008 tax cuts without providing AMT relief past 2007 would result in 0.7% additional fiscal gap, yielding a 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.

²⁰ Congressional Budget Office, *The Long-Term Budgetary Effects of Three Specified Policy Scenarios*, Letter to the Honorable John M. Spratt Jr., March 14, 2008.

²¹ *Ibid.*, p. 2.

Some proponents of extending the tax cuts argue 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 contend 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.²²

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.

For example, during the 2008 presidential campaign, Senators John McCain and Barack Obama differed in their approach to extending the tax cuts. Senator McCain supported extending most of them. He also advocated unrelated tax policies.

Senator Obama limited his support to the elements of the tax cuts that largely benefit middle- or lower-income families. For example, he indicated his support of extending the reduced marginal tax rates of 28% and below, but repealing the reduction of the marginal tax rates above that level. Among other measures favored by Senator Obama were also the increased child tax credit and marriage penalty elimination provisions.²³ Since the election, the policy preferences of President-elect Obama might have changed somewhat in response to deteriorating economic conditions, but as of this writing they remain unknown.

Table 3 reproduces CBO estimates of extending the tax reductions by individual provision or a distinct group of provisions.²⁴ 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 2008 tax cuts. For example, the reductions of some of the marginal rates might be extended, while others modified, or allowed to expire for years after 2010. A large number of possible alternatives are listed in the CBO *Budget Options* report,²⁵ as well as in other publications issued by various government and private entities.

²² For more information on 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.

²³ CCH Tax Briefing, *Tax Policies of the Presidential Candidates*, Special Report, Sept. 18, 2008.

²⁴ 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*, January 2008, pp. 101-106, downloaded on March 21, 2008, from <https://www.cbo.gov/ftpdocs/90xx/doc9040/ExpiringProvisions.pdf>.

²⁵ Congressional Budget Office, *The Budget Options*, February 2007, p. 922.

Table 3. Estimated Revenue Effects of Extending Certain Major Expiring Tax Provisions of 2001 Through 2008 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 ^a	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 ^a	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 ^b	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. The estimate does not incorporate the effects of the Emergency Economic Stabilization Act of 2008.

b. "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 2000-2005.²⁶ 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	-5.0

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.²⁷

²⁶ 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/ftpdocs/cfm?index=8885&type=2>.

²⁷ For more information see CRS Report RL32693, *Distribution of the Tax Burden Across Individuals: An Overview*, by Jane G. Gravelle and Maxim Shvedov.

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

Provision	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Tax Rates and Brackets											
Create 10 percent tax bracket	EGTRRA: \$12,000 / \$6,000 brackets for couples / singles		JGTRRA: \$14,000 / \$7,000 for couples / singles. Index in 2004.		WFTRA: \$14,000 / \$7,000 for couples / singles			EGTRRA: \$14,000 / \$7,000 for couples / singles. Index in 2009.		Bracket expires.	
Reduce tax rates in top four tax brackets	EGTRRA:	EGTRRA:	JGTRRA:			EGTRRA:				Reverts to:	
	39.1%	38.6%	35%			35%				39.6%	
	35.5%	35%	33%			33%				36%	
	30.5%	30%	28%			28%				31%	
	27.5%	27%	25%			25%				28%	
Reduce tax rates on capital gains and dividends	No change.		JGTRRA: 15% or 5% rate depending on income.					JGTRRA: 15% / 0%	TIPRA: 15% / 0%		Up to 20% or regular tax rates
Limits on Itemized Deductions and Personal Exemptions											
Reduce or eliminate limits on itemized deductions and personal exemptions	No change					EGTRRA: Reduce limits by one-third		EGTRRA: Reduce limits by two-thirds		EGTRRA: Repeal limits	Limits reinstated
Alternative Minimum Tax											
Increase exemption for the alternative minimum tax for couples/singles	EGTRRA: Increase to \$49,000 / \$35,750		JGTRRA: \$58,000 / \$40,250		WFTRA: \$58,000 / \$40,250	TIPRA: \$65,550 / \$42,500	TIPA: \$66,250 / \$44,350	EESA: \$69,950 / \$46,200	Reverts to \$45,000 / \$33,750 couple / single exemption structure		

Provision	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Deduction for State and Local General Sales Taxes											
Allow deduction for sales taxes	No change			AJCA: allow the deduction		TRHCA: extend the deduction		EESA: extend the deduction		Deduction expires	
Bonus Depreciation											
Increase first-year depreciation allowance	JCWAA: Additional 30% allowance		JGTRRA: Additional 50% allowance		Reverts to pre-2001 law as amended by subsequent legislation						
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		EESA: Lower income threshold; EGTRRA still applies	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.	

Provision	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
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); EESA—Emergency Economic Stabilization Act of 2008 (P.L. 110-343, 2008, introduced as H.R. 1424).

Author Contact Information

Maxim Shvedov
Analyst in Public Finance
mshvedov@crs.loc.gov, 7-4639

Acknowledgments

This includes significant contributions from Gregg Esenwein, now retired from CRS.