



JOINT COMMITTEE ON TAXATION

March 23, 2010

JCX-20-10

**Testimony of the Staff of the Joint Committee on Taxation
Before the Select Revenue Measures Subcommittee of the
House Committee on Ways and Means Hearing
on Taxes as Part of the Federal Budget
March 23, 2010**

My name is Thomas A. Barthold. I am Chief of Staff of the Joint Committee on Taxation. It is my pleasure to present the testimony of the staff of the Joint Committee on Taxation today providing Committee members with background information on taxes as part of the Federal budget.

Overview

The Joint Committee staff has prepared a pamphlet briefly summarizing present law for the major components of the U.S. tax system: the individual income tax; the social insurance taxes; the corporate income tax; the estate, gift, and generation skipping taxes; and Federal excise taxes.¹ That pamphlet also provides background data on the history of Federal revenue sources and provides projections of future receipts. The pamphlet also highlights certain significant features of the individual income tax that are scheduled to expire at the end of calendar year 2010.

My testimony today highlights in slides some of the material presented in more detail in the JCX-19-10. In particular the following observations may be of value to Committee members as they discuss the role of Federal taxes as part of the Federal budget.

¹ See Joint Committee on Taxation, *Present Law and Background Data Related to the Federal Tax System in Effect for 2010 and 2011* (JCX-19-10), March 22, 2010, available on the Joint Committee on Taxation website at www.jct.gov

- For the past 60 years Federal tax receipts generally have comprised 17 to 19 percent of U.S. gross domestic product. The recent recession has reduced receipts to 15 percent of GDP. Under the CBO baseline, receipts will rise to 20.3 percent of GDP in 2020.
- For 2010, our staff projects that individual income tax receipts will provide 43 percent of Federal revenues and the payroll taxes will provide 40 percent of Federal revenues.
- The individual income tax has long been the largest source of Federal revenues. For the past 60 years the payroll taxes have grown as a revenue source and the percentage of corporate income tax revenues has declined.
- Deficit projections: Under the CBO baseline, deficits are projected to be 9.3 percent of GDP in 2010, falling to three percent of GDP in 2020. JCT projects the deficit would be five percent of GDP with extensions of the Economic Growth and Tax Relief Reconciliation Act of 2001 (“EGTRRA”) and Jobs and Growth Tax Relief Reconciliation Act of 2003 (“JGTRRA”), indexation of the alternative minimum tax (“AMT”), and maintaining the 2009 estate and gift tax parameters.
- Significant individual income tax provisions scheduled to change as a result of EGTRRA, JGTRRA, and the American Recovery and Reinvestment Tax Act of 2009 (“ARRTA”) :

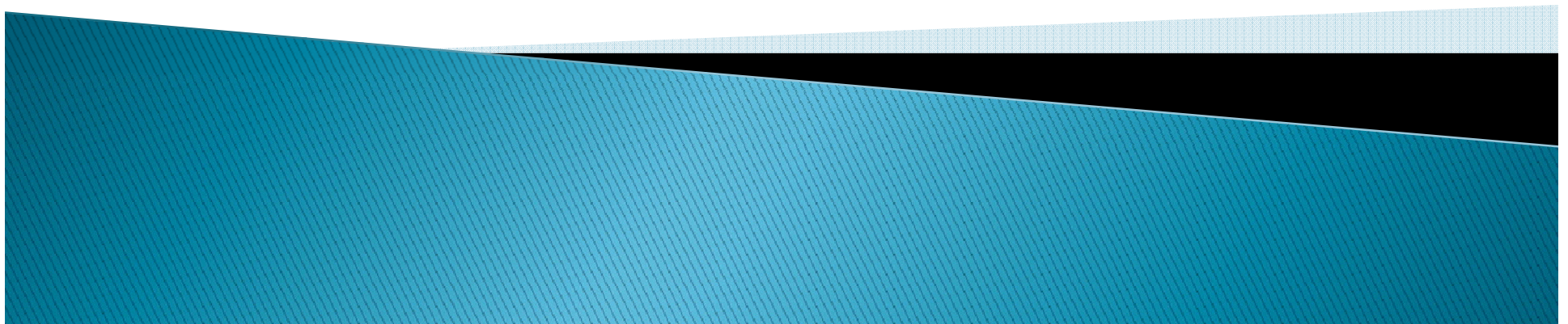
EGTRRA/JGTRRA:

- Standard deduction for married couples is reduced
- Marriage penalty rate relief expires
- Regular Individual tax rates increase
- Capital gain and dividend rates increase
- Child tax credit falls and refundability is reduced
- Married couple earned income tax credit is reduced
- Personal exemption and itemized deduction phaseouts return

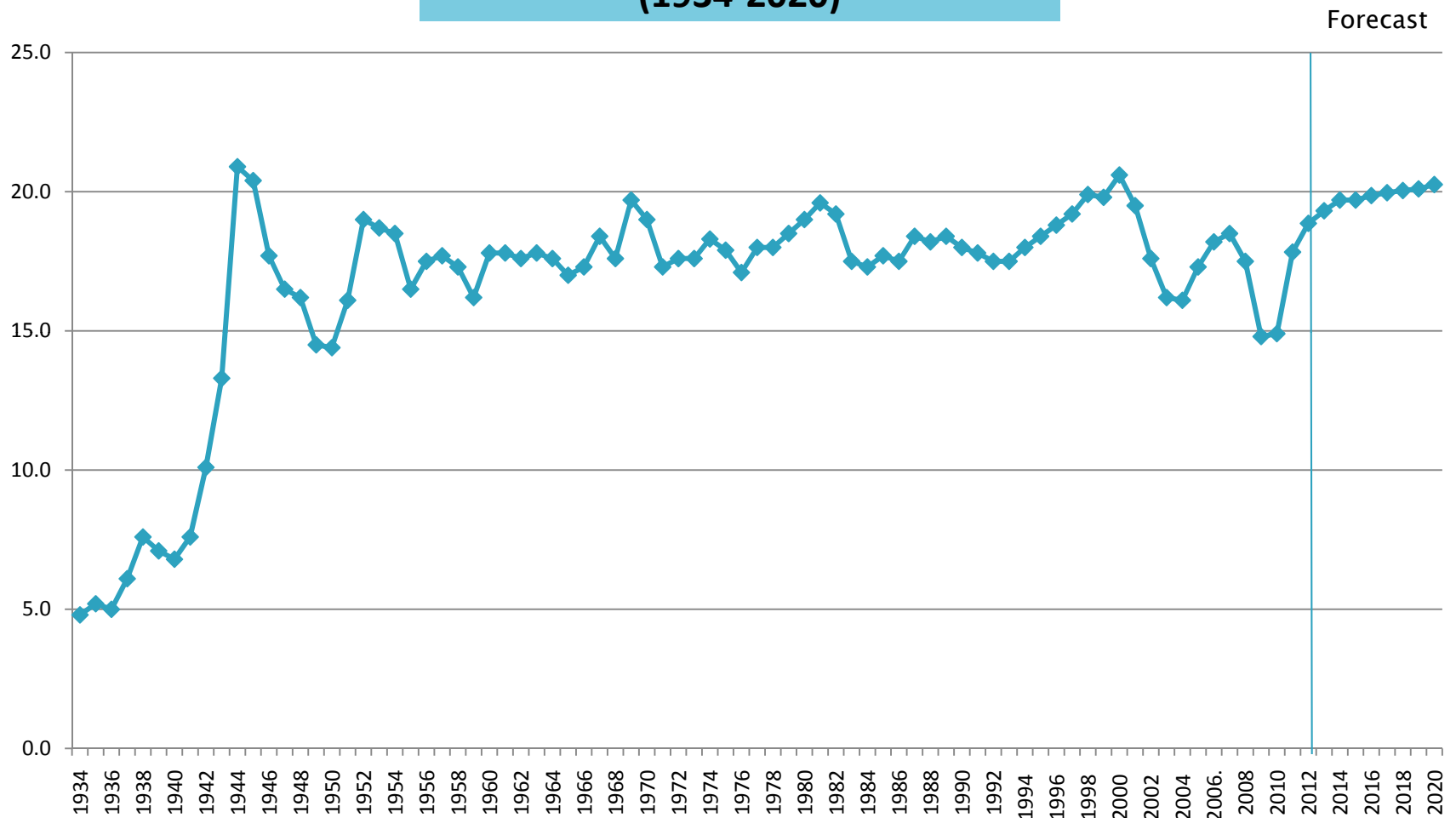
ARRTA:

- Making work pay credit expires
 - American Opportunity credit is reduced; is no longer refundable
 - Special earned income tax credit rules for 3 or more children expire
- The AMT will affect over 25 million taxpayers in 2010, as compared to about 4 million in 2009, if the AMT exemption levels are not increased. Over 37 million taxpayers will be affected in 2020.

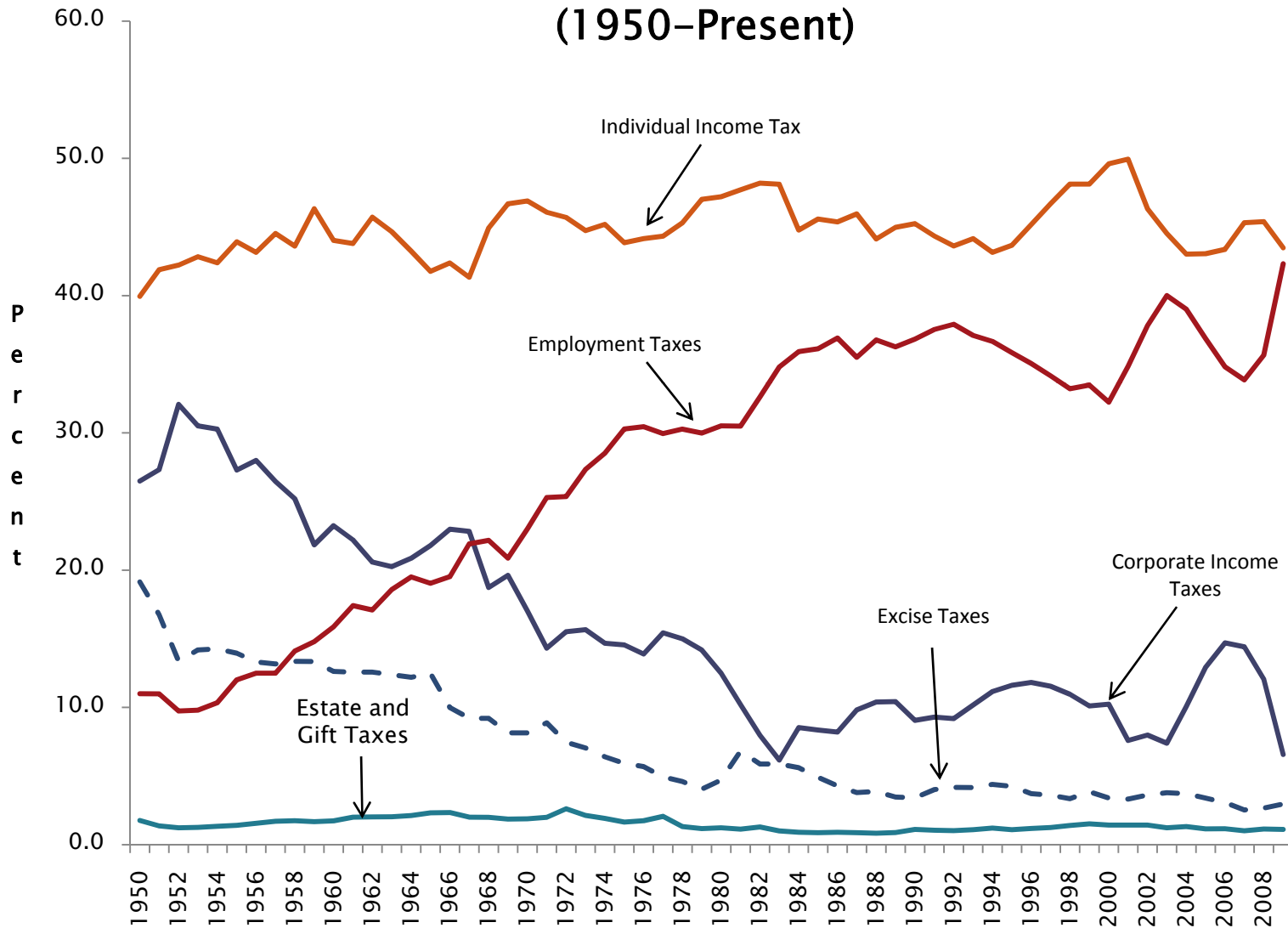
Historical and Projected Federal Receipts, and Forthcoming Changes to the Individual Income Tax in 2011



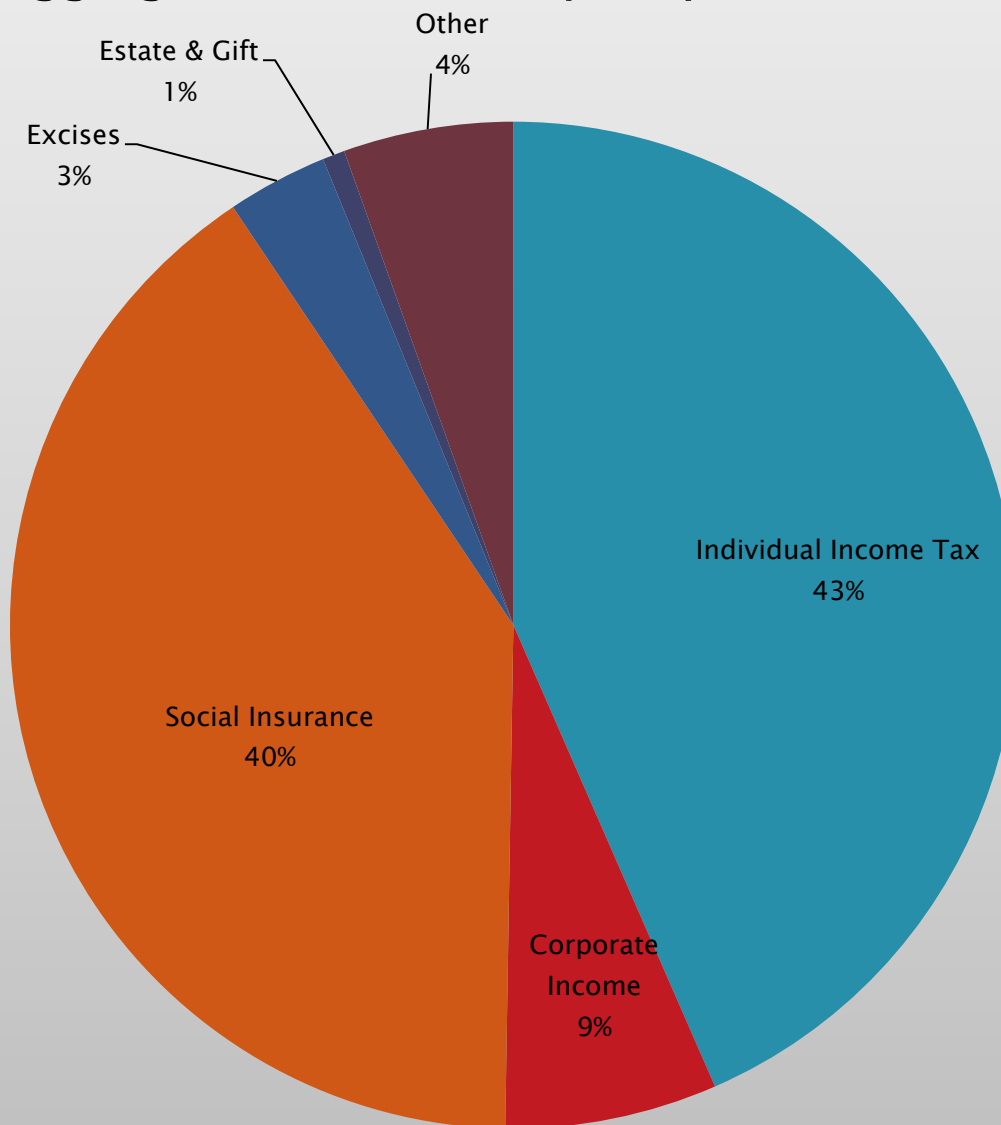
Federal Receipts as a Percent of GDP (1934-2020)



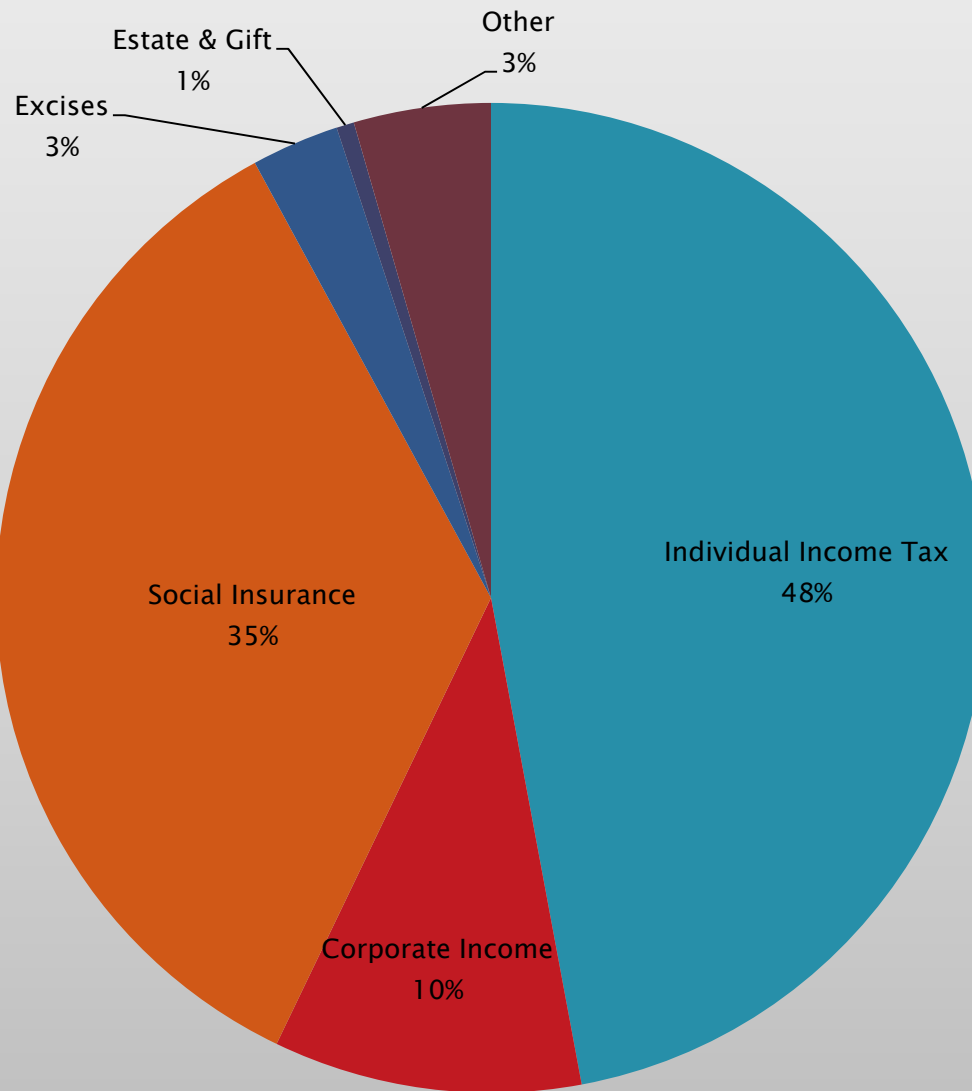
Federal Receipts by Source as Share of Total Receipts (1950–Present)



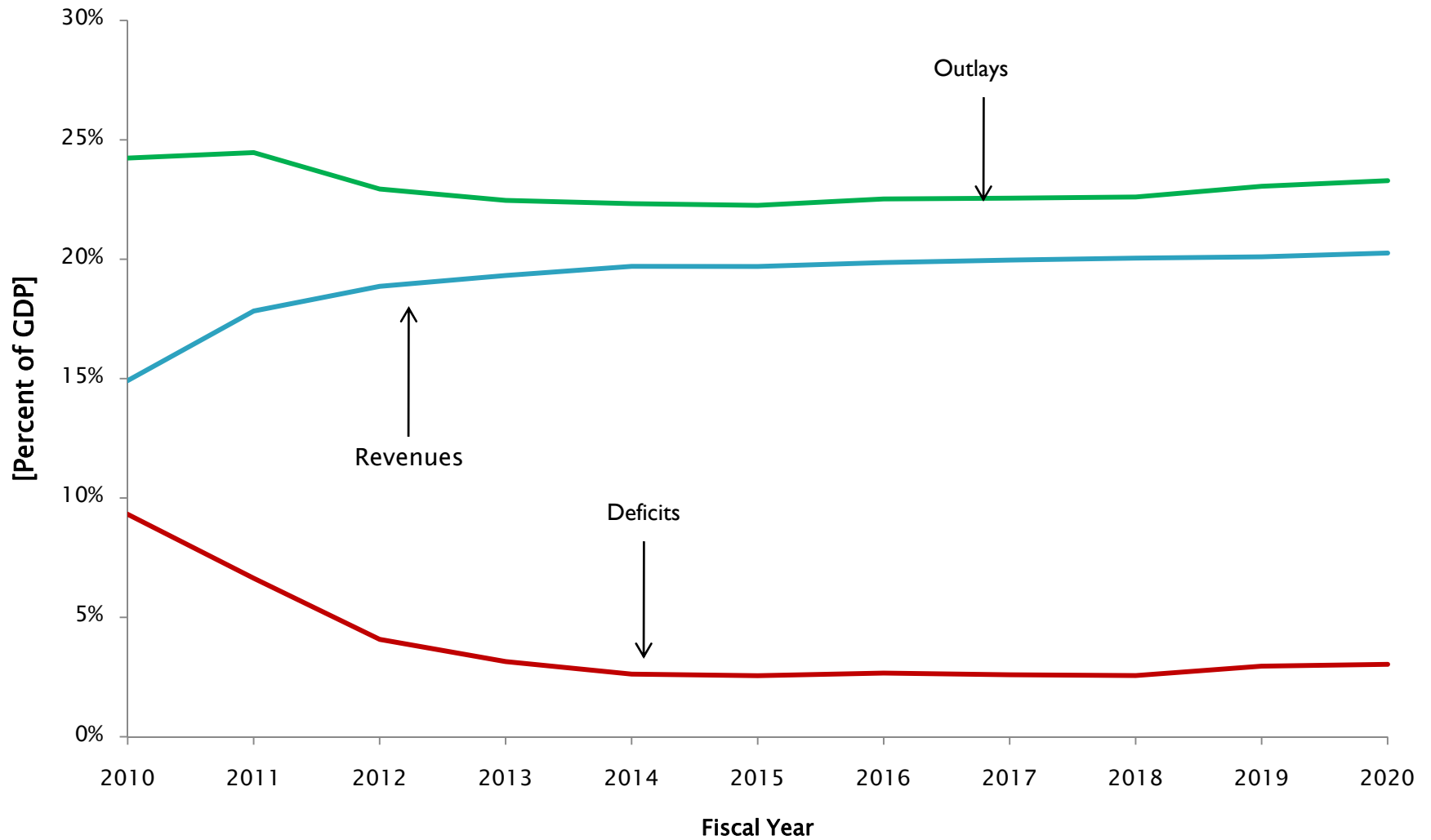
Aggregate Federal Receipts by Source, 2010



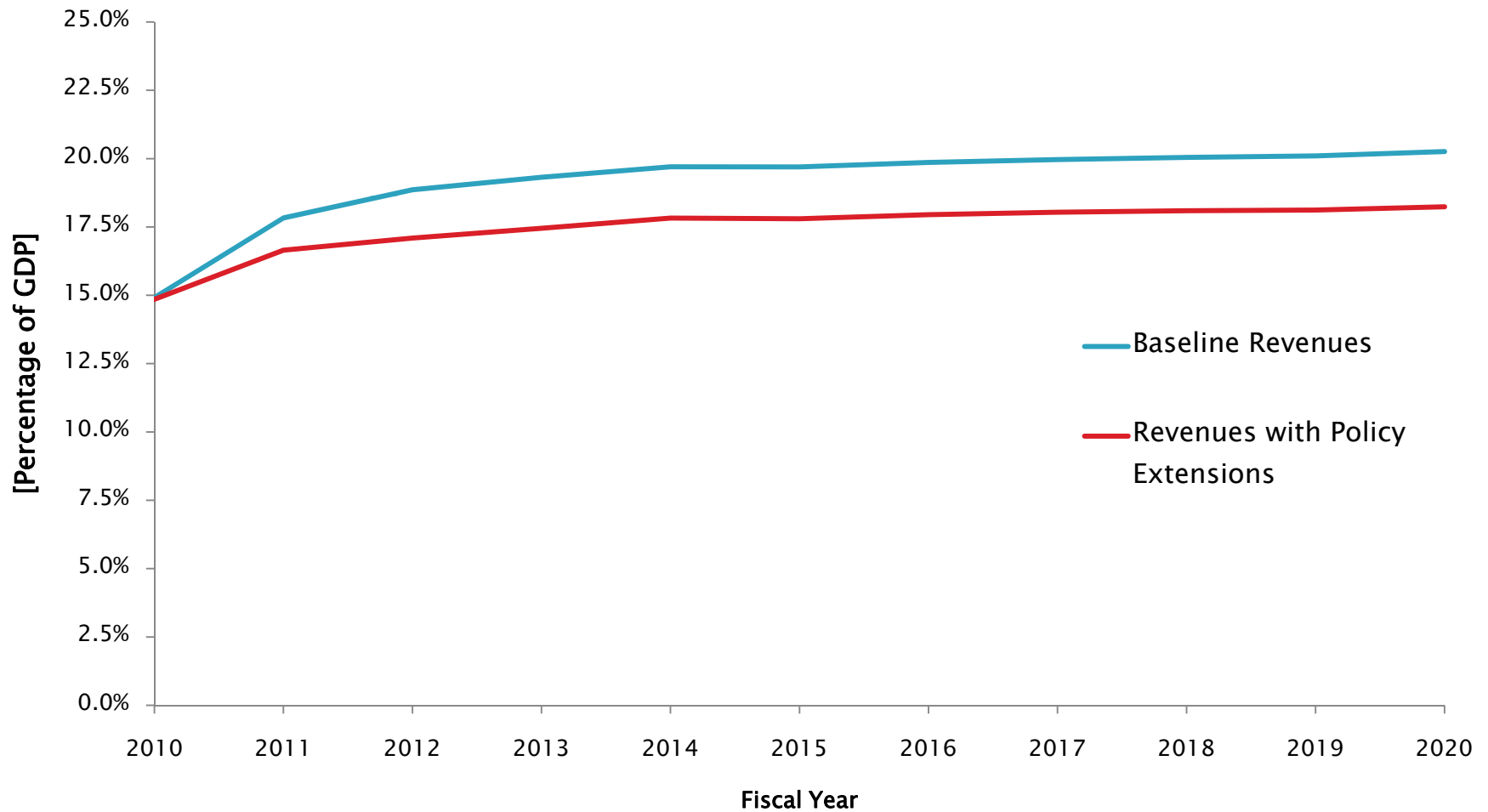
Aggregate Federal Receipts by Sources, 2011



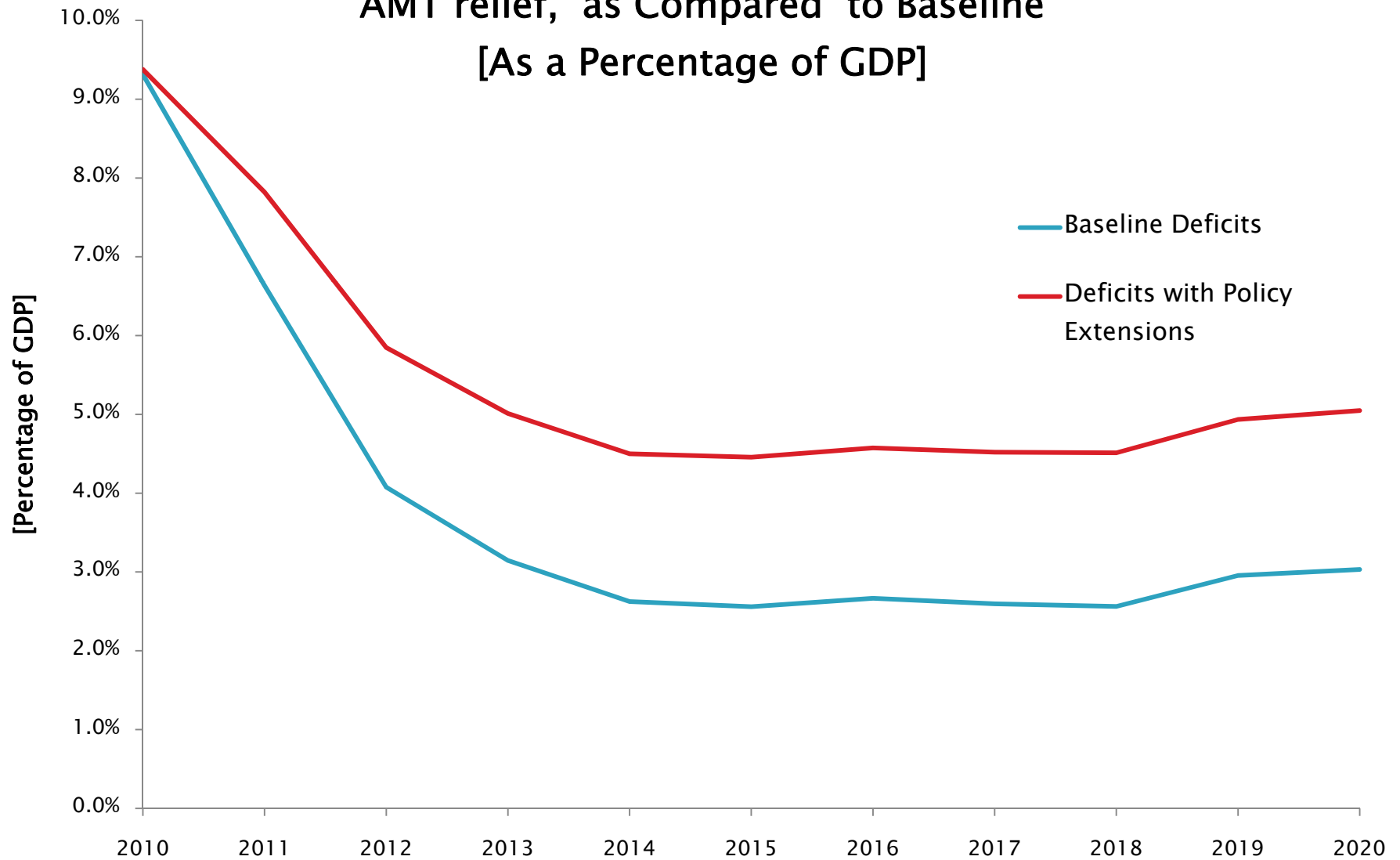
Projected Federal Outlays, Revenues, and Deficits as a Percentage of GDP (2010–2020)



**Projected Federal Receipts with Extension of
EGTRRA/JGTRRA, Estate and Gift Tax at 2009 Levels,
and AMT Relief as Compared to Baseline
[As a Percentage of GDP]**



**Projected Federal Deficits with Extension of
EGTRRA/JGTRRA, Estate and Gift Tax at 2009 Levels, and
AMT relief, as Compared to Baseline
[As a Percentage of GDP]**



Personal Exemption and Basic Standard Deduction

	<u>2010</u>	<u>2011</u>
<u>Personal Exemption</u>	\$3,650	\$3,750
<u>Basic Standard Deduction</u>		
Married Filing Separately	\$5,700	\$4,875
Single	\$5,700	\$5,900
Head of Household	\$8,400	\$8,600
Married Filing Jointly	\$11,400	\$9,750

Regular Tax Rates

	<u>2010</u>	<u>2011</u>
<u>Bottom Rate</u>	10 percent	15 percent
	15 percent	
	25 percent	(28 percent)
	28 percent	31 percent
	33 percent	36 percent
<u>Top Rate</u>	35 percent	39.6 percent

Capital Gains and Dividends

	<u>2010</u>	<u>2011</u>
Gain otherwise in 10-percent or 15 percent bracket	0%	10%
Gain otherwise in 10-percent or 15 percent bracket	15%	20%
Dividends otherwise in 10-percent or 15 percent bracket	0%	15%
Dividends otherwise in brackets above 15-percent bracket	15%	28%
		31%
		36%
		39.6%

Child Tax Credit

<u>Child Tax Credit</u>	<u>2010</u>	<u>2011</u>
Maximum	\$1,000	\$500
<u>Refundable:</u>		
Regardless of family size to extent taxpayer's earned income exceeds over \$3,000	Yes	No
For families with 3 or more Children to extent taxpayer's social security taxes exceeds taxpayer's earned income	Yes	Yes

Earned Income Tax Credit Parameters

	<u>2010</u>	<u>2011</u>
<u>Maximum Credit</u>		
No children	\$ 457	\$ 463
One child	3,050	3,089
Two children	5,036	5,100
Three or more children	5,666	5,100
<u>Phaseout Ranges for Married Taxpayers</u>		
No children	\$12,490 to \$18,470	\$7,580 to \$13,630
One child	\$21,460 to \$40,545	\$16,660 to \$35,990
Two children	\$21,460 to \$45,373	\$16,660 to \$40,880
Three or more children	\$21,460 to \$48,362	\$16,660 to \$40,880

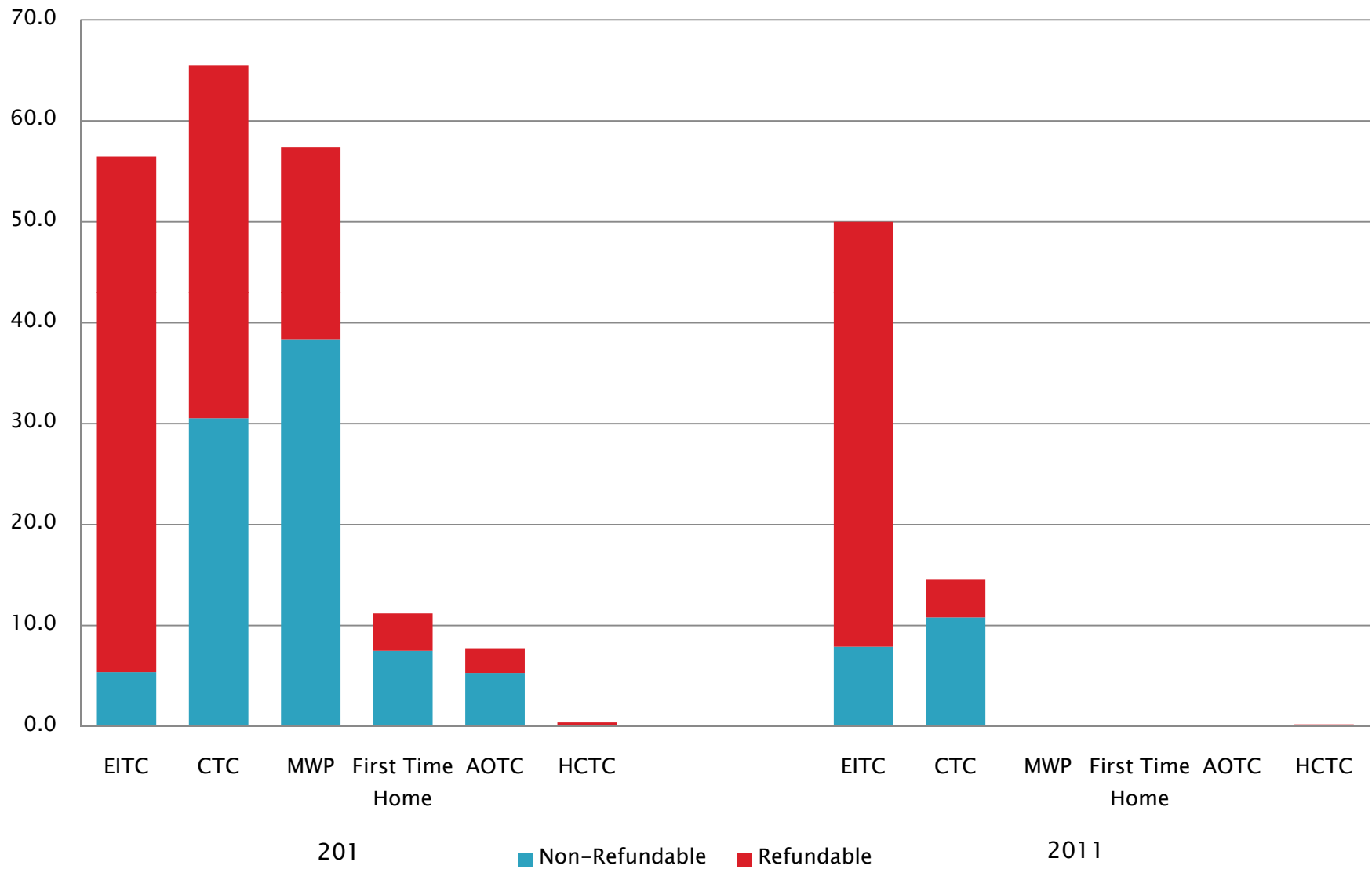
Certain Tax Benefits Limited/Sunsetted by EGTRRA, JGTRRA, and ARRTA

	<u>2010</u>	<u>2011</u>
Benefit of personal exemption available to higher income taxpayers ("PEP")	No	Yes
Full benefit of all itemized deductions available to higher income taxpayers ("Pease")	No	Yes
Married filers standard deduction 200% of single filers (marriage penalty relief)	Yes	No
Married filers 15-percent rate bracket size 200% of single filers (marriage penalty relief)	Yes	No
Earned Income Tax Credit ("EITC") higher phaseout point for joint filers	Yes	No

Other Income Tax Credits

	<u>2010</u>	<u>2011</u>
Health coverage tax credit percentage	80%	65%
Making work pay credit available	Yes (up to \$800)	No
American Opportunity/Hope Credit		
A. Maximum credit	\$2,500	\$1,800
B. Number of years of college eligible	4	2
C. <u>Phaseout range</u>		
Single	\$80,000 to \$90,000	\$51,000 to \$61,000
Joint	\$160,000 to \$180,000	\$102,000 to \$122,000
D. Partially refundable	Yes	No
First time homebuyer credit	Yes (up to \$8,000)	No

Refundable Credits in Billions of Dollars in Calendar Years 2010 and 2011

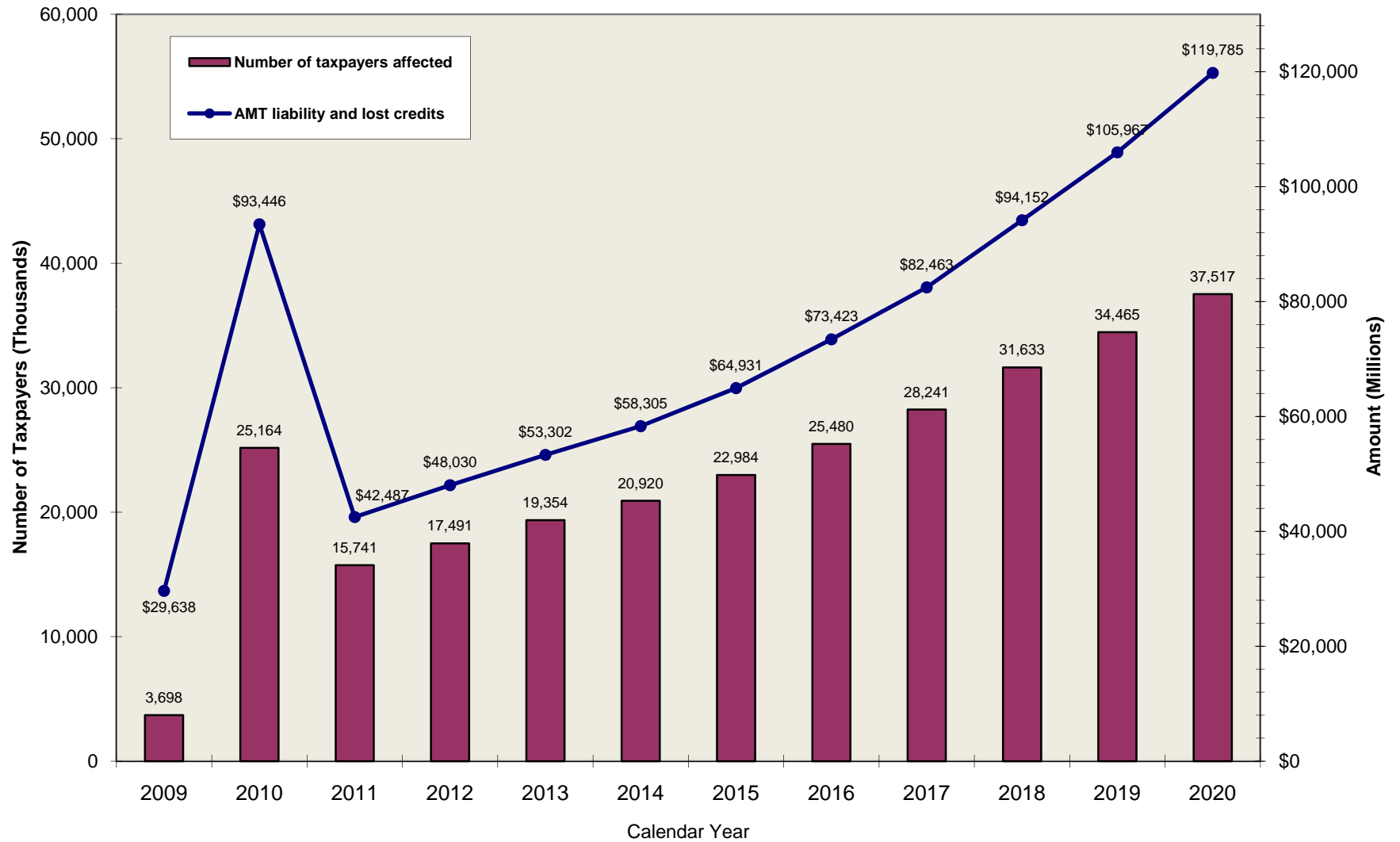


Alternative Minimum Tax Exemption Levels and Taxpayers Affected Under Present Law and with AMT Indexing of 2009 Parameters

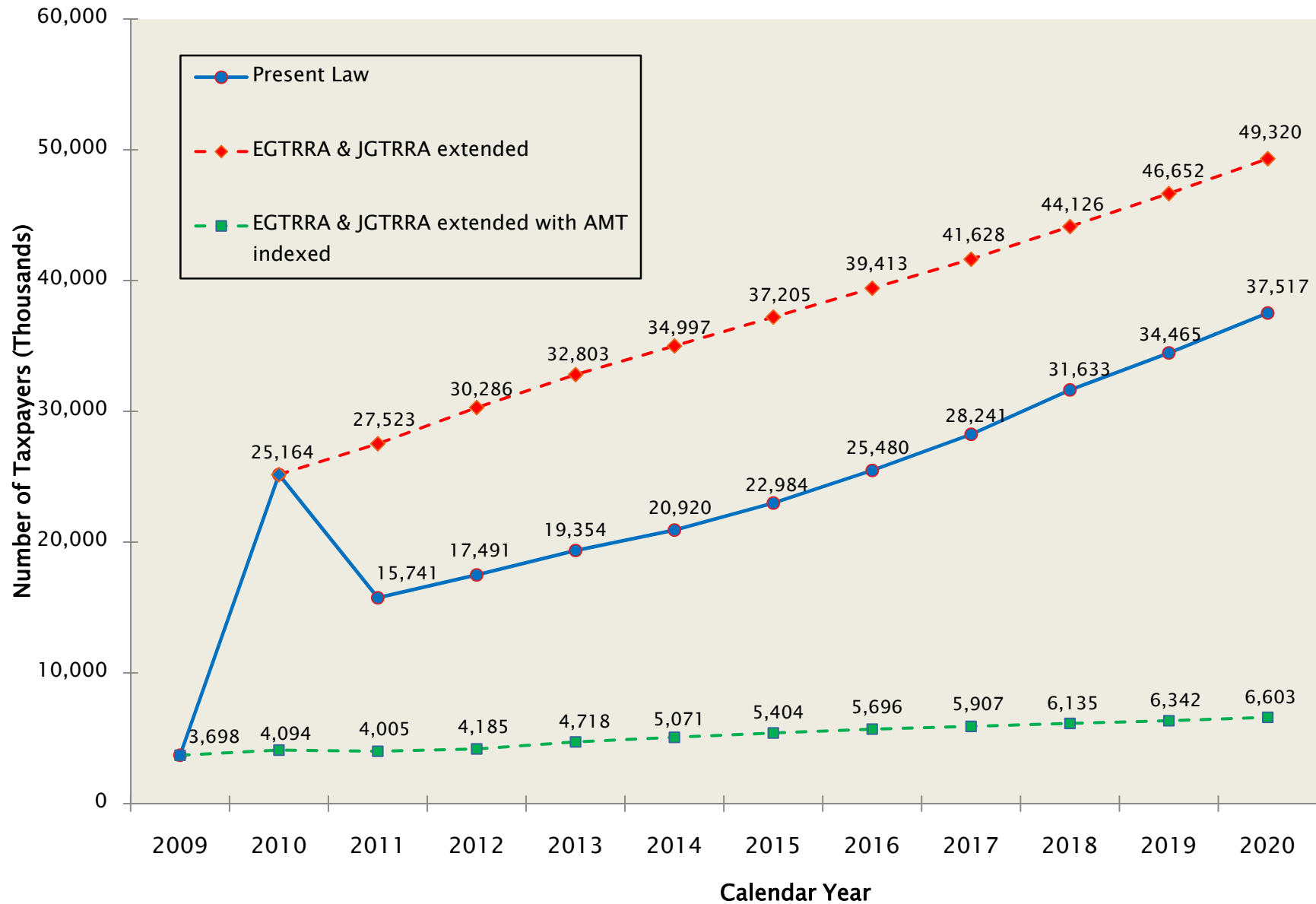
	2010 <u>present law</u>	2010 <u>with indexing*</u>
<u>Exemption Levels</u>		
Married taxpayers filing jointly	\$45,000	\$72,750
Unmarried individuals	\$33,750	\$47,900
<u>Number of Taxpayers Affected</u>	25.2 million	4.1 million

* Includes effects of indexing the exemption amount, the rate bracket breakpoints, and the threshold for phasing out the exemption amount.

Taxpayers Affected by the AMT: 2009-2020



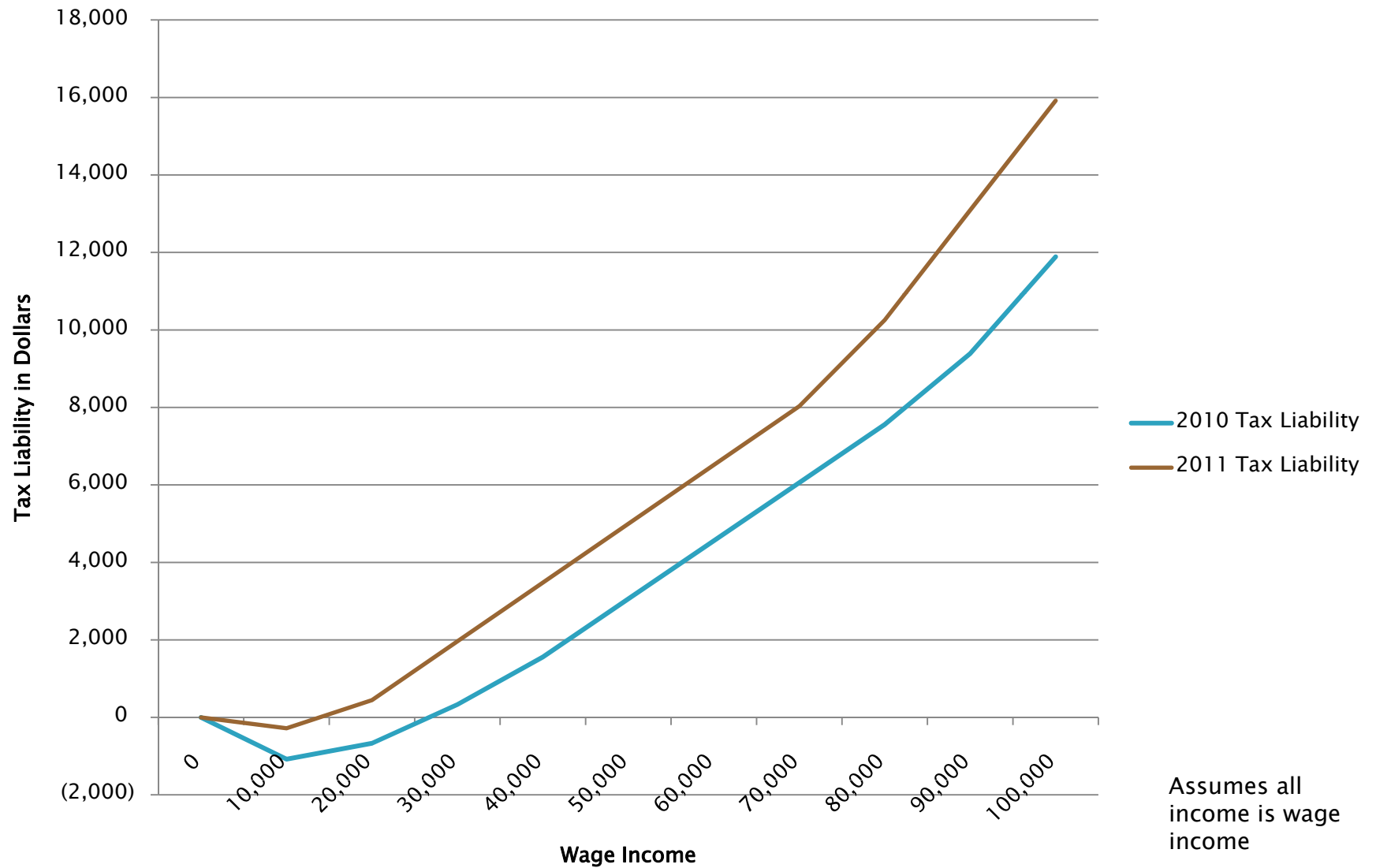
Taxpayers Affected by the AMT With EGTRRA and JGTRRA Extended: 2009-2020



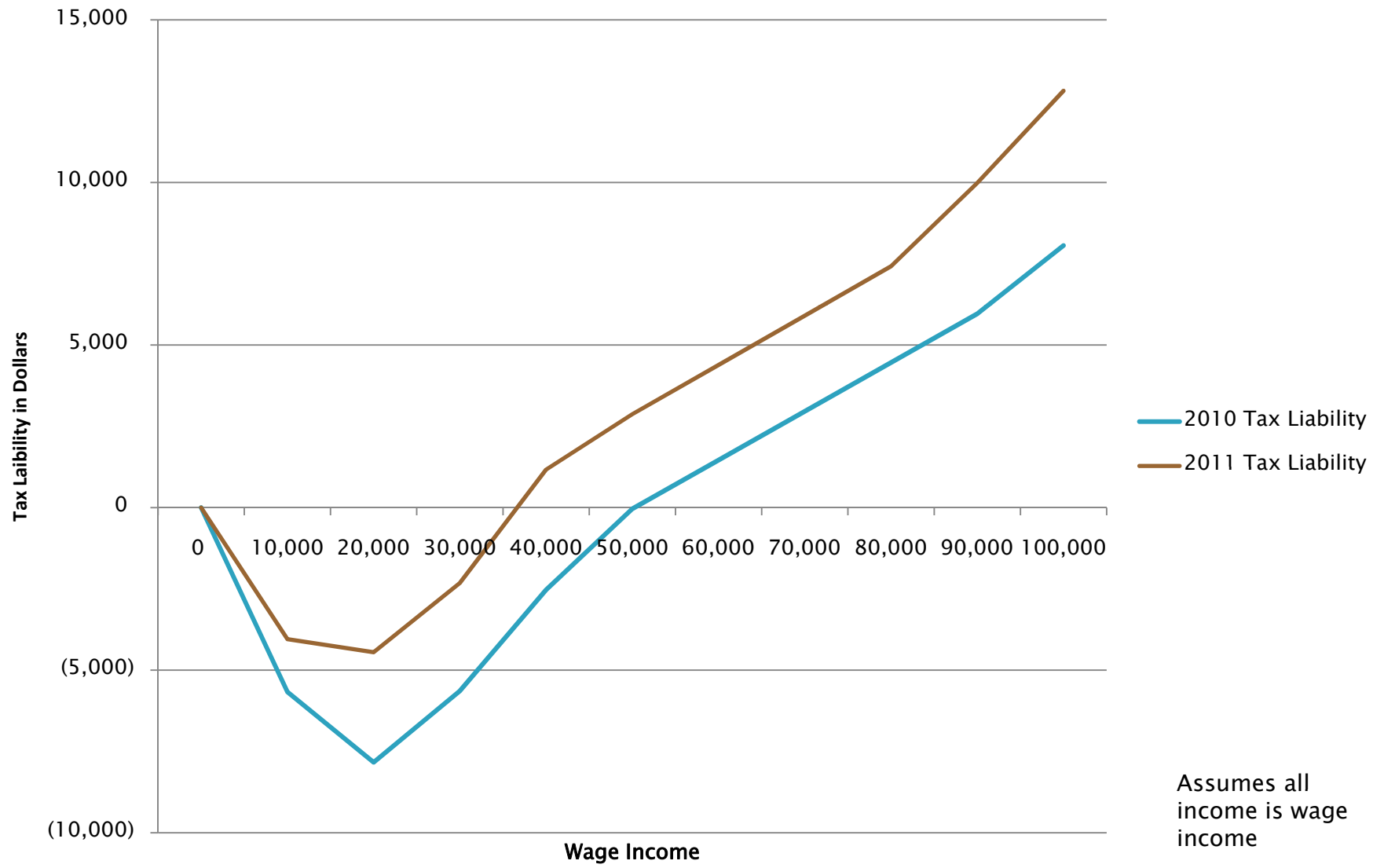
Average Tax Rates by Income Class, 2010 and 2011

INCOME CATEGORY	2010		2011	
	Average Income Tax	Average Combined Income, Excise, and Social Insurance Taxes	Average Income Tax	Average Combined Income, Excise, and Social Insurance Taxes
Less than \$10,000.....	-10.2%	4.8%	-6.6%	8.6%
\$10,000 to \$20,000.....	-9.2%	1.0%	-5.2%	5.1%
\$20,000 to \$30,000.....	-4.4%	7.5%	-0.1%	11.9%
\$30,000 to \$40,000.....	0.3%	12.3%	3.9%	16.1%
\$40,000 to \$50,000.....	2.8%	14.5%	5.8%	17.7%
\$50,000 to \$75,000.....	5.1%	16.4%	7.6%	19.0%
\$75,000 to \$100,000.....	7.4%	19.0%	9.7%	21.3%
\$100,000 to \$200,000.....	11.8%	23.4%	13.6%	25.2%
\$200,000 to \$500,000.....	19.1%	27.0%	20.3%	28.3%
\$500,000 to \$1,000,000.....	22.1%	26.2%	25.9%	30.1%
\$1,000,000 and over.....	22.9%	24.4%	28.4%	30.0%
Total, All Taxpayers.....	9.6%	19.3%	12.2%	22.1%

Tax Liability for Married Family With No Children 2010 and 2011



Income Tax Liability for Married Family With Two Children 2010 and 2011



Percentage of Returns With Social Insurance Taxes Greater Than Income Tax, by Wage Income 2010

