

**PRESENT LAW AND BACKGROUND DATA RELATED
TO THE FEDERAL TAX SYSTEM IN EFFECT
FOR 2010 AND 2011**

Scheduled for a Public Hearing
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of the
HOUSE COMMITTEE ON WAYS AND MEANS
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Prepared by the Staff
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INTRODUCTION

The Subcommittee on Select Revenue Measures of the House Committee on Ways and Means has scheduled a public hearing on March 23, 2010, on taxes and the Federal budget. This document,¹ prepared by the staff of the Joint Committee on Taxation, provides a summary of the present-law Federal tax system in effect for 2010 and 2011. The changes in 2011 primarily reflect sunset provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 (“EGTRRA”)² and the Jobs and Growth Tax Relief Reconciliation Act of 2003 (“JGTRRA”)³ as well as the expiration of provisions contained in the American Recovery and Reinvestment Tax Act of 2009 (“ARRTA”)⁴.

The current Federal tax system has four main elements: (1) an income tax on individuals and corporations (which consist of both a “regular” income tax and an alternative minimum tax); (2) payroll taxes on wages (and corresponding taxes on self-employment income); (3) estate, gift, and generation-skipping transfer taxes; and (4) excise taxes on selected goods and services.

In addition to the expiration of temporary provisions of Federal tax law, a number of aspects of the Federal tax laws are subject to change over time. For example, some dollar amounts and income thresholds are indexed for inflation. The standard deduction and the individual income tax rate brackets are examples of amounts that are indexed for inflation. The amount of earnings subject to the Social Security tax is adjusted annually for wage growth. In general, the Internal Revenue Service adjusts these numbers annually and publishes the inflation-adjusted amounts in effect for a tax year prior to the beginning of that year. Where applicable, this document generally includes dollar amounts in effect for 2010 (or 2011) and notes whether dollar amounts are indexed for inflation.

¹ This document may be cited as follows: 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. This document can be found on the Joint Committee on Taxation website at www.jct.gov.

² Pub. L. No. 107-16.

³ Pub. L. No. 108-27.

⁴ Division B, Title I, of the “American Recovery and Reinvestment Act of 2009,” Pub. L. No. 111-5.

I. SUMMARY OF THE INDIVIDUAL INCOME TAX

A. Individual Income Tax for 2010

In general

An income tax is imposed on individual citizens and residents of the United States.⁵ The tax is based on an individual's taxable income. An individual computes his or her taxable income by reducing gross income by the sum of (i) the deductions allowable in computing adjusted gross income, (ii) the standard deduction (or itemized deductions, at the election of the taxpayer), and (iii) the deduction for personal exemptions. Graduated tax rates are then applied to a taxpayer's taxable income to determine his or her income tax liability. Lower rates apply to net capital gain and qualified dividend income. A taxpayer may also be subject to an alternative minimum tax. A taxpayer may reduce his or her income tax liability by certain tax credits.

Gross income

Gross income means "income from whatever source derived" other than certain items specifically excluded from gross income. Sources of gross income generally include, among other things, compensation for services, interest, dividends, capital gains, rents, royalties, alimony and separate maintenance payments, annuities, income from life insurance and endowment contracts (other than certain death benefits), pensions, gross profits from a trade or business, income in respect of a decedent, and income from S corporations, partnerships,⁶ and trusts or estates.⁷ Exclusions from gross income include death benefits payable under a life insurance contract, interest on certain tax-exempt State and local bonds, employer-provided health insurance, employer-provided pension contributions, and certain other employer-provided benefits.

Adjusted gross income

An individual's adjusted gross income ("AGI") is determined by subtracting certain allowable deductions from gross income. These deductions are known as "above-the-line" deductions. These deductions are generally the expenses incurred to produce gross income. For example, these deductions include trade or business deductions (other than certain deductions for

⁵ Foreign tax credits generally are available against U.S. income tax imposed on foreign source income to the extent of foreign income taxes paid on that income. A nonresident alien generally is subject to the U.S. individual income tax only on income with a sufficient nexus to the United States.

⁶ In general, partnerships and S corporations are treated as pass-through entities for Federal income tax purposes. Thus, no Federal income tax is imposed at the entity level. Rather, income of these entities is passed through and taxed to the partners or shareholders.

⁷ In general, estates and trusts (other than grantor trusts) pay an individual income tax on the taxable income of the estate or trust. Items of income which are distributed or required to be distributed under governing law or under the terms of the governing instrument generally are included in the income of the beneficiary and not the estate or trust. These entities determine their tax liability using a special tax rate schedule and may be subject to the alternative minimum tax. Certain trusts are treated as being owned by grantors in whole or in part for tax purposes; in such cases, the grantors are taxed on the income of the trust.

services performed as an employee), losses from the sale or exchange of property, deductions attributable to rents and royalties, contributions to pensions and other retirement plans, alimony payments, and moving expenses.

Taxable income

In order to determine taxable income, a taxpayer reduces AGI by any personal exemption deductions and either the applicable standard deduction or the taxpayer’s itemized deductions. Personal exemptions generally are allowed for the taxpayer, his or her spouse, and any dependents. For 2010, the amount deductible for each personal exemption is \$3,650. This amount is indexed annually for inflation. For 2010, the deduction for personal exemptions is not reduced or eliminated for taxpayers with incomes over certain thresholds. A taxpayer also may reduce AGI by the amount of the applicable standard deduction. The basic standard deduction varies depending upon a taxpayer’s filing status. For 2010, the amount of the standard deduction is \$5,700 for single individuals and married individuals filing separate returns, \$8,400 for heads of households, and \$11,400 for married individuals filing a joint return and surviving spouses. An additional standard deduction is allowed with respect to any individual who is elderly or blind.⁸ The amounts of the basic standard deduction and the additional standard deduction are indexed annually for inflation.

Table 1.–Personal Exemption and Basic Standard Deduction for 2010

Personal Exemption	\$3,650
<u>Basic Standard Deduction:</u>	
Single and married filing separately	\$5,700
Head of household	\$8,400
Married filing jointly	\$11,400

In lieu of taking the applicable standard deductions, an individual may elect to itemize deductions. The deductions that may be itemized include State and local income taxes, real property and certain personal property taxes, home mortgage interest, charitable contributions, certain investment interest, medical expenses (in excess of 7.5 percent of AGI), casualty and theft losses (in excess of \$100 per loss and in excess of 10 percent of AGI), and certain miscellaneous expenses (in excess of two percent of AGI). For 2010, the total amount of itemized deductions allowed is not reduced for taxpayers with incomes over a certain threshold amount.

⁸ For 2010, the additional amount is \$1,100 for married taxpayers (for each spouse meeting the applicable criterion) and surviving spouses. The additional amount for single individuals and heads of households is \$1,400. If an individual is both blind and aged, the individual is entitled to two additional standard deductions, for a total additional amount (for 2010) of \$2,200 or \$2,800, as applicable.

Tax liability

In general

A taxpayer's net income tax liability is the greater of (1) regular individual income tax liability reduced by credits allowed against the regular tax, or (2) tentative minimum tax reduced by credits allowed against the minimum tax. The amount of income subject to tax is determined differently under the regular tax and the alternative minimum tax, and separate rate schedules apply. Lower rates apply for long-term capital gains and qualified dividend income; those rates apply for both the regular tax and the alternative minimum tax.

Regular tax liability

To determine regular tax liability, a taxpayer generally must apply the tax rate schedules (or the tax tables) to the taxpayer's regular taxable income. The rate schedules are broken into several ranges of income, known as income brackets, and the marginal tax rate increases as a taxpayer's income increases. Separate rate schedules apply based on an individual's filing status. For 2010, the regular individual income tax rate schedules are as follows:

Table 2.—Federal Individual Income Tax Rates for 2010

If taxable income is:	Then income tax equals:
<i>Single Individuals</i>	
Not over \$8,375	10% of the taxable income
Over \$8,375 but not over \$34,000	\$837.50 plus 15% of the excess over \$8,375
Over \$34,000 but not over \$82,400	\$4,681.25 plus 25% of the excess over \$34,000
Over \$82,400 but not over \$171,850	\$16,781.25 plus 28% of the excess over \$82,400
Over \$171,850 but not over \$373,650	\$41,827.25 plus 33% of the excess over \$171,850
Over \$373,650	\$108,421.25 plus 35% of the excess over \$373,650

Heads of Households

Not over \$11,950	10% of the taxable income
Over \$11,950 but not over \$45,550	\$1,195 plus 15% of the excess over \$11,950
Over \$45,550 but not over \$117,650	\$6,235 plus 25% of the excess over \$45,550
Over \$117,650 but not over \$190,550	\$24,260 plus 28% of the excess over \$117,650
Over \$190,550 but not over \$373,650	\$44,672 plus 33% of the excess over \$190,550
Over \$373,650	\$105,095 plus 35% of the excess over \$373,650

Married Individuals Filing Joint Returns and Surviving Spouses

Not over \$16,750	10% of the taxable income
Over \$16,750 but not over \$68,000	\$1,675 plus 15% of the excess over \$16,750
Over \$68,000 but not over \$137,300	\$9,362.50 plus 25% of the excess over \$68,000
Over \$137,300 but not over \$209,250	\$26,687.50 plus 28% of the excess over \$137,300
Over \$209,250 but not over \$373,650	\$46,833.50 plus 33% of the excess over \$209,250
Over \$373,650	\$101,085.50 plus 35% of the excess over \$373,650

Married Individuals Filing Separate Returns

Not over \$8,375	10% of the taxable income
Over \$8,375 but not over \$34,000	\$837.50 plus 15% of the excess over \$8,375
Over \$34,000 but not over \$68,650	\$4,681.50 plus 25% of the excess over \$34,000
Over \$68,650 but not over \$104,625	\$13,343.75 plus 28% of the excess over \$68,650
Over \$104,625 but not over \$186,825	\$23,416.75 plus 33% of the excess over \$104,625
Over \$186,825	\$50,542.75 plus 35% of the excess over \$186,825

Alternative minimum tax liability

An alternative minimum tax is imposed on an individual, estate, or trust in an amount by which the tentative minimum tax exceeds the regular income tax for the taxable year. The tentative minimum tax is the sum of (1) 26 percent of so much of the taxable excess as does not

exceed \$175,000 (\$87,500 in the case of a married individual filing a separate return) and (2) 28 percent of the remaining taxable excess. The taxable excess is so much of the alternative minimum taxable income (“AMTI”) as exceeds the exemption amount. The maximum tax rates on net capital gain and dividends used in computing the regular tax are also used in computing the tentative minimum tax. AMTI is the taxpayer’s taxable income increased by the taxpayer’s “tax preference items” and adjusted by redetermining the tax treatment of certain items in a manner that negates the deferral of income resulting from the regular tax treatment of those items.

The exemption amounts for 2010 are: (1) \$45,000 in the case of married individuals filing a joint return and surviving spouses; (2) \$33,750 in the case of unmarried individuals other than surviving spouses; (3) \$22,500 in the case of married individuals filing separate returns; and (4) \$22,500 in the case of an estate or trust.⁹ The exemption amounts are phased out by an amount equal to 25 percent of the amount by which the individual’s AMTI exceeds: (1) \$150,000 in the case of married individuals filing a joint return and surviving spouses; (2) \$112,500 in the case of other unmarried individuals; and (3) \$75,000 in the case of married individuals filing separate returns or an estate or a trust. These amounts are not indexed for inflation.

Among the preferences and adjustments applicable to the individual alternative minimum tax are accelerated depreciation on certain property used in a trade or business, circulation expenditures, research and experimental expenditures, certain expenses and allowances related to oil and gas and mining exploration and development, certain tax-exempt interest income, and a portion of the amount of gain excluded with respect to the sale or disposition of certain small business stock. In addition, personal exemptions, the standard deduction, and certain itemized deductions, such as State and local taxes and miscellaneous deductions items, are not allowed to reduce alternative minimum taxable income.

Special capital gains and dividends rates

In general, gain or loss reflected in the value of an asset is not recognized for income tax purposes until a taxpayer disposes of the asset. On the sale or exchange of a capital asset, any gain generally is included in income. Any net capital gain of an individual is taxed at maximum rates lower than the rates applicable to ordinary income. Net capital gain is the excess of the net long-term capital gain for the taxable year over the net short-term capital loss for the year. Gain or loss is treated as long-term if the asset is held for more than one year.

Capital losses generally are deductible in full against capital gains. In addition, individual taxpayers may deduct up to \$3,000 of capital losses from ordinary income in each year. Any remaining unused capital losses may be carried forward indefinitely to another taxable year.

⁹ The exemption amounts for 2009 were: (1) \$70,950 in the case of married individuals filing a joint return and surviving spouses; (2) \$46,700 in the case of unmarried individuals other than surviving spouses; (3) \$35,475 in the case of married individuals filing separate returns; and (4) \$35,475 in the case of an estate or trust.

Maximum tax rates apply to capital gains and certain qualified dividends. For 2010, the maximum rate of tax on the adjusted net capital gain of an individual is 15 percent. In addition, any adjusted net capital gain otherwise taxed at a 10- or 15-percent rate is taxed at a zero-percent rate. These rates apply for purposes of both the regular tax and the alternative minimum tax.

These rates also apply to qualified dividend income.

Credits against tax

The individual may reduce his or her tax liability by any available tax credits. For example, tax credits are allowed for certain business expenditures, certain foreign income taxes paid or accrued, certain elderly or disabled individuals, certain child care expenditures, certain adoption expenses, the earned income tax credit (“EITC”) for low-income workers who satisfy certain requirements, the child tax credit, and the credit for certain health care expenses. Additional tax credits include: the making work pay tax credit, the American opportunity tax credit, and a tax credit for certain first-time homebuyers. Tax credits allowed against the regular tax are not uniformly allowed against the alternative minimum tax.

A brief description of the most widely used credits follows.

Earned income tax credit.—The amount of the EITC varies depending upon the taxpayer’s earned income and whether the taxpayer has one, two, more than two, or no qualifying children. In 2010, the maximum EITC is \$5,666 for taxpayers with more than two qualifying children, \$5,036 for taxpayers with two qualifying children, \$3,050 for taxpayers with one qualifying child, and \$457 for taxpayers with no qualifying children. The EITC is phased out along certain phase-out ranges. For 2010, the phase-out range is \$7,480 to \$13,460 for no qualifying children, \$16,450 to \$35,535 for one qualifying child, \$16,450 to \$40,363 for two qualifying children, and \$16,450 to \$43,352 for three or more qualifying children. For 2010, the phase-out thresholds for married couples filing a joint return is increased by \$5,010.

Child tax credit.—For 2010, the child tax credit generally is \$1,000 but is phased-out for individuals with income over certain thresholds. For 2010, the child tax credit is refundable up to the greater of (1) 15 percent of the taxpayer’s earned income in excess of \$3,000; or (2) for families with three or more children, the amount by which the taxpayer’s social security taxes exceed the taxpayer’s earned income.

Health coverage tax credit.—The health coverage tax credit is a refundable tax credit for a taxpayer who is an eligible individual. For 2010, the credit is equal to 80 percent of the premiums paid by the taxpayer for months of eligible coverage under qualified health insurance of the taxpayer and qualifying family members. The credit is available on an advance basis through a program established and administered by the Treasury Department. In general, eligible individuals are individuals who receive a trade adjustment allowance (and individuals who would be eligible to receive such an allowance but for the fact that they have not exhausted their regular unemployment benefits), individuals eligible for the alternative trade adjustment assistance program, and individuals over age 55 who receive pension benefits from the Pension Benefit Guaranty Corporation. For 2010, family members of Medicare eligible individuals are eligible for the credit for 24 months after certain events that otherwise terminate eligibility for

the credit, including the taxpayer's entitlement to Medicare Part A or enrollment in Medicare Part B, the death of the taxpayer who was the eligible individual, or divorce between the eligible individual and the individual's spouse.

Making work pay tax credit.—The making work pay tax credit for 2010 is equal to the lesser of (1) 6.2 percent of the individual's earned income, or (2) \$400 (\$800 in the case of a joint return). The credit is phased out at a rate of two percent of the eligible individual's modified adjusted gross income above \$75,000 (\$150,000 in the case of a joint return).

American opportunity tax credit.—For 2010, the credit is equal to up to \$2,500 per eligible student per year for qualified tuition and related expenses paid for each of the first four years of the student's post-secondary education in a degree or certificate program. Also, the credit is phased out ratably for taxpayers with adjusted gross income between \$80,000 and \$90,000 (\$160,000 and \$190,000 for married taxpayers filing a joint return). 40 percent of the otherwise allowable credit is refundable for 2010.

First-time homebuyer tax credit.—A refundable first-time homebuyer tax credit is allowed equal to the lesser of \$8,000 (\$4,000 for a married individual filing a separate return) or 10 percent of the purchase price of a principal residence. Certain long-term residents of the same principal residence are treated as eligible for the first-time homebuyer credit. In the case of the long-time resident of the same principal residence, the maximum refundable credit allowed is equal to the lesser of \$6,500 (\$3,250 for a married individual filing a separate return) or 10 percent of the purchase price of a principal residence. The credit is allowable only for certain purchases before May 1, 2010 (before July 1, 2010 with respect to written binding contracts before May 1, 2010).

B. Individual Income Tax for 2011¹⁰

Adjusted gross income

There are no significant changes to the calculation of gross income and adjusted gross income between 2010 and 2011.

Taxable income

Taxable income will rise in 2011 for most taxpayers due to lower basic standard deduction amounts and the re-imposition of limits on personal exemptions and many itemized deductions.

For 2011, the amount deductible for each personal exemption is \$3,750. This amount is indexed annually for inflation. For 2011, the deduction for personal exemptions is reduced or eliminated for taxpayers with incomes over certain thresholds, which are indexed annually for inflation.¹¹ The applicable thresholds for 2011 are \$171,000 for single individuals, \$256,700 for married individuals filing a joint return and surviving spouses, \$213,900 for heads of households, and \$128,350 for married individuals filing separate returns. A taxpayer also may reduce AGI by the amount of the applicable standard deduction. The basic standard deduction varies depending upon a taxpayer's filing status. For 2011, the amount of the standard deduction is \$5,800 for single individuals, \$8,600 for heads of households, and \$9,750 for married individuals filing a joint return and surviving spouses, and \$4,875 for married filing separate returns. An additional standard deduction is allowed with respect to any individual who is elderly or blind.¹² The amounts of the basic standard deduction and the additional standard deductions are indexed annually for inflation.

¹⁰ The dollar amounts for 2011 in this section, which represent inflation adjustments, are the estimates by the staff of the Joint Committee on Taxation based on Congressional Budget Office baseline inflation estimates.

¹¹ This is commonly called the personal exemption phase-out ("PEP").

¹² For 2011, the additional amount is \$1,150 for married taxpayers (for each spouse meeting the applicable criterion) and surviving spouses. The additional amount for single individuals and heads of households is \$1,450. If an individual is both blind and aged, the individual is entitled to two additional standard deductions, for a total additional amount (for 2011) of \$2,300 or \$2,900, as applicable.

Table 3.–Personal Exemption and Basic Standard Deduction for 2011

Personal Exemption	\$3,750
<u>Basic Standard Deduction:</u>	
Married filing separately	\$4,875
Single	\$5,800
Head of household	\$8,600
Married filing jointly	\$9,750

In lieu of taking the applicable standard deductions, an individual may elect to itemize deductions. For 2011, the total amount of most itemized deductions allowed is reduced for taxpayers with incomes over a certain threshold amount, which is indexed annually for inflation.¹³ Certain itemized deductions are not reduced (i.e., medical expenses, investment income, theft and casualty losses and gambling losses). The threshold amount for 2011 is \$171,000 (\$85,550 for married individuals filing separate returns).

Tax liability

Regular tax liability

In general, the calculation of regular tax liability between 2010 and 2011 remains unchanged except for the significant exception of the individual income tax rates as set forth below.

Table 4.–Federal Individual Income Tax Rates for 2011

If taxable income is:	Then income tax equals:
<i>Single Individuals</i>	
Not over \$34,850	15% of the taxable income
Over \$34,850 but not over \$84,350	\$5,227.50 plus 28% of the excess over \$34,850
Over \$84,350 but not over \$176,000	\$19,087.50 plus 31% of the excess over \$84,350
Over \$176,000 but not over \$382,650	\$47,499 plus 36% of the excess over \$176,000
Over \$382,650	\$121,893 plus 39.6% of the excess over \$382,650

¹³ This limitation is commonly called the “Pease” limitation.

Heads of Households

Not over \$46,650	15% of the taxable income
Over \$46,650 but not over \$120,500	\$6,997.50 plus 28% of the excess over \$46,650
Over \$120,500 but not over \$195,150	\$27,675.50 plus 31% of the excess over \$120,500
Over \$195,150 but not over \$382,650	\$50,817 plus 36% of the excess over \$195,150
Over \$382,650	\$118,317 plus 39.6% of the excess over \$382,650

Married Individuals Filing Joint Returns and Surviving Spouses

Not over \$58,200	15% of the taxable income
Over \$58,200 but not over \$140,600	\$8,730 plus 28% of the excess over \$58,200
Over \$140,600 but not over \$214,250	\$31,802 plus 31% of the excess over \$140,600
Over \$214,250 but not over \$382,650	\$54,633.50 plus 36% of the excess over \$214,250
Over \$382,650	\$115,257.50 plus 39.6% of the excess over \$382,650

Married Individuals Filing Separate Returns

Not over \$29,100	15% of the taxable income
Over \$29,100 but not over \$70,300	\$4,365 plus 28% of the excess over \$29,100
Over \$70,300 but not over \$107,125	\$15,901 plus 31% of the excess over \$70,300
Over \$107,125 but not over \$191,325	\$27,316.75 plus 36% of the excess over \$107,125
Over \$191,325	\$57,628.75 plus 39.6% of the excess over \$191,325

Alternative minimum tax liability

The rates and exemption amounts for 2010 remain unchanged for 2011.

Special capital gains and dividends rates

Maximum tax rates apply to capital gains. For 2011, the maximum rate of tax on the adjusted net capital gain of an individual is 20 percent (18 percent for property purchased after 2000 and held more than five years). In addition, any adjusted net capital gain otherwise taxed at

a 15-percent rate is taxed at a 10-percent rate (8 percent for property held more than five years). These rates apply for purposes of both the regular tax and the alternative minimum tax. Qualified dividend income is taxed at regular tax rates. These provisions will result in higher taxes on both capital gains and dividends in 2011.

Credits against tax

The individual may reduce his or her tax liability by any available tax credits. For example, tax credits are allowed for certain business expenditures, certain foreign income taxes paid or accrued, certain elderly or disabled individuals, certain child care expenditures, certain adoption expenses, the earned income tax credit (“EITC”) for low-income workers who satisfy certain requirements, the child tax credit, and the credit for certain health care expenses. Additional tax credits include: the making work pay tax credit, the American opportunity tax credit, and a tax credit for certain first-time homebuyers. Tax credits allowed against the regular tax are not uniformly allowed against the alternative minimum tax.

A brief description of the most widely used credits follows. The expiration of part or all of these tax credits will increase tax liability for 2011.

Earned income tax credit.—The amount of the EITC varies depending upon the taxpayer’s earned income and whether the taxpayer has one, two or more, or no qualifying children. The various income thresholds that determine the amount of the credit are indexed to inflation. In 2011, the maximum EITC is projected to be \$5,100 for taxpayers with two or more qualifying children, \$3,089 for taxpayers with one qualifying child, and \$463 for taxpayers with no qualifying children. The EITC is phased out along certain phase-out ranges. For 2011, the phase out range is projected to be \$7,580 to \$13,630 for no qualifying children, \$16,660 to \$35,990 for one qualifying child, and \$16,660 to \$40,880 for two or more qualifying children. For 2011, the phase-out thresholds for married couples filing a joint return are the same as for other filers..

Child tax credit.—For 2011, the child tax credit generally is \$500 but is phased-out for individuals with income over certain thresholds. For 2011, the child tax credit is refundable for families with three or more children, to the extent by which the amount by which the taxpayer’s social security taxes exceed the taxpayer’s earned income.

Health coverage tax credit.—For months after December 31, 2010, the health coverage tax credit is reduced from 80 percent to 65 percent of the cost of qualified health insurance paid by an eligible individual. Certain other provisions with respect to the credit cease to apply for months after December 31, 2010, including, for example, the provision allowing family members to be eligible for the credit for 24 months after certain events that otherwise terminate eligibility for the credit.¹⁴

Making work pay tax credit.—The making work pay tax credit is not available for 2011.

¹⁴ Secs. 1899 to 1899H of the American Recovery and Reinvestment Act (Pub. L. No. 111-5) made certain changes to the provisions for the health coverage tax credit which only apply to months before January 1, 2011.

American opportunity tax credit.—The American opportunity tax credit expires after 2010 and the HOPE credit resumes its place after the American opportunity tax credit’s expiration. For 2011, the HOPE credit can be up to \$1,800 per eligible student per year for qualified tuition and related expenses paid for each of the first two years of the student’s post-secondary education in a degree or certificate program. For 2011, the credit is phased out ratably for taxpayers with adjusted gross income between \$51,000 and \$61,000 (\$102,000 and \$122,000 for married taxpayers filing a joint return). The otherwise allowable credit is not refundable for 2011.

First-time homebuyer credit.—The first-time homebuyer tax credit is not available for 2011.

II. SUMMARY OF SOCIAL INSURANCE TAXES

A. Taxable Year 2010

Social security benefits and certain Medicare benefits are financed primarily by payroll taxes on covered wages. The Federal Insurance Contributions Act (“FICA”) imposes tax on employers¹⁵ based on the amount of wages paid to an employee during the year. The tax imposed is composed of two parts: (1) the old age, survivors, and disability insurance (“OASDI”) tax equal to 6.2 percent of covered wages up to the taxable wage base (\$106,800 in 2010); and (2) the Medicare hospital insurance (“HI”) tax amount equal to 1.45 percent of covered wages. In addition to the tax on employers, each employee is subject to FICA taxes equal to the amount of tax imposed on the employer. The employee-level tax generally must be withheld and remitted to the Federal government by the employer.

As a parallel to FICA taxes, the Self-Employment Contributions Act (“SECA”) imposes taxes on the net income from self employment of self-employed individuals. The rate of the OASDI portion of SECA taxes is equal to the combined employee and employer OASDI FICA tax rates and applies to self employment income up to the FICA taxable wage base. Similarly, the rate of the HI portion is the same as the combined employer and employee HI rates and there is no cap on the amount of self employment income to which the rate applies.¹⁶

In addition to FICA taxes, employers are subject to a Federal unemployment insurance payroll tax (“FUTA”) equal to 6.2 percent of the total wages of each employee (up to \$7,000) on covered employment. Employers are eligible for a Federal credit equal to 5.4 percent for State unemployment taxes. For 2010, the current 0.8 percent average tax rate (i.e., 6.2 minus 5.4) is composed of a permanent tax rate of 0.6 percent and a temporary surtax rate of 0.2 percent. Federal unemployment insurance payroll taxes are used to fund programs maintained by the States for the benefit of unemployed workers.

B. Taxable Year 2011

Social insurance taxes remain generally the same in 2011 as for 2010. The temporary FUTA surtax rate of 0.2 percent expires after the first six months of 2011.¹⁷

¹⁵ Employers who hire certain unemployed or part-time workers this year (after Feb. 3, 2010 and before Jan. 1, 2011) may qualify for an exemption, for the remainder of the year, of their share of Social Security taxes on wages paid to these workers on or after March 19, 2010.

¹⁶ For purposes of computing net earnings from self employment, taxpayers are permitted a deduction equal to the product of the taxpayer’s earnings (determined without regard to this deduction) and one-half of the sum of the rates for OASDI (12.4 percent) and HI (2.9 percent), i.e., 7.65 percent of net earnings. This deduction reflects the fact that the FICA rates apply to an employee’s wages, which do not include FICA taxes paid by the employer, whereas the self-employed individual’s net earnings are economically equivalent to an employee’s wages plus the employer share of FICA taxes.

¹⁷ Pub. L. No. 111-92.

III. SUMMARY OF THE CORPORATE INCOME TAX

A. Corporate Income Tax for 2010

In general, corporations organized under the laws of any of the 50 States (and the District of Columbia) are subject to the U.S. corporate income tax on their worldwide taxable income.¹⁸

Taxable income

The taxable income of a corporation generally is comprised of gross income less allowable deductions. Gross income generally is income derived from any source, including gross profit from the sale of goods and services to customers, rents, royalties, interest (other than interest from certain indebtedness issued by State and local governments), dividends, gains from the sale of business and investment assets, and other income.

Allowable deductions include ordinary and necessary business expenditures, such as salaries, wages, contributions to profit-sharing and pension plans and other employee benefit programs, repairs, bad debts, taxes (other than Federal income taxes), contributions to charitable organizations (subject to an income limitation), advertising, interest expense, certain losses, selling expenses, and other expenses. Expenditures that produce benefits in future taxable years to a taxpayer's business or income-producing activities (such as the purchase of plant and equipment) generally are capitalized and recovered over time through depreciation, amortization or depletion allowances. Generally, a net operating loss incurred in one taxable year may be carried back two years or carried forward 20 years and allowed as a deduction in another taxable year. Under a special carryback provision, certain taxpayers may elect to increase the carryback period for one applicable net operating loss (for a taxable year ending after December 31, 2007 and beginning before January 1, 2010) from two years to any whole number which is more than two and less than six.¹⁹ Deductions are also allowed for certain amounts despite the lack of a direct expenditure by the taxpayer. For example, a deduction is allowed for all or a portion of the amount of dividends received by a corporation from another corporation (provided certain ownership requirements are satisfied). Moreover, a deduction is allowed for a portion of the amount of income attributable to certain domestic production activities.

¹⁸ Foreign tax credits generally are available against U.S. income tax imposed on foreign source income to the extent of foreign income taxes paid on that income. A foreign corporation generally is subject to the U.S. corporate income tax only on income with a sufficient nexus to the United States.

A qualified small business corporation may elect, under subchapter S of the Code, not to be subject to the corporate income tax. If an S corporation election is made, the income of the corporation will flow through to the shareholders and be taxable directly to the shareholders. Special rules (not discussed herein) also apply to a corporation that has elected to be taxable as a regulated investment company (RIC), real estate investment trust (REIT), or real estate mortgage investment conduit (REMIC).

¹⁹ See sec. 172(b)(1)(H). The amount of a net operating loss carried back to the fifth taxable year is subject to limitation. The election is not available to certain taxpayers, including recipients of Federal government assistance under the Emergency Economic Stabilization Act of 2008 (Pub. L. No. 110-343). Corporations that are eligible small businesses may be able to increase the carryback period for two applicable net operating losses.

The Code also specifies certain expenditures that typically may not be deducted, such as dividends paid to shareholders, expenses associated with earning tax-exempt income,²⁰ certain entertainment expenditures, certain executive compensation in excess of \$1,000,000 per year, a portion of the interest on certain high-yield debt obligations that resemble equity, and fines, penalties, bribes, kickbacks and illegal payments.

Tax liability

A corporation’s regular income tax liability generally is determined by applying the following tax rate schedule to its taxable income.²¹

Table 5.—Federal Corporate Income Tax Rates

If taxable income is:	Then the income tax rate is:
\$0-\$50,000	15 percent of taxable income
\$50,001-\$75,000	25 percent of taxable income
\$75,001-\$10,000,000	34 percent of taxable income
Over \$10,000,000	35 percent of taxable income

The first two graduated rates described above are phased out for corporations with taxable income between \$100,000 and \$335,000. As a result, a corporation with taxable income between \$335,000 and \$10,000,000 effectively is subject to a flat tax rate of 34 percent. Also, the application of the 34-percent rate is gradually phased out for corporations with taxable income between \$15,000,000 and \$18,333,333, such that a corporation with taxable income of \$18,333,333 or more effectively is subject to a flat rate of 35 percent.

In contrast to the treatment of capital gains in the individual income tax, no separate rate structure exists for corporate capital gains. Thus, the maximum rate of tax on the net capital gains of a corporation is 35 percent. A corporation may not deduct the amount of capital losses in excess of capital gains for any taxable year. Disallowed capital losses may be carried back three years or carried forward five years.

Corporations are taxed at lower rates on income from certain domestic production activities. This rate reduction is effected by the allowance of a deduction equal to a percentage of qualifying domestic production activities income. For taxable years beginning after 2009, the

²⁰ For example, the carrying costs of tax-exempt State and local obligations and the premiums on certain life insurance policies are not deductible.

²¹ A “qualified personal service corporation” is simply taxed at a flat rate of 35 percent (sec. 11(b)(2)).

deduction is equal to nine percent of the income from manufacturing, construction, and certain other activities specified in the Code.²²

Like individuals, corporations may reduce their tax liability by any applicable tax credits. Tax credits applicable to businesses include, among other things, credits for producing fuels from nonconventional sources, investment tax credits (applicable to investment in certain renewable energy property and the rehabilitation of certain real property), the alcohol and other fuels credit (applicable to production of certain alcohol fuels, ethanol and qualified cellulosic biofuel), the research credit (which expired on December 31, 2009), the low-income housing credit (applicable to investment in certain low-income housing projects), the enhanced oil recovery credit (applicable to the recovery of certain difficult-to-extract oil reserves)²³, the empowerment zone employment credit (applicable to wages paid to certain residents of or employees in empowerment zones, but which expired on December 31, 2009), the work opportunity credit (applicable to wages paid to individuals from certain targeted groups) and the disabled access credit (applicable to expenditures by certain small businesses to make the businesses accessible to disabled individuals). The credits generally are determined based on a percentage of the cost associated with the underlying activity and generally are subject to certain limitations.

Affiliated group

Domestic corporations that are affiliated through 80 percent or more corporate ownership may elect to file a consolidated return in lieu of filing separate returns. For purposes of calculating tax liability, corporations filing a consolidated return generally are treated as divisions of a single corporation; thus, the losses (and credits) of one corporation generally can offset the income (and thus reduce the otherwise applicable tax) of other affiliated corporations.

Minimum tax

A corporation is subject to an alternative minimum tax which is payable, in addition to all other tax liabilities, to the extent that it exceeds the corporation's regular income tax liability. The tax is imposed at a flat rate of 20 percent on alternative minimum taxable income in excess of a \$40,000 exemption amount.²⁴ Credits that are allowed to offset a corporation's regular tax liability generally are not allowed to offset its minimum tax liability. If a corporation pays the alternative minimum tax, the amount of the tax paid is allowed as a credit against the regular tax in future years.

²² Accordingly, a corporation is taxed at a rate of 35 percent on only 91 percent of qualifying income, resulting in an effective tax rate of $0.91 * 35$, or 31.85 percent. A similar reduction applies to the graduated rates applicable to individuals with qualifying domestic production activities income.

²³ The enhanced oil recovery credit is phased out as the average wellhead price of uncontrolled domestic oil exceeds an inflation adjusted amount. The credit was completely phased out in both 2008 and 2009 (see, Notice 2008-72, 2008-43 IRB 998; Notice 2009-73, 2009-38 IRB 369).

²⁴ The exemption amount is phased out for corporations with income above certain thresholds, and is completely phased out for corporations with alternative minimum taxable income of \$310,000 or more.

Alternative minimum taxable income is the corporation's taxable income increased by the corporation's tax preference items and adjusted by determining the tax treatment of certain items in a manner that negates the deferral of income resulting from the regular tax treatment of those items. Among the preferences and adjustments applicable to the corporate alternative minimum tax are accelerated depreciation on certain property, certain expenses and allowances related to oil and gas and mining exploration and development, certain amortization expenses related to pollution control facilities, net operating losses and certain tax-exempt interest income. In addition, corporate alternative minimum taxable income is increased by 75 percent of the amount by which the corporation's "adjusted current earnings" exceeds its alternative minimum taxable income (determined without regard to this adjustment and the alternative tax net operating loss deduction). Adjusted current earnings generally are determined with reference to the rules that apply in determining a corporation's earnings and profits.

Treatment of corporate distributions

The taxation of a corporation generally is separate and distinct from the taxation of its shareholders. A distribution by a corporation to one of its shareholders generally is taxable as a dividend to the shareholder to the extent of the corporation's current or accumulated earnings and profits.²⁵ Thus, the amount of a corporate dividend generally is taxed twice: once when the income is earned by the corporation and again when the dividend is distributed to the shareholder.²⁶ Conversely, amounts paid as interest to the debtholders of a corporation generally are subject to only one level of tax (at the recipient level) since the corporation generally is allowed a deduction for the amount of interest expense paid or accrued.

Amounts received by a shareholder in complete liquidation of a corporation generally are treated as full payment in exchange for the shareholder's stock. A liquidating corporation recognizes gain or loss on the distributed property as if such property were sold to the distributee for its fair market value. However, if a corporation liquidates a subsidiary corporation of which it has 80 percent or more control, no gain or loss generally is recognized by either the parent corporation or the subsidiary corporation.

Accumulated earnings and personal holding company taxes

Taxes at a rate of 15 percent (the top rate generally applicable to dividend income of individuals) may be imposed upon the accumulated earnings or personal holding company income of a corporation. The accumulated earnings tax may be imposed if a corporation retains earnings in excess of reasonable business needs. The personal holding company tax may be imposed upon the excessive passive income of a closely held corporation. The accumulated

²⁵ A distribution in excess of the earnings and profits of a corporation generally is a tax-free return of capital to the shareholder to the extent of the shareholder's adjusted basis (generally, cost) in the stock of the corporation; such distribution is a capital gain if in excess of basis. A distribution of property other than cash generally is treated as a taxable sale of such property by the corporation and is taken into account by the shareholder at the property's fair market value. A distribution of common stock of the corporation generally is not a taxable event to either the corporation or the shareholder.

²⁶ This double taxation is currently mitigated by a reduced maximum tax rate of 15 percent generally applicable to dividend income of individuals.

earnings tax and the personal holding company tax are designed to ensure that both a corporate tax and a shareholder tax are effectively imposed on corporate earnings.

B. Corporate Income Tax for 2011

There are no significant changes to the Federal corporate income tax between 2010 and 2011. However, certain tax credits and special provisions applicable to corporations expire on December 31, 2010.²⁷

²⁷ A complete list of expiring provisions is provided in *List of Expiring Federal Tax Provisions, 2009-2020* (JCX-3-10), January 29, 2010 available at www.jct.gov. For example, for taxable years beginning after December 31, 2010 the accumulated earnings and personal holding company tax rates increase from 15 percent to 39.6 percent.

IV. SUMMARY OF ESTATE, GIFT, AND GENERATION-SKIPPING TRANSFER TAXES

General

Under present law as modified by the Economic Growth and Tax Relief Reconciliation Act of 2001 (“EGTRRA”),²⁸ the estate, gift, and generation-skipping transfer tax laws applicable to gifts made and for estates of decedents dying in 2010 and 2011 are not the same. Certain aspects of pre-2010 transfer tax laws, for example, are modified or repealed solely for purposes of decedents dying and gifts made in 2010, but again will apply to transfers made in years 2011 and thereafter. Therefore, this section provides a brief summary of certain laws that apply to taxable transfers that occur before, during, and after 2010.

Estate tax

For decedents dying before 2010, an estate tax is imposed on the taxable estate of any person who was a citizen or resident of the United States at the time of death and on certain property belonging to a nonresident of the United States that is located in the United States at the time of death. The estate tax is imposed on the estate of the decedent and generally is based on the fair market value of the property passing at death.²⁹ The taxable estate generally equals the worldwide gross estate less certain allowable deductions, including a marital deduction for certain bequests to the surviving spouse of the decedent and a deduction for certain bequests to charities.

For 2009, a unified credit of \$1,455,800 was available with respect to taxable transfers at death.³⁰ These credits effectively exempt a total of \$3.5 million in cumulative taxable transfers from the estate tax. The maximum estate tax rate in effect for decedents dying in 2009 was 45 percent.

²⁸ Pub. L. No. 107-16 (June 7, 2001).

²⁹ In addition to interests in property owned by the decedent at the time of death, the Federal estate tax also was imposed on (1) life insurance that was either payable to the decedent’s estate or in which the decedent had an incident of ownership at death, (2) property over which the decedent had a general power of appointment at death, (3) annuities purchased by the decedent or his employer that were payable to the decedent before death, (4) property held as joint tenants, (5) property transferred by the decedent before death in which the decedent retained a life estate or over which the decedent had the power to designate who will possess or enjoy the property, (6) property revocably transferred by the decedent before death, and (7) certain transfers taking effect at the death of the decedent.

³⁰ The gift and estate taxes began as separate taxes but were partially unified in 1976 so that a single graduated rate schedule and a single effective exemption amount applied to an individual’s cumulative taxable gifts and bequests. Under the law in effect prior to the enactment of EGTRRA, the effective exemption amount was scheduled to increase to \$1 million in 2006, and the top rate on gifts and bequests was 55 percent. Changes enacted under EGTRRA partially decoupled the estate and gift taxes, such that the estate and gift tax “unified credit” resulted in a smaller exemption for gift tax purposes than for estate tax purposes beginning in 2004, although a single, common rate schedule still applied to gifts and bequests through 2009. Under EGTRRA, the gift tax effective exemption for 2002 through 2009 was fixed at \$1 million, while the estate tax effective exemption increased gradually, as follows: \$1 million for 2002 and 2003; \$1.5 million for 2004 and 2005; \$2 million for 2006 through 2008; and \$3.5 million in 2009.

The estate transfer taxes are repealed for decedents dying and gifts made in 2010.

The estate, gift, and generation-skipping transfer tax provisions of EGTRRA are scheduled to sunset at the end of 2010. Therefore, the transfer tax laws as scheduled to be in effect prior to the enactment of EGTRRA generally will apply to estates of decedents dying, gifts made, and generation-skipping transfers made after December 31, 2010. This includes reinstatement of the estate tax for decedents dying after 2010. A single graduated rate schedule with a top rate of 55 percent and a single effective exemption amount of \$1 million will apply for purposes of determining estate and gift tax on cumulative taxable transfers made by a taxpayer by lifetime gift or by bequest.

Gift tax

The United States generally imposes a gift tax on transfers of property by gift made by a U.S. citizen or resident, whether made directly or indirectly and whether made in trust or otherwise. Nonresident aliens are subject to the gift tax with respect to transfers of tangible real or personal property where the property is located in the United States at the time of the gift. The gift tax is imposed on the donor and is based on the fair market value of the property transferred. Deductions are allowed for certain gifts to spouses and to charities. Annual gifts of \$13,000 (for 2010) or less per donor per donee generally are not subject to tax.

A unified credit of \$345,800 is available with respect to taxable transfers by gifts; this credit effectively exempts a total of \$1 million in cumulative taxable inter vivos gifts from gift tax. The gift tax remains in effect in 2010 with a \$1 million effective exemption amount and a 35 percent rate.

The estate, gift, and generation-skipping transfer tax provisions of EGTRRA are scheduled to sunset at the end of 2010. Therefore, the transfer tax laws as scheduled to be in effect prior to the enactment of EGTRRA generally will apply to estates of decedents dying, gifts made, and generation-skipping transfers made after December 31, 2010. A single graduated rate schedule with a top rate of 55 percent and a single effective exemption amount of \$1 million will apply for 2011 and thereafter for purposes of determining estate and gift tax on cumulative taxable transfers made by a taxpayer by lifetime gift or by bequest.

Generation-skipping transfer tax

For decedents dying and gifts made before 2010, a separate transfer tax was imposed on generation-skipping transfers, in addition to any estate or gift tax that is normally imposed on such transfers. This tax generally was imposed on transfers, either directly or through a trust or similar arrangement, to a beneficiary in more than one generation below that of the transferor. For 2009, the generation-skipping transfer tax was imposed at a flat rate of 45 percent on generation-skipping transfers in excess of \$3.5 million.

The generation-skipping transfer taxes are repealed for decedents dying and gifts made in 2010.

The estate, gift, and generation-skipping transfer tax provisions of EGTRRA are scheduled to sunset at the end of 2010. Therefore, the transfer tax laws as scheduled to be in

effect prior to the enactment of EGTRRA generally will apply to estates of decedents dying, gifts made, and generation-skipping transfers made after December 31, 2010. This includes reinstatement of the generation-skipping transfer tax for gifts made after 2010. The generation-skipping transfer tax exemption amount will be \$1 million, and the generation-skipping transfer tax rate will be 55 percent for 2011 and thereafter.

Basis considerations

Property received from a donor of a lifetime gift before, during, or after 2010 generally receives a carryover basis, which means that the basis in the hands of the donee generally is the same as the donor's basis.

Assets acquired from a decedent who died before 2010 generally received a “stepped up” basis, which generally resulted in a basis equal to fair market value on the date of the decedent's death (or on an alternate valuation date). For assets acquired from a decedent who dies in 2010, the rules providing for a stepped-up basis are repealed and replaced with the modified carryover basis rules of section 1022 of the Code. Assets acquired from a decedent who dies after 2010 generally will receive a stepped-up basis.

V. SUMMARY OF MAJOR EXCISE TAXES FOR 2010 AND 2011

The Federal tax system imposes excise taxes on selected goods and services. Generally, excise taxes are taxes imposed on a per unit or ad valorem (i.e., percentage of price) basis on the production, importation, or sale of a specific good or service. Among the goods and services subject to U.S. excise taxes are motor fuels, alcoholic beverages, tobacco products, firearms, air and ship transportation, certain environmentally hazardous activities and products, coal, telephone communications, certain wagers, and vehicles lacking in fuel efficiency. The largest excise taxes in terms of revenue (for fiscal year 2008) are those for gasoline motor fuels (\$25.1 billion), diesel motor fuel (\$9.4 billion), domestic air ticket taxes (\$8.2 billion) and domestic cigarettes (\$6.6 billion).

Revenues from certain Federal excise taxes are dedicated to trust funds (e.g., the Highway Trust Fund) for designated expenditure programs and revenues from other excise taxes (e.g., alcoholic beverages) go to the General Fund for general purpose expenditures. The excise taxes dedicated the Airport and Airway Trust Fund, which includes the ticket tax, generally are scheduled to expire on April 1, 2010.³¹ The taxes dedicated to the Highway Trust Fund generally are scheduled to expire October 1, 2011. On October 1, 2011, the motor fuels tax rate will be reduced to 4.3 cents per gallon from 18.3 cents per gallon for gasoline and 24.3 cents per gallon for diesel fuel.

³¹ H.R. 4853, as passed by the House, would extend these taxes at present law levels through July 3, 2010.

VI. BACKGROUND DATA

A. Historical Federal Receipts by Source

Tables 6 through 8 below show data from 1950 to 2009 on the aggregate receipts collected from the individual income tax, the corporate income tax, payroll taxes, excise taxes, the estate and gift taxes, and other receipts. Table 6 shows the aggregate revenues collected by source, in millions of dollars.

Table 7 shows the same aggregate revenues by source, but as a percentage of Gross Domestic Product (“GDP”). As a share of GDP, the individual income tax has generally oscillated around its average value of eight percent over this period of time. By contrast, corporate income taxes and excise taxes have generally declined as a share of GDP during this period, while payroll taxes have risen substantially as a share of GDP over this period. In 2009, total taxes averaged 14.8 percent of GDP, well below the average of the 1950-2009 period of 17.9 percent.

Table 8 shows Federal receipts by source as a percentage of all Federal receipts. Reflecting the same facts as above, the individual income tax has oscillated around its average share over this period of 44.8 percent, the corporate and excise taxes have declined as a percentage of all revenues, and payroll taxes have risen substantially from around 10 percent of the total in the early 1950s to levels generally varying between 35 and 40 percent in recent years. Payroll taxes as a share of all taxes reached a historic high of 42.3 percent in 2009, owing to sharp declines in individual and corporate income taxes.

Table 6.--Aggregate Federal Receipts by Source, 1950-2009
[millions of dollars]

Fiscal Year	Individual Income Tax	Corporate Income Tax	Employment[1] Taxes	Excise Taxes	Estate and Gift Taxes	Other[2] Receipts	Total
1950	15,755	10,449	4,338	7,550	698	653	39,443
1951	21,616	14,101	5,674	8,648	708	870	51,616
1952	27,934	21,226	6,445	8,852	818	892	66,167
1953	29,816	21,238	6,820	9,877	881	976	69,608
1954	29,542	21,101	7,208	9,945	934	971	69,701
1955	28,747	17,861	7,862	9,131	924	926	65,451
1956	32,188	20,880	9,320	9,929	1,161	1,109	74,587
1957	35,620	21,167	9,997	10,534	1,365	1,307	79,990
1958	34,724	20,074	11,239	10,638	1,393	1,568	79,636
1959	36,719	17,309	11,722	10,578	1,333	1,588	79,249
1960	40,715	21,494	14,683	11,676	1,606	2,317	92,492
1961	41,338	20,954	16,439	11,860	1,896	1,900	94,388
1962	45,571	20,523	17,046	12,534	2,016	1,985	99,676
1963	47,588	21,579	19,804	13,194	2,167	2,228	106,560
1964	48,697	23,493	21,963	13,731	2,394	2,337	112,613
1965	48,792	25,461	22,242	14,570	2,716	3,037	116,817
1966	55,446	30,073	25,546	13,062	3,066	3,642	130,835
1967	61,526	33,971	32,619	13,719	2,978	4,009	148,822
1968	68,726	28,665	33,923	14,079	3,051	4,529	152,973
1969	87,249	36,678	39,015	15,222	3,491	5,227	186,882
1970	90,412	32,829	44,362	15,705	3,644	5,855	192,807
1971	86,230	26,785	47,325	16,614	3,735	6,450	187,139
1972	94,737	32,166	52,574	15,477	5,436	6,919	207,309
1973	103,246	36,153	63,115	16,260	4,917	7,109	230,799
1974	118,952	38,650	75,071	16,844	5,035	8,702	263,224
1975	122,386	40,621	84,534	16,551	4,611	10,387	279,090
1976	131,603	41,409	90,769	16,963	5,216	12,101	298,060
1977	157,626	54,892	106,485	17,548	7,327	11,681	355,559
1978	180,988	59,952	120,967	18,376	5,285	13,993	399,561
1979	217,841	65,677	138,939	18,745	5,411	16,690	463,302
1980	244,069	64,600	157,803	24,329	6,389	19,922	517,112
1981	285,917	61,137	182,720	40,839	6,787	21,872	599,272
1982	297,744	49,207	201,498	36,311	7,991	25,015	617,766
1983	288,938	37,022	208,994	35,300	6,053	24,256	600,562
1984	298,415	56,893	239,376	37,361	6,010	28,382	666,486
1985	334,531	61,331	265,163	35,992	6,422	30,598	734,088
1986	348,959	63,143	283,901	32,919	6,958	33,275	769,215
1987	392,557	83,926	303,318	32,457	7,493	34,536	854,353
1988	401,181	94,508	334,335	35,227	7,594	36,393	909,303
1989	445,690	103,291	359,416	34,386	8,745	39,576	991,190
1990	466,884	93,507	380,047	35,345	11,500	44,688	1,031,969
1991	467,827	98,086	396,016	42,402	11,138	39,527	1,055,041
1992	475,964	100,270	413,689	45,569	11,143	44,588	1,091,279
1993	509,680	117,520	428,300	48,057	12,577	38,206	1,154,401
1994	543,055	140,385	461,475	55,225	15,225	43,215	1,258,627
1995	590,244	157,004	484,473	57,484	14,763	47,833	1,351,830
1996	656,417	171,824	509,414	54,014	17,189	44,197	1,453,062
1997	737,466	182,293	539,371	56,924	19,845	43,341	1,579,292
1998	828,586	188,677	571,831	57,673	24,076	50,890	1,721,798
1999	879,480	184,680	611,833	70,414	27,782	53,270	1,827,454
2000	1,004,462	207,289	652,852	68,865	29,010	62,720	2,025,198
2001	994,339	151,075	693,967	66,232	28,400	57,129	1,991,142
2002	858,345	148,044	700,760	66,989	26,507	52,504	1,853,149
2003	793,699	131,778	712,978	67,524	21,959	54,383	1,782,321
2004	808,959	189,371	733,407	69,855	24,831	53,703	1,880,126
2005	927,222	278,282	794,125	73,094	24,764	56,138	2,153,625
2006	1,043,908	353,915	837,821	73,961	27,877	69,394	2,406,876
2007	1,163,472	370,243	869,607	65,069	26,044	73,566	2,568,001
2008	1,145,747	304,346	900,155	67,334	28,844	77,573	2,523,999
2009	915,308	138,229	890,917	62,483	23,482	74,576	2,104,995

[1] Employment taxes comprise old-age and survivors insurance, disability insurance, hospital insurance, railroad retirement, railroad social security equivalent account, employment insurance, employee share of Federal employees retirement, and certain non-Federal employees retirement.

[2] Other receipts are primarily composed of [1] customs duties and fees, and [2] deposits of earnings by the Federal Reserve system.

Source: Office of Management and Budget, *Historical Tables, Budget of the U.S. Government, Fiscal Year 2011*, and JCT calculations.

Table 7.--Federal Receipts by Source, As a Percentage of GDP, 1950-2009

Fiscal Year	Individual Income Tax	Corporate Tax	Employment[1] Taxes	Excise Taxes	Estate and Gift Taxes	Other[2] Receipts	Total
1950	5.8	3.8	1.6	2.8	0.3	0.2	14.4
1951	6.8	4.4	1.8	2.7	0.2	0.3	16.1
1952	8.0	6.1	1.8	2.5	0.2	0.3	19.0
1953	8.0	5.7	1.8	2.7	0.2	0.3	18.7
1954	7.8	5.6	1.9	2.6	0.2	0.3	18.5
1955	7.3	4.5	2.0	2.3	0.2	0.2	16.5
1956	7.5	4.9	2.2	2.3	0.3	0.3	17.5
1957	7.9	4.7	2.2	2.3	0.3	0.3	17.7
1958	7.5	4.4	2.4	2.3	0.3	0.3	17.3
1959	7.5	3.5	2.4	2.2	0.3	0.3	16.2
1960	7.8	4.1	2.8	2.3	0.3	0.4	17.8
1961	7.8	4.0	3.1	2.2	0.4	0.4	17.8
1962	8.0	3.6	3.0	2.2	0.4	0.3	17.6
1963	7.9	3.6	3.3	2.2	0.4	0.4	17.8
1964	7.6	3.7	3.4	2.1	0.4	0.4	17.6
1965	7.1	3.7	3.2	2.1	0.4	0.4	17.0
1966	7.3	4.0	3.4	1.7	0.4	0.5	17.3
1967	7.6	4.2	4.0	1.7	0.4	0.5	18.4
1968	7.9	3.3	3.9	1.6	0.4	0.5	17.6
1969	9.2	3.9	4.1	1.6	0.4	0.6	19.7
1970	8.9	3.2	4.4	1.6	0.4	0.6	19.0
1971	8.0	2.5	4.4	1.5	0.3	0.6	17.3
1972	8.1	2.7	4.5	1.3	0.5	0.6	17.6
1973	7.9	2.8	4.8	1.2	0.4	0.5	17.6
1974	8.3	2.7	5.2	1.2	0.4	0.6	18.3
1975	7.8	2.6	5.4	1.1	0.3	0.7	17.9
1976	7.6	2.4	5.2	1.0	0.3	0.7	17.1
1977	8.0	2.8	5.4	0.9	0.4	0.6	18.0
1978	8.2	2.7	5.5	0.8	0.2	0.6	18.0
1979	8.7	2.6	5.6	0.7	0.2	0.7	18.5
1980	9.0	2.4	5.8	0.9	0.2	0.7	19.0
1981	9.4	2.0	6.0	1.3	0.2	0.7	19.6
1982	9.2	1.5	6.3	1.1	0.2	0.8	19.2
1983	8.4	1.1	6.1	1.0	0.2	0.7	17.5
1984	7.8	1.5	6.2	1.0	0.2	0.7	17.3
1985	8.1	1.5	6.4	0.9	0.2	0.7	17.7
1986	7.9	1.4	6.4	0.7	0.2	0.8	17.5
1987	8.4	1.8	6.5	0.7	0.2	0.7	18.4
1988	8.0	1.9	6.7	0.7	0.2	0.7	18.2
1989	8.3	1.9	6.7	0.6	0.2	0.7	18.4
1990	8.1	1.6	6.6	0.6	0.2	0.8	18.0
1991	7.9	1.7	6.7	0.7	0.2	0.7	17.8
1992	7.6	1.6	6.6	0.7	0.2	0.7	17.5
1993	7.7	1.8	6.5	0.7	0.2	0.6	17.5
1994	7.8	2.0	6.6	0.8	0.2	0.6	18.0
1995	8.0	2.1	6.6	0.8	0.2	0.7	18.4
1996	8.5	2.2	6.6	0.7	0.2	0.6	18.8
1997	9.0	2.2	6.6	0.7	0.2	0.5	19.2
1998	9.6	2.2	6.6	0.7	0.3	0.6	19.9
1999	9.6	2.0	6.6	0.8	0.3	0.6	19.8
2000	10.2	2.1	6.6	0.7	0.3	0.6	20.6
2001	9.7	1.5	6.8	0.6	0.3	0.6	19.5
2002	8.1	1.4	6.6	0.6	0.3	0.5	17.6
2003	7.2	1.2	6.5	0.6	0.2	0.5	16.2
2004	6.9	1.6	6.3	0.6	0.2	0.5	16.1
2005	7.5	2.2	6.4	0.6	0.2	0.5	17.3
2006	7.9	2.7	6.3	0.6	0.2	0.5	18.2
2007	8.4	2.7	6.3	0.5	0.2	0.5	18.5
2008	7.9	2.1	6.2	0.5	0.2	0.5	17.5
2009	6.4	1.0	6.3	0.4	0.2	0.5	14.8
1950-2009 Avg.	8.0	2.8	5.0	1.3	0.3	0.5	17.9

[1] Employment taxes comprise old-age and survivors insurance, disability insurance, hospital insurance, railroad retirement, railroad Social Security equivalent account, employment insurance, employee share of Federal employees retirement, and certain non-Federal employees retirement.

[2] Other receipts are primarily composed of (1) customs duties and fees, and (2) deposits of earnings by the Federal Reserve system.

Source: Office of Management and Budget, *Historical Tables, Budget of the U.S. Government, Fiscal Year 2011*; Economic Report of the President, 2010, Table B-78 for fiscal year GDP Figures.

**Table 8.—Federal Receipts by Source, As a Percentage of Total Revenues,
1950-2009**

Fiscal Year	Individual Income Tax	Corporate Tax	Employment[1] Taxes	Excise Taxes	Estate and Gift Taxes	Other[2] Receipts
1950	39.9	26.5	11.0	19.1	1.8	1.7
1951	41.9	27.3	11.0	16.8	1.4	1.7
1952	42.2	32.1	9.7	13.4	1.2	1.3
1953	42.8	30.5	9.8	14.2	1.3	1.4
1954	42.4	30.3	10.3	14.3	1.3	1.4
1955	43.9	27.3	12.0	14.0	1.4	1.4
1956	43.2	28.0	12.5	13.3	1.6	1.5
1957	44.5	26.5	12.5	13.2	1.7	1.6
1958	43.6	25.2	14.1	13.4	1.7	2.0
1959	46.3	21.8	14.8	13.3	1.7	2.0
1960	44.0	23.2	15.9	12.6	1.7	2.5
1961	43.8	22.2	17.4	12.6	2.0	2.0
1962	45.7	20.6	17.1	12.6	2.0	2.0
1963	44.7	20.3	18.6	12.4	2.0	2.1
1964	43.2	20.9	19.5	12.2	2.1	2.1
1965	41.8	21.8	19.0	12.5	2.3	2.6
1966	42.4	23.0	19.5	10.0	2.3	2.8
1967	41.3	22.8	21.9	9.2	2.0	2.7
1968	44.9	18.7	22.2	9.2	2.0	3.0
1969	46.7	19.6	20.9	8.1	1.9	2.8
1970	46.9	17.0	23.0	8.1	1.9	3.0
1971	46.1	14.3	25.3	8.9	2.0	3.4
1972	45.7	15.5	25.4	7.5	2.6	3.3
1973	44.7	15.7	27.3	7.0	2.1	3.1
1974	45.2	14.7	28.5	6.4	1.9	3.3
1975	43.9	14.6	30.3	5.9	1.7	3.7
1976	44.2	13.9	30.5	5.7	1.7	4.1
1977	44.3	15.4	29.9	4.9	2.1	3.3
1978	45.3	15.0	30.3	4.6	1.3	3.5
1979	47.0	14.2	30.0	4.0	1.2	3.6
1980	47.2	12.5	30.5	4.7	1.2	3.9
1981	47.7	10.2	30.5	6.8	1.1	3.6
1982	48.2	8.0	32.6	5.9	1.3	4.0
1983	48.1	6.2	34.8	5.9	1.0	4.0
1984	44.8	8.5	35.9	5.6	0.9	4.3
1985	45.6	8.4	36.1	4.9	0.9	4.2
1986	45.4	8.2	36.9	4.3	0.9	4.3
1987	46.0	9.8	35.5	3.8	0.9	4.0
1988	44.1	10.4	36.8	3.9	0.8	4.0
1989	45.0	10.4	36.3	3.5	0.9	4.0
1990	45.2	9.1	36.8	3.4	1.1	4.3
1991	44.3	9.3	37.5	4.0	1.1	3.7
1992	43.6	9.2	37.9	4.2	1.0	4.1
1993	44.2	10.2	37.1	4.2	1.1	3.3
1994	43.1	11.2	36.7	4.4	1.2	3.4
1995	43.7	11.6	35.8	4.3	1.1	3.5
1996	45.2	11.8	35.1	3.7	1.2	3.0
1997	46.7	11.5	34.2	3.6	1.3	2.7
1998	48.1	11.0	33.2	3.3	1.4	3.0
1999	48.1	10.1	33.5	3.9	1.5	2.9
2000	49.6	10.2	32.2	3.4	1.4	3.1
2001	49.9	7.6	34.9	3.3	1.4	2.9
2002	46.3	8.0	37.8	3.6	1.4	2.8
2003	44.5	7.4	40.0	3.8	1.2	3.1
2004	43.0	10.1	39.0	3.7	1.3	2.9
2005	43.1	12.9	36.9	3.4	1.1	2.6
2006	43.4	14.7	34.8	3.1	1.2	2.9
2007	45.3	14.4	33.9	2.5	1.0	2.9
2008	45.4	12.1	35.7	2.7	1.1	3.1
2009	43.5	6.6	42.3	3.0	1.1	3.5
1950-2009 Avg.	44.8	15.7	27.7	7.3	1.5	3.0

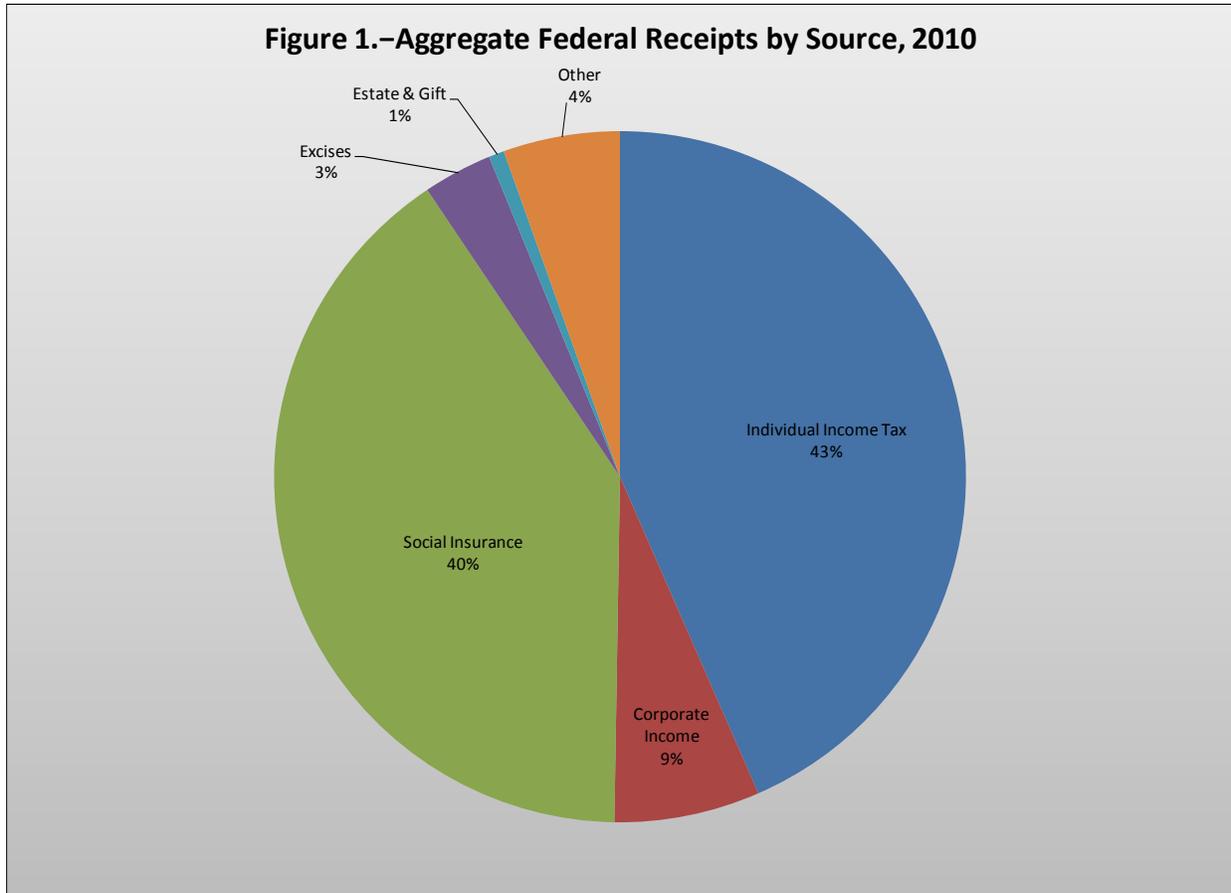
[1] Employment taxes comprise old-age and survivors insurance, disability insurance, hospital insurance, railroad retirement, railroad Social Security equivalent account, employment insurance, employee share of Federal employees retirement, and certain non-Federal employees retirement.

[2] Other receipts are primarily composed of (1) customs duties and fees, and (2) deposits of earnings by the Federal Reserve system.

Source: Office of Management and Budget, *Historical Tables, Budget of the U.S. Government, Fiscal Year 2011*.

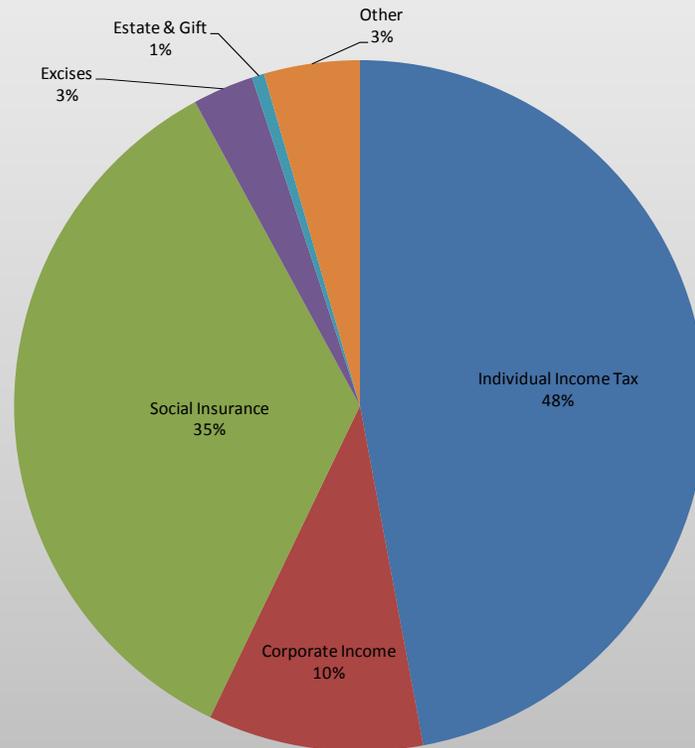
B. Present and Future Federal Receipts

Figure 1 and 1a, below, show aggregate Federal receipts by source for 2010 and 2011. The individual income tax and social insurance taxes are the two largest sources of revenue, with the individual income tax the larger of the two and growing relative to other sources of revenue in 2011 as a result of the expiration of numerous income tax related provisions of EGTRRA, JGTRRA, and ARRTA.



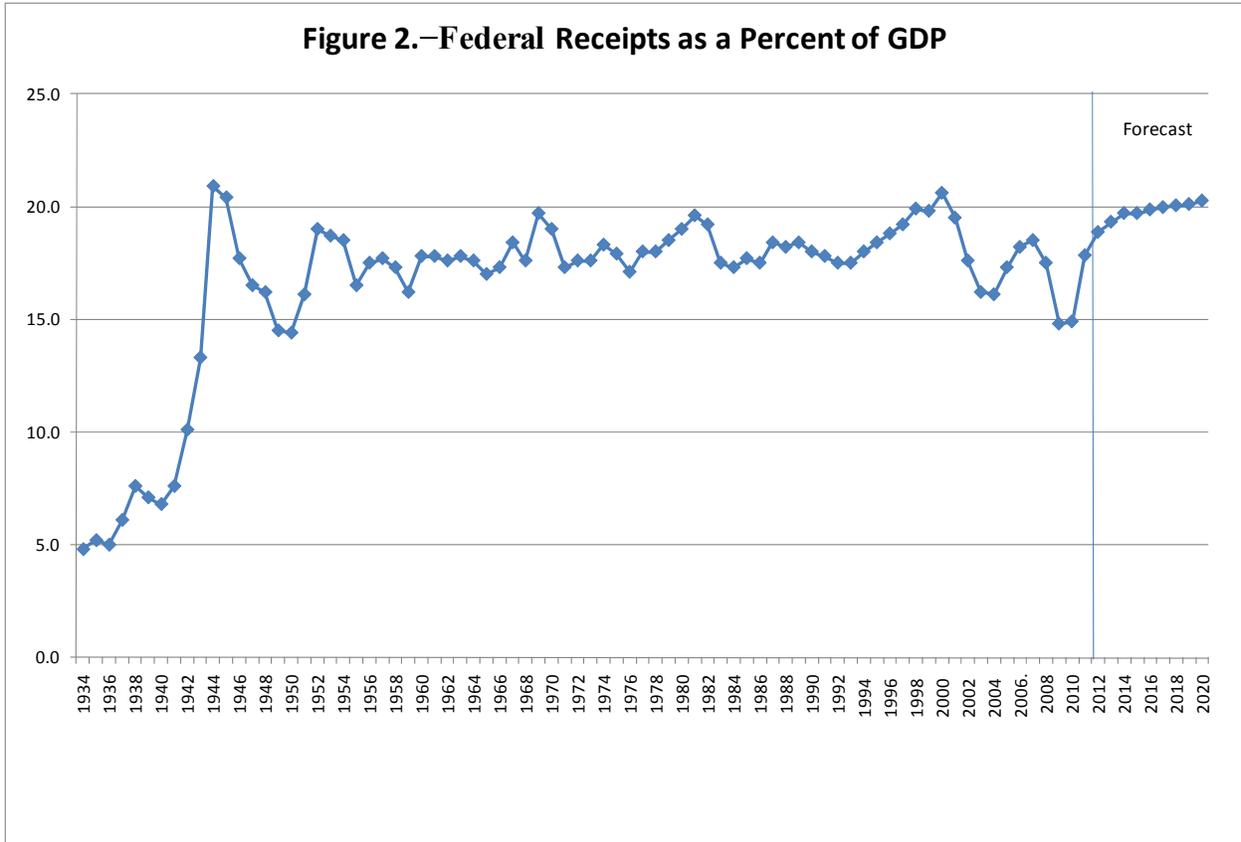
Source: Congressional Budget Office and Staff of the Joint Committee on Taxation.

Figure 1a.—Aggregate Federal Receipts by Sources, 2011



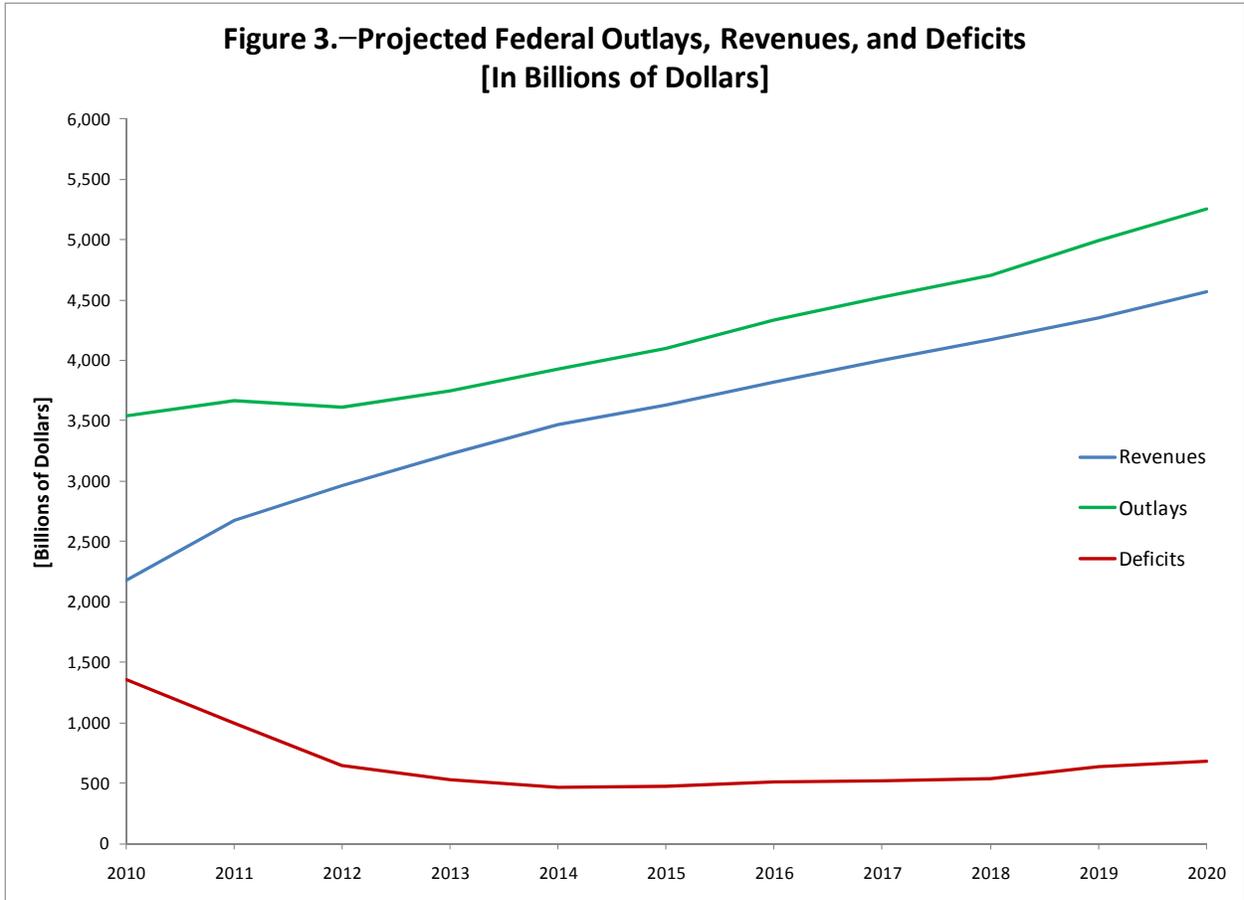
Source: Congressional Budget Office and Staff of the Joint Committee on Taxation.

Figure 2, below, shows receipts as a percentage of GDP from 1934 to the present, including projections through 2020 from the March 2010 CBO baseline of present law receipts. The drop in receipts as a percent of GDP in 2009 and 2010 to 14.8 percent and 14.9 percent, respectively, reflects the impact of both the economic recession and the legislated tax reductions of ARRTA. Receipts as a share of GDP have not been this low since 1950. The increase in receipts as a share of GDP in 2011 reflects the expiration of numerous provisions of EGTRRA, JGTRRA, and ARRTA.

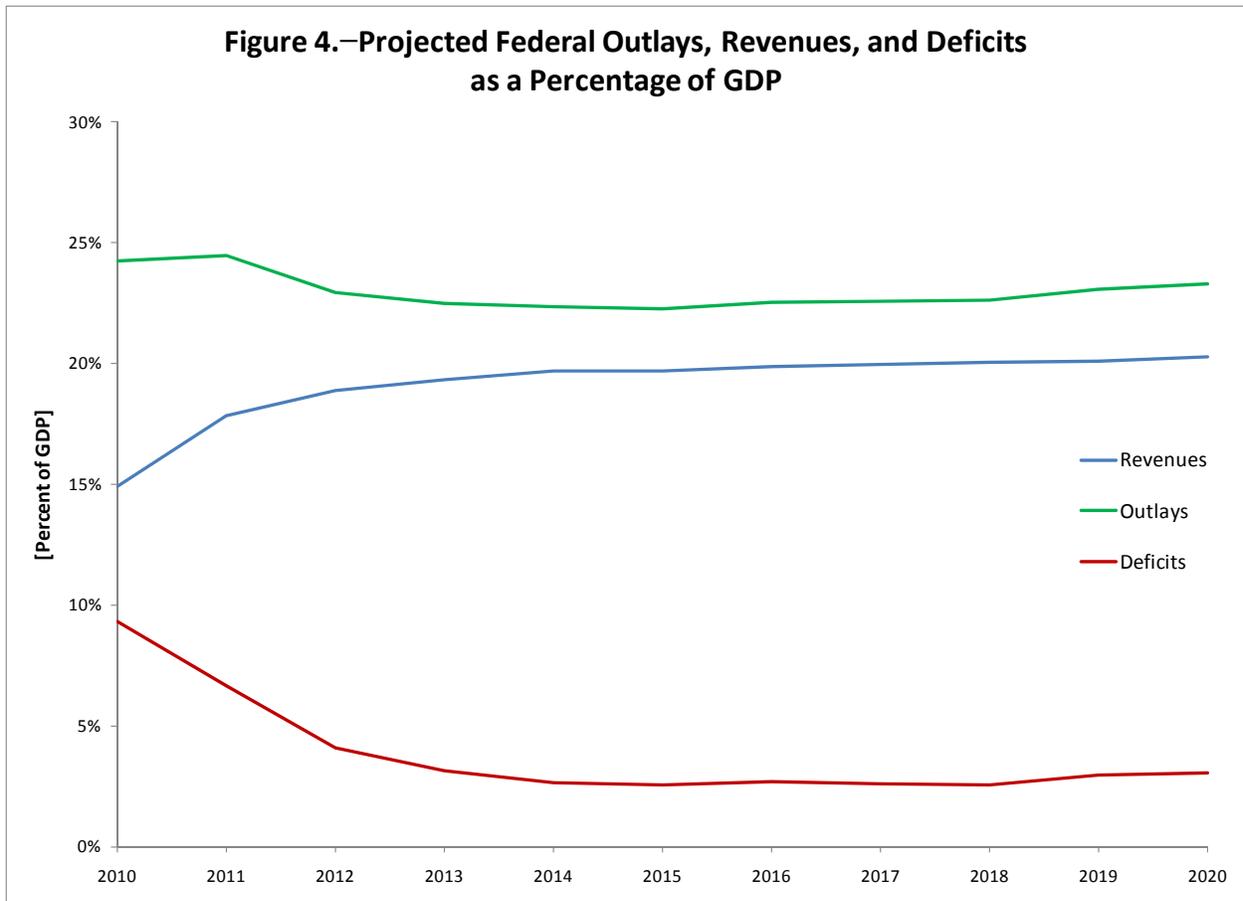


Source: Office of Management and Budget and Congressional Budget Office.

Figure 3, below, shows projected Federal Outlays, Revenues, and Deficits under the CBO March 2010 baseline, while Figure 4, below, shows the same information as a percentage of GDP. As a share of GDP, revenues rise from 14.9 percent to 20.3 percent from 2010 to 2020, outlays fall from 24.2 percent to 23.3 percent, and the deficit falls from 9.3 percent to 3.0 percent of GDP.



Source: Congressional Budget Office, March 2010 baseline.



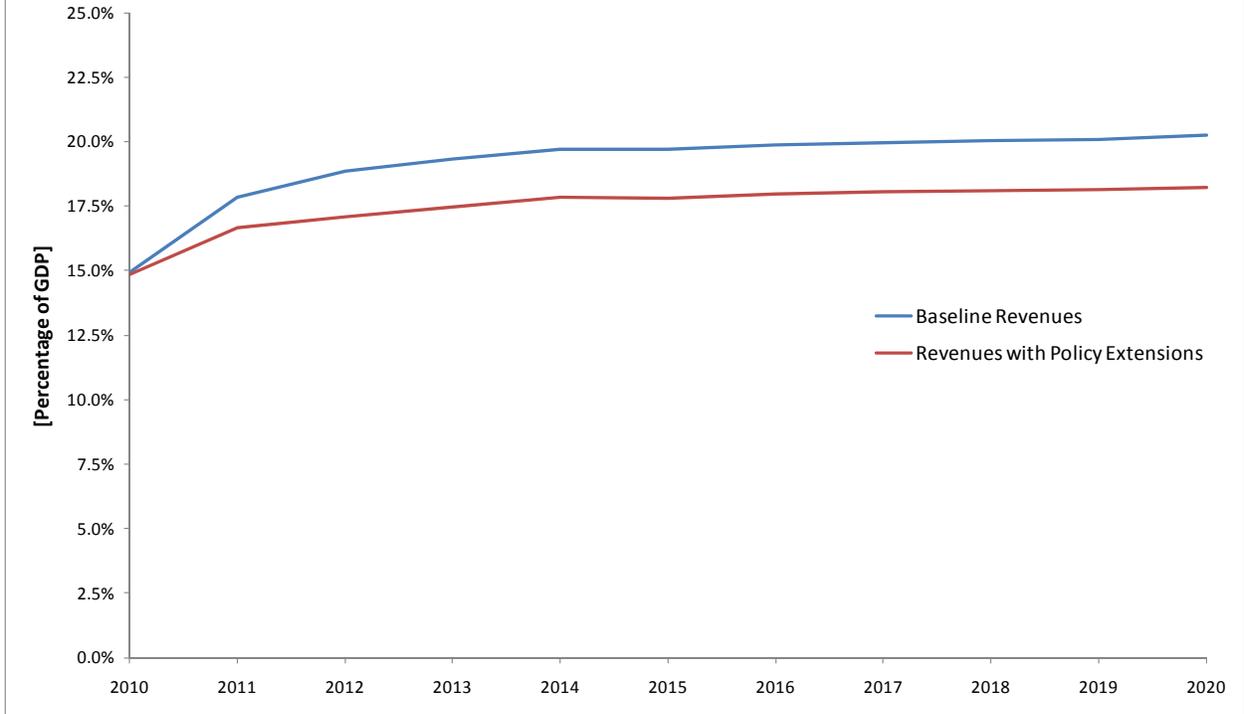
Source: Congressional Budget Office, March 2010 baseline.

Figure 5, below, shows, as a share of GDP, the baseline and projected Federal receipts under the assumption that the expiring provisions of EGTRRA and JGTRRA are extended, the estate and gift taxes are extended at 2009 parameters³², and the parameters of the alternative minimum tax³³ are indexed for inflation from the levels in effect in 2009. By 2020, receipts are 20.3 percent of GDP under the baseline, and 18.2 percent under the policy extensions. In comparison, receipts have averaged 17.9 percent of GDP from 1950 to 2009.

³² That is, a \$3.5 million exemption amount for estates and generation skipping transfers, a gift tax exemption amount of \$1 million, and a maximum rate of 45 percent.

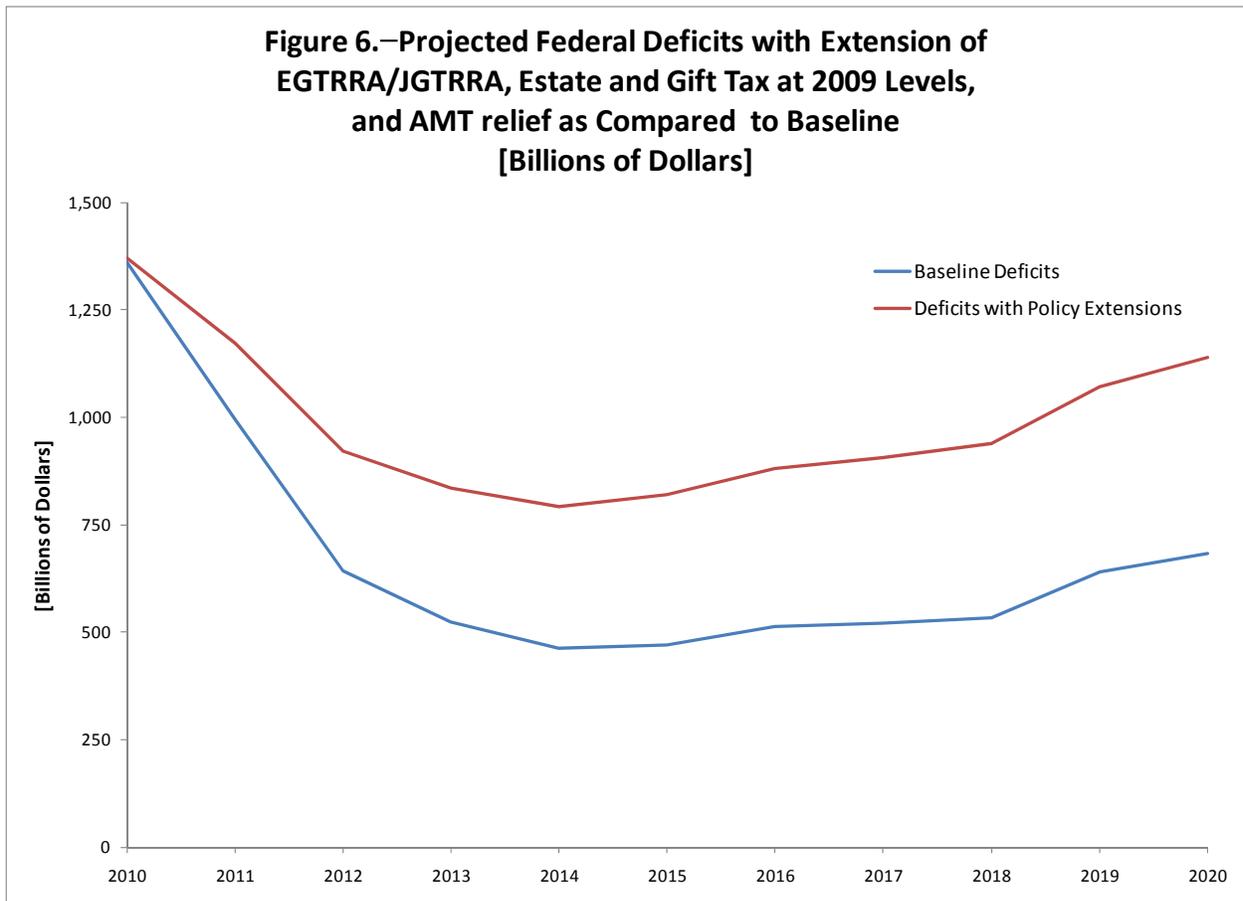
³³ The AMT parameters that are indexed include the exemption amount, the rate bracket breakpoints, and the threshold above which the exemption amount is phased out.

Figure 5.—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]

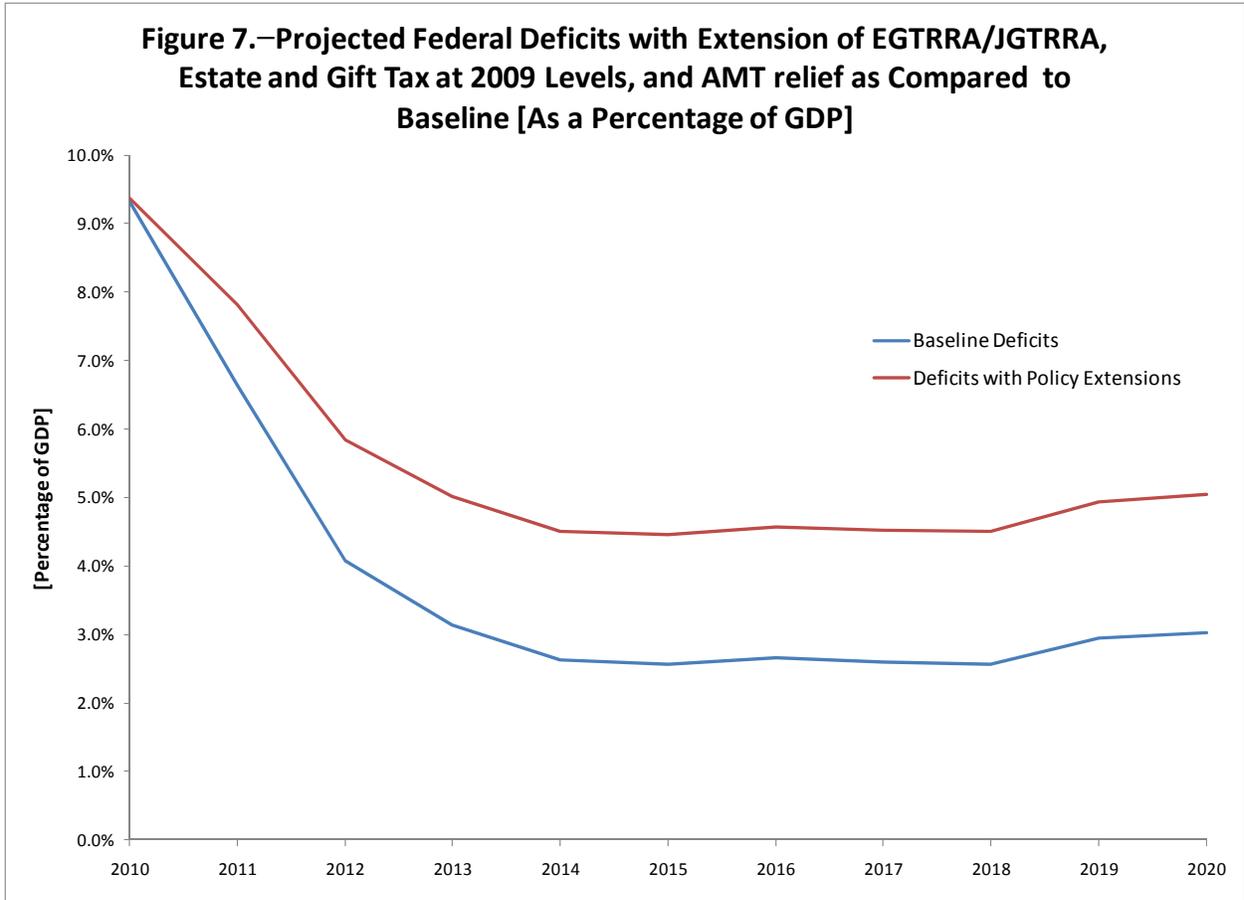


Source: Congressional Budget Office, March 2010 baseline, and staff of the Joint Committee on Taxation.

Figure 6, below, shows projected Federal deficits compared to the baseline deficit under the policy extensions described above. Figure 7 shows the same information as a percentage of GDP. With the extension of these policies, the deficit as a share of GDP is generally about 1.9 percentage points higher than under the baseline, leading to cumulative deficits of \$3,498 billion from 2010 to 2020. Of this \$3,498 billion, the extension of the estate and gift taxes at 2009 parameter levels accounts for \$251 billion, the extension of the EGTRRA and JGTRRA provisions (excluding estate and gift provisions) accounts for \$2,112 billion, and indexing the alternative minimum tax accounts for \$1,135 billion (as estimated after the extension of the EGTRRA and JGTRRA provisions).



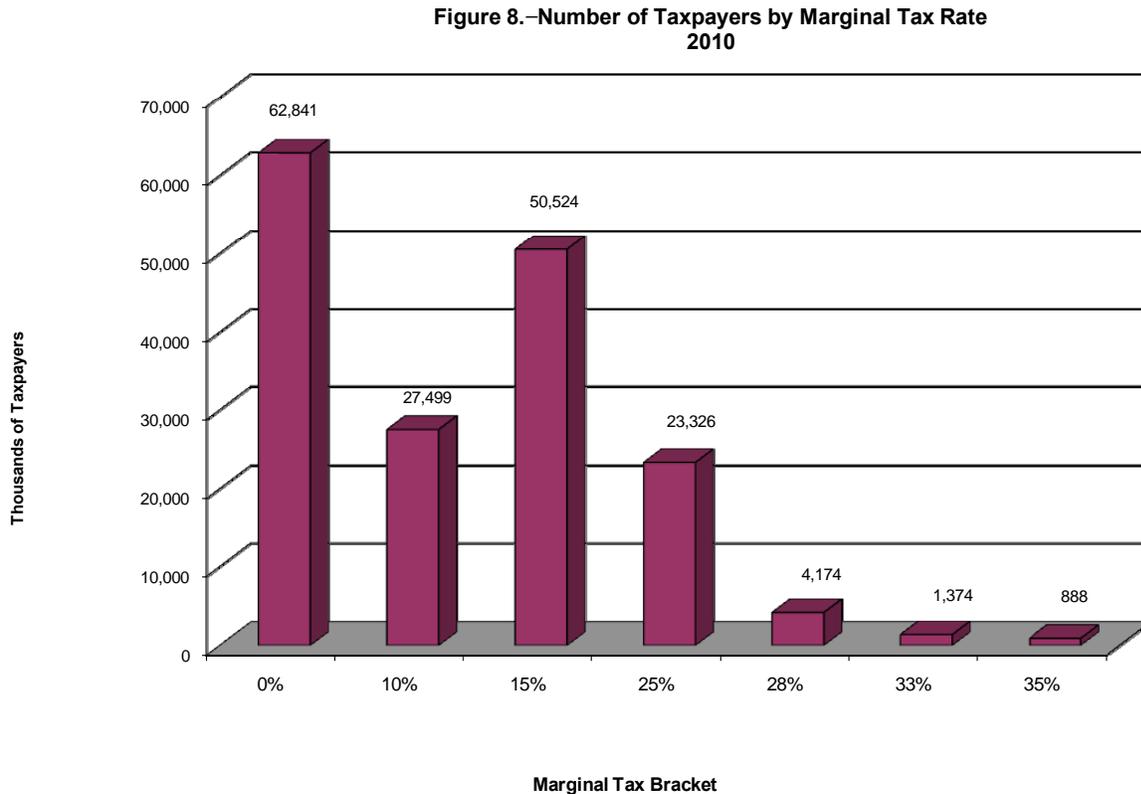
Source: Congressional Budget Office, March 2010 baseline, and staff of the Joint Committee on Taxation.



Source: Congressional Budget Office, March 2010 baseline, and staff of the Joint Committee on Taxation.

C. Selected Data Related to the Individual Income Tax in 2010 and 2011

Figure 8, below, shows the number of taxpayers by statutory marginal tax bracket for 2010. The largest single group, of slightly fewer than 63 million returns,³⁴ or about 37 percent of all returns, has a statutory marginal rate of zero. In contrast, slightly fewer than a million returns have a statutory marginal tax rate of 35 percent, the top marginal rate.

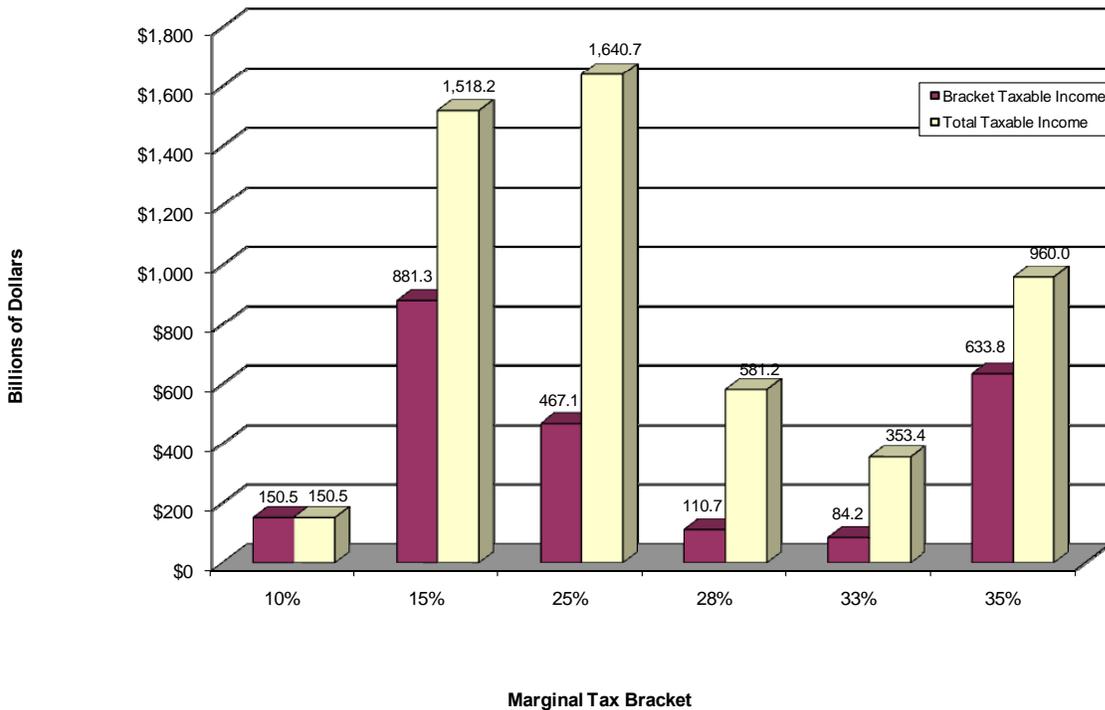


Source: Staff of the Joint Committee on Taxation.

Figure 9, below, sorts taxpayers by their marginal tax bracket (the bracket at which their last dollar of income is taxed), and shows total taxable income of taxpayers in each marginal rate bracket, as well as the taxable income in the marginal bracket alone, for 2010. Thus, for example, taxpayers with a marginal rate bracket of 28 percent have total taxable income of \$581.2 billion, of which \$110.7 billion is taxed at the marginal bracket of 28 percent, with the rest taxed at the lower rates of 25, 15 and 10 percent.

³⁴ “Returns” includes filers and nonfilers.

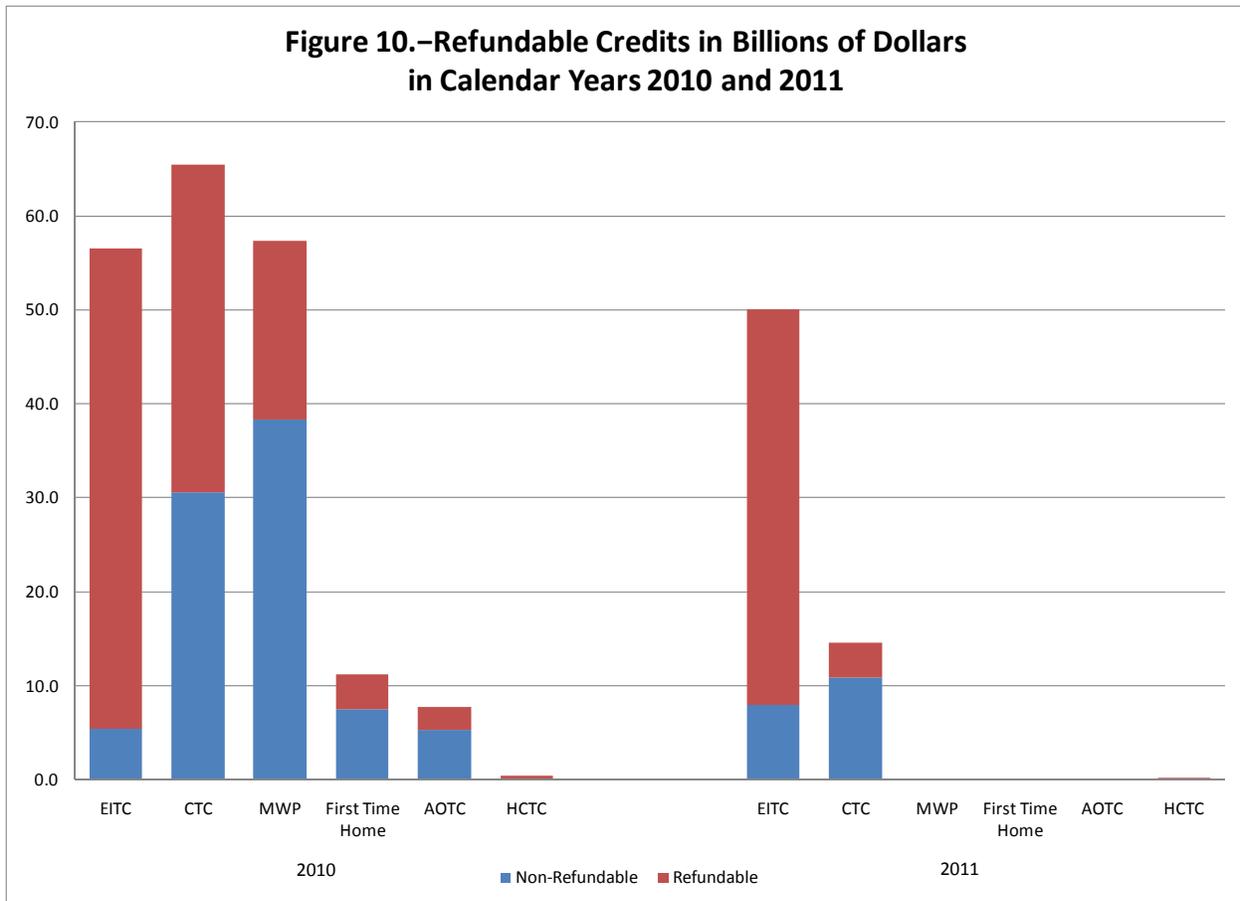
**Figure 9.—Total Taxable Income of Taxpayers in Each Marginal Rate Bracket
2010**



Source: Staff of the Joint Committee on Taxation.

Figure 10 shows the refundable credits for 2010 and 2011. Six principal refundable individual income tax credits are available in 2010: the earned income tax credit, the child tax credit, the making work pay credit, the first-time homebuyer credit, the American opportunity tax credit, and the health coverage tax credit. All but the child tax credit and the American opportunity tax credit are fully refundable credits. In 2011, the making work pay credit, the first-time homebuyer credit, and the American opportunity tax credit expire (the latter reverts to the Hope credit of prior law). Additionally, the child tax credit, the earned income tax credit, and the health coverage tax credit are reduced as a result of the expiration of provisions of EGTRRA and ARRTA. In 2010, the aggregate amount of all refundable credits claimed is estimated to be \$188.2 billion, of which \$98 billion is estimated to represent the refundable portion. In 2011, the aggregate amount of all refundable credits claimed is estimated to be \$66.2 billion, of which \$45 billion is estimated to represent the refundable portion.³⁵

³⁵ The aggregate totals do not sum to the individual estimates in Figure 10 as a result of interactions among the refundable credits. The separately estimated credits as shown in Figure 10 are as follows in billions of dollars (refundable portion in parentheses) for 2010: earned income tax credit \$56.5 (\$51.1); the child tax credit \$54.6 (\$35.0); the making work pay credit \$56.6 (\$19.0), the first-time homebuyer credit \$11.2 (\$3.7), the American opportunity tax credit \$9.9 (\$2.5), and the health coverage tax credit \$0.4 (\$0.3). The figures for 2011 are: earned income tax credit \$50.0 (\$42.1); the child tax credit \$14.6 (\$4.2); and the health coverage tax credit \$0.2 (\$0.2).



Source: Staff of the Joint Committee on Taxation.

Table 9, below, shows by income group the number of returns that owe income tax, the number with no income tax liability, and the number with negative income tax liability (that is, they receive refundable credits that more than offset their tax liability before credits). The table shows that a taxpayer is more likely to owe tax the greater is his or her income.

Table 9 also shows by income group the number of taxpayers who claim itemized deductions. Because many deductions are likely to rise with income (State and local income taxes, for example), taxpayers with greater income are more likely to have deductions that exceed the standard deduction, and thus they will choose to itemize rather than take the standard deduction.

**Table 9.—Distribution of Taxpayers by Tax Liability and Itemized Deduction Status
Tax Year 2010**

Income Category (1)	Total Returns (2)	Returns with positive liability		Returns with itemized deductions		Returns with negative liability	Returns with zero liability
	Number	Number	Percentage of all returns	Number	Percentage of all returns		
Less than \$10,000	28,197	90	0.3%	450	1.6%	10,661	17,447
\$10,000 to \$20,000	23,872	3,822	16.0%	1,081	4.5%	11,401	8,648
\$20,000 to \$30,000	18,456	6,845	37.1%	2,221	12.0%	8,608	3,003
\$30,000 to \$40,000	15,769	8,601	54.5%	3,461	21.9%	5,758	1,411
\$40,000 to \$50,000	12,970	9,102	70.2%	4,531	34.9%	3,153	715
\$50,000 to \$75,000	23,656	19,260	81.4%	11,609	49.1%	3,221	1,175
\$75,000 to \$100,000	14,952	14,323	95.8%	11,221	75.0%	461	169
\$100,000 to \$200,000	16,748	16,528	98.7%	15,382	91.8%	141	79
\$200,000 to \$500,000	3,782	3,756	99.3%	3,582	94.7%	2	24
\$500,000 to \$1,000,000	622	620	99.7%	566	91.0%	[3]	2
\$1,000,000 and over	336	333	99.1%	299	89.0%	[3]	2
Total	159,359	83,279	52.3%	54,403	34.1%	43,405	32,675

(1) The income concept used to place tax returns into income categories is adjusted gross income (AGI) plus: [1] tax-exempt interest, [2] employer contributions for health plans and life insurance, [3] employer share of FICA tax, [4] worker's compensation, [5] nontaxable Social Security benefits, [6] insurance value of Medicare benefits, [7] alternative minimum tax preference items, and [8] excluded income of U.S. citizens living abroad. Categories are measured at 2009 levels.

(2) Includes filers and nonfilers.

(3) Less than 500.

Returns are in thousands.

Source: Staff of the Joint Committee on Taxation.

**Table 9a.—Distribution of Taxpayers by Tax Liability and Itemized Deduction
Status Tax Year 2011**

Income Category (1)	Total Returns (2)	Returns with positive liability		Returns with itemized deductions		Returns with negative liability	Returns with zero liability
	Number	Number	Percentage of all returns	Number	Percentage of all returns		
Less than \$10,000	28,677	82	0.3%	498	1.7%	7,228	21,367
\$10,000 to \$20,000	24,172	6,199	25.6%	1,230	5.1%	7,188	10,785
\$20,000 to \$30,000	18,543	8,222	44.3%	2,371	12.8%	6,065	4,256
\$30,000 to \$40,000	15,755	10,857	68.9%	3,746	23.8%	2,615	2,283
\$40,000 to \$50,000	13,062	11,301	86.5%	4,967	38.0%	429	1,333
\$50,000 to \$75,000	23,980	21,914	91.4%	12,615	52.6%	192	1,874
\$75,000 to \$100,000	15,269	15,012	98.3%	10,918	71.5%	14	243
\$100,000 to \$200,000	16,905	16,803	99.4%	14,391	85.1%	2	100
\$200,000 to \$500,000	3,760	3,744	99.6%	3,497	93.0%	[3]	16
\$500,000 to \$1,000,000	607	606	99.8%	555	91.4%	[3]	2
\$1,000,000 and over	315	314	99.7%	282	89.5%	[3]	1
Total	161,047	95,054	59.0%	55,069	34.2%	23,733	42,260

(1) The income concept used to place tax returns into income categories is adjusted gross income (AGI) plus: [1] tax-exempt interest, [2] employer contributions for health plans and life insurance, [3] employer share of FICA tax, [4] worker's compensation, [5] nontaxable Social Security benefits, [6] insurance value of Medicare benefits, [7] alternative minimum tax preference items, and [8] excluded income of U.S. citizens living abroad. Categories are measured at 2009 levels.

(2) Includes filers and nonfilers.

(3) Less than 500.

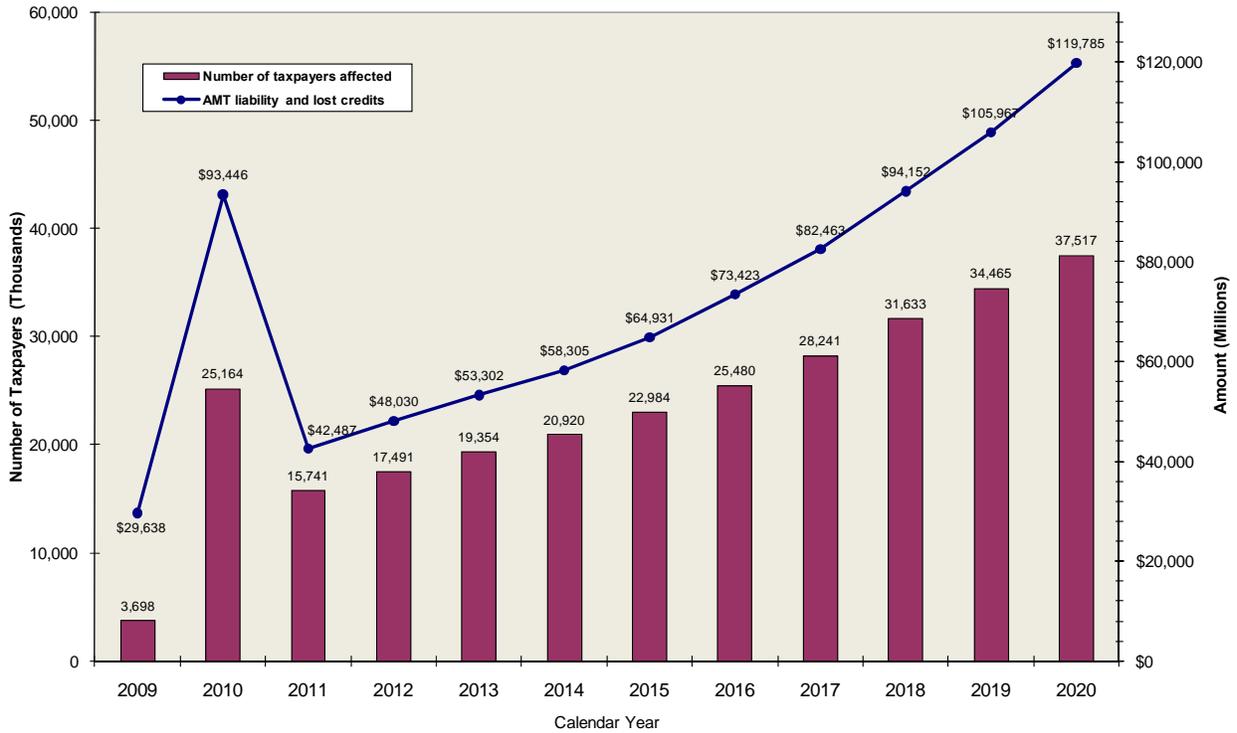
Returns are in thousands.

Source: Staff of the Joint Committee on Taxation.

Data related to the alternative minimum tax

Figure 11, below, shows the staff of the Joint Committee on Taxation's estimates of the number of taxpayers subject to the AMT under present law and the AMT liability and credits lost as a result of the AMT (certain credits are not allowed to offset a taxpayer's tentative minimum tax). The 2010 figures show a sharp rise in the revenue raised and the number of taxpayers affected as a result of the expiration of the temporary increase in the exemption levels under the AMT that expired at the end of 2009. In 2011, the number of taxpayers affected by the AMT and the AMT liability and lost credits decline as a result of the EGTRRA sunsets of the regular tax rate reductions and other provisions which reduce regular tax liability. With the rise in regular tax liability, fewer taxpayers are affected by the AMT. In 2012 and beyond, the number of taxpayers affected by the AMT and the amount of AMT liability and lost credits rises gradually as a result of the fact that the AMT is not indexed for inflation while the main parameters of the regular individual income tax are indexed for inflation.

Figure 11.—Taxpayers Affected by the AMT: 2009-2020

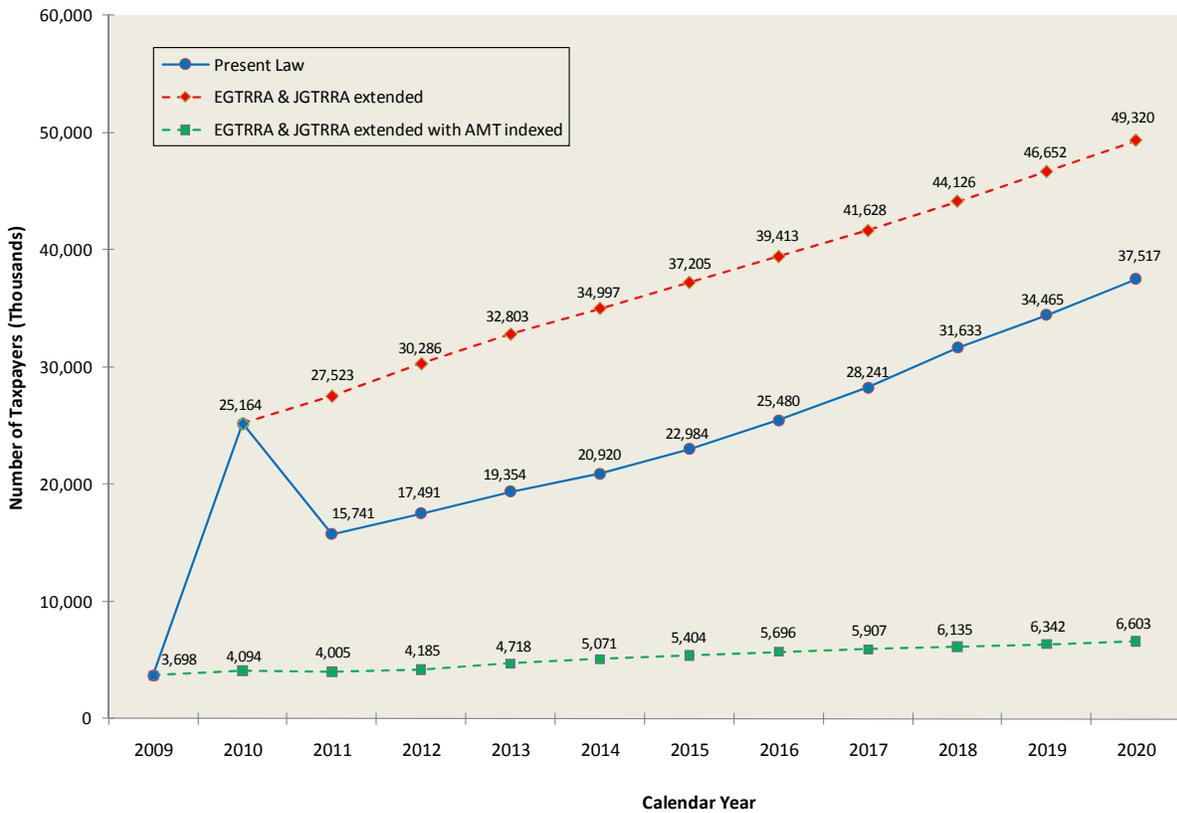


Source: Staff of the Joint Committee on Taxation.

Figure 12, below, shows the number of taxpayers that are affected by the AMT under three alternative scenarios: (1) present law, (2) present law with the EGTRRA and JGTRRA provisions extended, and (3) present law with EGTRRA and JGTRRA provisions extended and the provisions of the AMT indexed for inflation from the 2009 levels.³⁶ Extending EGTRRA and JGTRRA without other changes to the AMT increases the number of taxpayers subject to the AMT and the rate of growth of the number of taxpayers subject to the AMT is similar to that which would result under present law. The indexing of the parameters of the AMT from the 2009 levels substantially reduces the number of taxpayer affected by the AMT relative to present law and substantially reduces the rate of growth of taxpayers affected by the AMT relative to present law.

³⁶ The provisions of the AMT that are indexed for inflation under this scenario are the exemption amounts, the rate brackets, and the beginning point of the phaseout of the exemption amount.

Figure 12.—Taxpayers Affected by the AMT With EGTRRA and JGTRRA Extended: 2009-2020



Source: Staff of the Joint Committee on Taxation.

Table 10, below, shows the distribution of taxpayers affected by the AMT under current law for 2010 juxtaposed with the same data if the AMT parameters in effect for 2009 were indexed for inflation. Indexing the AMT for inflation would yield exemption levels of \$72,750 for married taxpayers filing jointly, \$47,900 for head of household and single filers, and \$36,375 for married taxpayers filing separately and for estates and trusts.

Table 10.—Taxpayers Affected by the AMT in 2010 with AMT indexing

[Returns in Thousand; Dollars in Millions]

Adjusted Gross Income	Present Law All Taxpayers			With AMT Indexing All Taxpayers		
	Returns	AMT + lost credits	Percentage of taxpayers in the income category affected by the AMT	Returns	AMT + lost credits	Percentage of taxpayers in the income category affected by the AMT
Less than \$10,000.....	11	\$214	0.02%	7	\$181	0.01%
\$10,000 - \$20,000.....	15	\$18	0.07%	14	\$12	0.06%
\$20,000 - \$30,000.....	11	\$15	0.06%	6	\$11	0.03%
\$30,000 - \$40,000.....	184	\$96	1.23%	3	\$17	0.02%
\$40,000 - \$50,000.....	425	\$294	3.66%	5	\$23	0.04%
\$50,000 - \$75,000.....	3,047	\$2,649	14.74%	68	\$80	0.33%
\$75,000 - \$100,000.....	6,306	\$8,577	49.72%	125	\$253	0.99%
\$100,000 - \$200,000.....	11,547	\$34,501	83.80%	986	\$2,817	7.16%
\$200,000 - \$500,000.....	3,111	\$33,396	96.23%	2,376	\$17,146	73.49%
\$500,000 - \$1,000,000.....	400	\$6,584	69.08%	399	\$6,544	68.91%
\$1,000,000 and above.....	107	\$7,102	33.13%	107	\$7,085	33.13%
Total.....	25,164	\$93,446	14.75%	4,094	\$34,169	2.40%

Source: Staff of the Joint Committee on Taxation.

Data related to the distribution of income and taxes³⁷

For 2010, the Staff of the Joint Committee on Taxation estimates that the top 10 percent (in terms of income) of all tax returns will receive 40.2 percent of all income and pay 77.2 percent of all income taxes. The top five percent of all tax returns will receive 30.6 percent of all income and pay 64.8 percent of all income taxes. The top one percent of all tax returns will receive 17.9 percent of all income and pay 42.0 percent of all income taxes. In 2010, the income estimated to be necessary to be in the top one percent of all returns is \$376,578; the top five percent requires \$173,112; and the top 10 percent requires \$127,768.

For 2011, the top 10 percent (in terms of income) of all tax returns will receive 39.3 percent of all income and pay 67.7 percent of all income taxes. The top five percent of all tax returns will receive 29.7 percent of all income and pay 56.7 percent of all income taxes. The top one percent of all tax returns will receive 18.6 percent of all income and pay 41.1 percent of all income taxes. In 2011, the income estimated to be necessary to be in the top one percent of all returns is \$372,384; the top five percent requires \$174,571; and the top 10 percent requires \$129,319.

³⁷ See Table 11 footnote 1, below, for the definition of income used herein.

Table 11, below, shows the projected distribution of income and taxes by income category for 2010 tax returns.³⁸ For example, tax returns with \$30,000 to \$40,000 of income constitute 9.9 percent of all returns, 5.7 percent of all income, 3.7 percent of total taxes, 0.2 percent of individual income taxes and 7.1 percent of social insurance taxes. Similarly, tax returns with \$100,000 to \$200,000 of income constitute 10.5 percent of all returns, 23.3 percent of all income, 28.2 percent of total taxes, 28.6 percent of individual income taxes, and 28.0 percent of social insurance taxes.

Table 11 also shows average tax rates by income category for the individual income tax, social insurance taxes, and for total taxes (including the individual income tax, social insurance taxes and excise taxes, but not the corporate income tax). Note that the average tax rate reported here is the tax collected by the relevant tax, divided by total income (not only income subject to the relevant tax). The average tax rate for social insurance taxes is similar across most tax returns, ranging between 7.2 and 11.0 percent for tax returns with income below \$500,000, with substantially lower average rates for those with income above \$500,000. Because the social insurance tax rates are constant, the variation in the average rate reflects the variation in the different income groups' share of income that is subject to social insurance taxes. The average tax rate under the income tax varies widely, from a negative 10.2 percent to 22.9 percent, reflecting the existence of refundable tax credits and progressive statutory rates of tax.

³⁸ The income categories and measures of income used in the staff of the Joint Committee models are not directly comparable to the historical data presented earlier in this pamphlet. Additionally, the staff of the Joint Committee on Taxation does not estimate the distribution of the corporate income taxes on account of the uncertainty in the incidence of the corporate income tax. See footnotes to Table 11 for the definition of income used by the staff of the Joint Committee on Taxation.

**Table 11.— Distribution of Income and Taxes, and Average Tax Rates
2010**

INCOME CATEGORY (1)	Number of Returns (2) (Thousands)	Share of Returns	Income (Millions of Dollars)	Share of Income	COMBINED INCOME, SOCIAL INSURANCE, AND EXCISE TAXES UNDER PRESENT LAW (3)			INDIVIDUAL INCOME TAXES			EMPLOYMENT TAXES		
					\$ Billions	Percent Share	Average Tax Rate	\$ Billions	Percent Share	Average Tax Rate	\$ Billions	Percent Share	Average Tax Rate
Less than \$10,000.....	28,197	17.7%	130,485	1.3%	6.3	0.3%	4.8%	-13.4	-1.4%	-10.2%	13.2	1.5%	10.1%
\$10,000 to \$20,000.....	23,872	15.0%	363,202	3.7%	3.6	0.2%	1.0%	-33.4	-3.6%	-9.2%	31.5	3.6%	8.7%
\$20,000 to \$30,000.....	18,456	11.6%	466,973	4.8%	34.8	1.8%	7.5%	-20.7	-2.2%	-4.4%	50.4	5.8%	10.8%
\$30,000 to \$40,000.....	15,769	9.9%	562,324	5.7%	69.3	3.7%	12.3%	1.7	0.2%	0.3%	62.1	7.1%	11.0%
\$40,000 to \$50,000.....	12,970	8.1%	593,855	6.1%	86.4	4.6%	14.5%	16.9	1.8%	2.8%	64.1	7.3%	10.8%
\$50,000 to \$75,000.....	23,656	14.8%	1,489,164	15.2%	244.3	12.9%	16.4%	75.8	8.1%	5.1%	156.5	17.9%	10.5%
\$75,000 to \$100,000.....	14,952	9.4%	1,318,004	13.5%	250.6	13.2%	19.0%	97.3	10.4%	7.4%	143.8	16.4%	10.9%
\$100,000 to \$200,000.....	16,748	10.5%	2,281,583	23.3%	532.8	28.2%	23.4%	268.7	28.6%	11.8%	245.4	28.0%	10.8%
\$200,000 to \$500,000.....	3,782	2.4%	1,079,625	11.0%	291.1	15.4%	27.0%	206.4	22.0%	19.1%	77.8	8.9%	7.2%
\$500,000 to \$1,000,000.....	622	0.4%	429,053	4.4%	112.3	5.9%	26.2%	94.8	10.1%	22.1%	16.1	1.8%	3.7%
\$1,000,000 and over.....	336	0.2%	1,068,415	10.9%	260.8	13.8%	24.4%	244.7	26.1%	22.9%	15.3	1.7%	1.4%
Total, All Taxpayers.....	159,359	100.0%	9,782,685	100.0%	1,892.2	100.0%	19.3%	938.9	100.0%	9.6%	876.2	100.0%	9.0%

- (1) The income concept used to place tax returns into income categories is adjusted gross income (AGI) plus: [1] tax-exempt interest, [2] employer contributions for health plans and life insurance, [3] employer share of FICA tax, [4] worker's compensation, [5] nontaxable social security benefits, [6] insurance value of Medicare benefits, [7] alternative minimum tax preference items, and [8] excluded income of U.S. citizens living abroad. Categories are measured at 2009 levels.
- (2) Includes nonfilers, excludes dependent filers and returns with negative income.
- (3) Federal taxes are equal to individual income tax (including the outlay portion of the EIC), employment tax (attributed to employees), and excise taxes (attributed to consumers). Corporate income tax is not included due to uncertainty concerning the incidence of the tax. Individuals who are dependents of other taxpayers and taxpayers with negative income are excluded from the analysis. Does not include indirect effects.
- (4) The average tax rate is equal to Federal taxes described in footnote (3) divided by income described in footnote (2).

Source: Staff of the Joint Committee on Taxation.

Table 11a shows the same data as Table 11, but for tax year 2011. The most notable difference is the increase in total taxes of \$303 billion and an increase of 2.4 percent in the average tax rate. Individual income taxes rise by \$276.9 billion, occurring mainly as a result of the sunset provisions of EGGTRA and JGTRRA, but also as a result of the expiration of provisions of ARRTA, including the making work pay credit.

**Table 11a.– Distribution of Income and Taxes, and Average Tax Rates
2011**

INCOME CATEGORY (1)	Number of Returns (2) (Thousands)	Share of Returns	Income (Millions of Dollars)	Share of Income	COMBINED INCOME, SOCIAL INSURANCE, AND EXCISE TAXES UNDER PRESENT LAW (3)			INDIVIDUAL INCOME TAXES			EMPLOYMENT TAXES		
					\$ Billions	Percent	Average	\$ Billions	Percent	Average	\$ Billions	Percent	Average
						Share	Tax Rate		Share	Tax Rate		Share	Tax Rate
Less than \$10,000.....	28,677	17.8%	134,404	1.4%	11.5	0.5%	8.6%	-8.8	-0.7%	-6.6%	13.7	1.5%	10.2%
\$10,000 to \$20,000.....	24,172	15.0%	372,231	3.8%	18.8	0.9%	5.1%	-19.4	-1.6%	-5.2%	32.5	3.6%	8.7%
\$20,000 to \$30,000.....	18,543	11.5%	474,612	4.8%	56.3	2.6%	11.9%	-0.6	-0.1%	-0.1%	51.6	5.7%	10.9%
\$30,000 to \$40,000.....	15,755	9.8%	569,070	5.8%	91.4	4.2%	16.1%	22.2	1.8%	3.9%	63.5	7.0%	11.2%
\$40,000 to \$50,000.....	13,062	8.1%	605,930	6.1%	107.0	4.9%	17.7%	35.1	2.9%	5.8%	66.2	7.3%	10.9%
\$50,000 to \$75,000.....	23,980	14.9%	1,528,937	15.5%	290.7	13.3%	19.0%	115.9	9.6%	7.6%	161.9	18.0%	10.6%
\$75,000 to \$100,000.....	15,269	9.5%	1,362,332	13.8%	290.8	13.3%	21.3%	131.6	10.9%	9.7%	149.1	16.5%	10.9%
\$100,000 to \$200,000.....	16,905	10.5%	2,328,914	23.6%	588.0	26.9%	25.2%	316.3	26.3%	13.6%	251.7	27.9%	10.8%
\$200,000 to \$500,000.....	3,760	2.3%	1,084,836	11.0%	307.4	14.1%	28.3%	220.7	18.3%	20.3%	79.4	8.8%	7.3%
500,000 to \$1,000,000.....	607	0.4%	423,737	4.3%	127.6	5.8%	30.1%	109.9	9.1%	25.9%	16.3	1.8%	3.9%
\$1,000,000 and over.....	315	0.2%	991,475	10.0%	297.4	13.6%	30.0%	281.5	23.4%	28.4%	15.2	1.7%	1.5%
Total, All Taxpayers.....	161,047	100.0%	9,876,478	100.0%	2,186.7	100.0%	22.1%	1,204.3	100.0%	12.2%	901.0	100.0%	9.1%

(1) The income concept used to place tax returns into income categories is adjusted gross income (AGI) plus: [1] tax-exempt interest, [2] employer contributions for health plans and life insurance, [3] employer share of FICA tax, [4] worker's compensation, [5] nontaxable social security benefits, [6] insurance value of Medicare benefits, [7] alternative minimum tax preference items, and [8] excluded income of U.S. citizens living abroad. Categories are measured at 2009 levels.

(2) Includes nonfilers, excludes dependent filers and returns with negative income.

(3) Federal taxes are equal to individual income tax (including the outlay portion of the EIC), employment tax (attributed to employees), and excise taxes (attributed to consumers). Corporate income tax is not included due to uncertainty concerning the incidence of the tax. Individuals who are dependents of other taxpayers and taxpayers with negative income are excluded from the analysis. Does not include indirect effects.

(4) The average tax rate is equal to Federal taxes described in footnote (3) divided by income described in footnote (2).

Source: Staff of the Joint Committee on Taxation.

Table 12 shows, by income class, the number of tax returns paying income or social insurance taxes for which the social insurance taxes are greater than income taxes in 2010. Because of the progressive income tax structure and the generally flat structure of social insurance taxes, the likelihood social insurance taxes will exceed income taxes increases as income levels decline. Thus, for example, in the \$40,000 to \$50,000 income group, 86.4 percent of tax returns have social insurance taxes greater than income taxes, while in the \$100,000 to \$200,000 group 60.7 percent of returns have social insurance taxes greater than income taxes.

**Table 12.—Tax Returns with Income or Social Insurance Taxes
2010**

INCOME CATEGORY (1)	Millions of Returns	Individual	Employment	Returns with	Returns with	Percentage of Returns with Employment Taxes Greater than Income Taxes
		Income Taxes	Taxes	Employment Taxes Greater than Income Taxes	Employment Taxes Less than Income Taxes	
		\$ Billions	\$ Billions	Millions of Returns	Millions of Returns	
Less than \$10,000.....	17.2	-13.4	13.2	17.2	[3]	99.8%
\$10,000 to \$20,000.....	16.1	-33.4	31.5	15.6	0.5	97.1%
\$20,000 to \$30,000.....	15.7	-20.7	50.4	15.1	0.6	96.0%
\$30,000 to \$40,000.....	14.4	1.7	62.1	13.2	1.2	91.5%
\$40,000 to \$50,000.....	12.3	16.9	64.1	10.5	1.8	85.3%
\$50,000 to \$75,000.....	22.5	75.8	156.5	18.3	4.2	81.5%
\$75,000 to \$100,000.....	14.8	97.3	143.8	10.7	4.0	72.7%
\$100,000 to \$200,000.....	16.7	268.7	245.4	8.5	8.1	51.2%
\$200,000 to \$500,000.....	3.8	206.4	77.8	0.1	3.6	3.1%
\$500,000 to \$1,000,000.....	0.6	94.8	16.1	[3]	0.6	2.1%
\$1,000,000 and over.....	0.3	244.7	15.3	[3]	0.3	1.5%
Total, All Taxpayers.....	134.4	938.9	876.2	109.3	25.1	81.3%

(1) The income concept used to place tax returns into income categories is adjusted gross income (AGI) plus: [1] tax-exempt interest, [2] employer contributions for health plans and life insurance, [3] employer share of FICA tax, [4] worker's compensation, [5] nontaxable social security benefits, [6] insurance value of Medicare benefits, [7] alternative minimum tax preference items, and [8] excluded income of U.S. citizens living abroad. Categories are measured at 2009 levels.

(2) Includes nonfilers, excludes dependent filers and returns with negative income.

(3) Less than 50,000.

Source: Staff of the Joint Committee on Taxation.

Table 12a, below, shows the same information for 2011. The principal change is the uniform increase across all income groups in the growth of income tax liability versus employment tax liability, as a result of the previously mentioned expiration of certain provisions of EGTRRA, JGTRRA, and ARRTA. The percentage of all returns with social insurance liability greater than income tax liability falls from 80.9 percent in 2010 to 76.6 percent in 2011.

**Table 12a.—Tax Returns with Income or Social Insurance Taxes
2011**

INCOME CATEGORY (1)	Millions of Returns	Individual Income Taxes	Employment Taxes	Returns with Employment Taxes <u>Greater than Income Taxes</u>	Returns with Employment Taxes <u>Less than Income Taxes</u>	Percentage of Returns with Employment Taxes Greater than Income Taxes
		\$ Billions	\$ Billions	Millions of Returns	Millions of Returns	
Less than \$10,000.....	17.4	-8.8	13.7	17.4	[3]	99.8%
\$10,000 to \$20,000.....	16.2	-19.4	32.5	15.7	0.4	97.3%
\$20,000 to \$30,000.....	15.8	-0.6	51.6	15.0	0.8	95.1%
\$30,000 to \$40,000.....	14.4	22.2	63.5	13.0	1.4	90.2%
\$40,000 to \$50,000.....	12.5	35.1	66.2	10.4	2.1	83.2%
\$50,000 to \$75,000.....	23.0	115.9	161.9	17.1	5.9	74.4%
\$75,000 to \$100,000.....	15.1	131.6	149.1	9.7	5.4	64.1%
\$100,000 to \$200,000.....	16.9	316.3	251.7	6.6	10.3	38.9%
\$200,000 to \$500,000.....	3.7	220.7	79.4	0.1	3.7	2.5%
\$500,000 to \$1,000,000.....	0.6	109.9	16.3	[3]	0.6	1.2%
\$1,000,000 and over.....	0.3	281.5	15.2	[3]	0.3	0.6%
Total, All Taxpayers.....	135.9	1204.3	901.0	104.9	31.0	77.2%

- (1) The income concept used to place tax returns into income categories is adjusted gross income (AGI) plus: [1] tax-exempt interest, [2] employer contributions for health plans and life insurance, [3] employer share of FICA tax, [4] worker's compensation, [5] nontaxable social security benefits, [6] insurance value of Medicare benefits, [7] alternative minimum tax preference items, and [8] excluded income of U.S. citizens living abroad. Categories are measured at 2009 levels.
- (2) Includes nonfilers, excludes dependent filers and returns with negative income.
- (3) Less than 50,000.

Source: Staff of the Joint Committee on Taxation.

Table 13, below, shows the average marginal tax rates for labor income and for long-term capital gain income by income category for 2010. A taxpayer's marginal tax rate is the rate of tax that is owed on the last dollar of income of the taxpayer. Table 13 reports the average of the marginal tax rates of each taxpayer in the income category.

**Table 13.— Marginal Tax Rates On Labor Income and Long Term Capital Gain, by Income Category
2010**

INCOME CATEGORY (1)	Labor Income			Long-Term Capital Gains Income
	Average Marginal Income Tax Rate (2)	Average Marginal Employment Tax Rate (2)	Average Combine Marginal Income and Employment Tax Rate	Average Marginal Tax Rate
Less than \$10,000.....	-10.0%	14.2%	4.2%	0.0%
\$10,000 to \$20,000.....	0.5%	14.2%	14.7%	0.2%
\$20,000 to \$30,000.....	12.9%	14.2%	27.1%	0.5%
\$30,000 to \$40,000.....	15.9%	14.2%	30.1%	0.8%
\$40,000 to \$50,000.....	16.3%	14.2%	30.5%	2.1%
\$50,000 to \$75,000.....	17.2%	14.2%	31.4%	6.1%
\$75,000 to \$100,000.....	20.6%	14.2%	34.7%	7.8%
\$100,000 to \$200,000.....	26.4%	12.1%	38.5%	15.5%
\$200,000 to \$500,000.....	31.5%	8.0%	39.4%	17.8%
\$500,000 to \$1,000,000.....	29.1%	6.6%	35.7%	15.0%
\$1,000,000 and over.....	31.4%	6.6%	37.9%	14.8%
Total, All Taxpayers.....	14.4%	13.6%	28.0%	14.7%

(1) The income concept used to place tax returns into income categories is adjusted gross income (AGI) plus: [1] tax-exempt interest, [2] employer contributions for health plans and life insurance, [3] employer share of FICA tax, [4] worker's compensation, [5] nontaxable social security benefits, [6] insurance value of Medicare benefits, [7] alternative minimum tax preference items, and [8] excluded income of U.S. citizens living abroad. Categories are measured at 2009 levels.

(2) For individual income and employment taxes, the average marginal tax rate is equal to the change in taxes from an additional \$100 of wages to each spouse with positive wages. For long-term capital gain, the average marginal tax rate equals the change in taxes from an additional 1% increase in long-term capital gains to each taxpayer with positive long-term capital gains.

Source: Staff of the Joint Committee on Taxation.

The marginal tax rates on labor income reflect the effects of the individual income tax and the social insurance taxes. They generally rise with income, reflecting the progressive nature of the individual income tax. The social insurance tax is flat to regressive,³⁹ reflecting the fact that the single rate of tax for the Old Age and Survivors Disability Insurance portion of social insurance taxes does not apply to earnings above an annual cap (\$106,800 in 2010).⁴⁰

The marginal tax rates on long-term capital income are lower than those for labor income, reflecting both the lower statutory rates of tax applicable to long-term capital gains and

³⁹ Note that this statement reflects only the tax side of social insurance, and not the linked benefits. Many analysts think it is important to consider the tax and benefits of social insurance together.

⁴⁰ As table 7 shows, the marginal social insurance tax rate is 14.2 percent rather than the sum of the employer (7.65 percent) and employee share (7.65 percent), or 15.3 percent. The reason for this is that comprehensive income includes the employer share of social insurance tax liability. Hence the marginal social insurance rate is .153 divided by 1.0765, or 14.2 percent.

the fact that social insurance taxes do not apply to capital gain income. Marginal tax rates on long-term capital gains still generally rise with the level of income, reflecting the statutory structure of the maximum rates of tax on long-term capital gain income, as well as the interaction of capital gain income with other provisions of the income tax that phase out certain tax benefits as income increases.

Table 13a, below, shows the same information as Table 13 for 2011. The staff of the Joint Committee on Taxation estimates that the combined marginal income and social insurance tax rate for all taxpayers will rise 1.7 percentage points from 2010 to 2011 as a result of the 1.7 percentage point increase in the average marginal income tax rates due to the expiration of certain provisions of EGTRRA and ARRTA. The average marginal tax rate for long-term capital gains rises to 19.3 percent from 14.7 percent in 2010, an increase of 4.6 percentage points, as a result of the expiration of the reduced capital gains rates of EGTRRA.

**Table 13a.— Marginal Tax Rates On Labor Income and Long Term Capital Gain, by Income Category
2011**

INCOME CATEGORY (1)	Labor Income			Long-Term Capital Gains Income
	Average Marginal Income Tax Rate (2)	Average Marginal Employment Tax Rate (2)	Average Combine Marginal Income and Employment Tax Rate	Average Marginal Tax Rate
Less than \$10,000.....	-6.3%	14.2%	7.9%	0.8%
\$10,000 to \$20,000.....	5.5%	14.2%	19.7%	2.3%
\$20,000 to \$30,000.....	15.1%	14.2%	29.3%	6.8%
\$30,000 to \$40,000.....	16.5%	14.2%	30.8%	6.7%
\$40,000 to \$50,000.....	15.3%	14.2%	29.5%	9.6%
\$50,000 to \$75,000.....	18.6%	14.2%	32.8%	12.5%
\$75,000 to \$100,000.....	22.3%	14.2%	36.5%	15.6%
\$100,000 to \$200,000.....	26.5%	12.2%	38.7%	20.0%
\$200,000 to \$500,000.....	32.7%	8.0%	40.7%	22.3%
\$500,000 to \$1,000,000.....	37.3%	6.6%	43.9%	19.6%
\$1,000,000 and over.....	37.5%	6.5%	44.0%	19.3%
Total, All Taxpayers.....	16.1%	13.6%	29.7%	19.3%

(1) The income concept used to place tax returns into income categories is adjusted gross income (AGI) plus: [1] tax-exempt interest, [2] employer contributions for health plans and life insurance, [3] employer share of FICA tax, [4] worker's compensation, [5] nontaxable social security benefits, [6] insurance value of Medicare benefits, [7] alternative minimum tax preference items, and [8] excluded income of U.S. citizens living abroad. Categories are measured at 2009 levels.

(2) For individual income and employment taxes, the average marginal tax rate is equal to the change in taxes from an additional \$100 of wages to each spouse with positive wages. For long-term capital gain, the average marginal tax rate equals the change in taxes from an additional 1% increase in long-term capital gains to each taxpayer with positive long-term capital gains.

Source: Staff of the Joint Committee on Taxation.

Expiring Provisions of EGTRRA and JGTRRA

Table 14, below, provides a comprehensive list of the provisions of current law that will expire at the end of 2010 as a result of the sunset provisions contained in EGTRRA and JGTRRA.

**TABLE 14.—PROVISIONS WITH A TERMINATION DATE IN EGTRRA⁴¹
AND JGTRRA⁴²**

Provision (Code section)	Expiration Date
1. Ten percent individual income tax rate (sec. 1(i))	12/31/10
2. <u>Reduction in other individual income tax rates.</u> —Size of 15 percent rate bracket modified to reflect 10-percent rate, and 28 percent, 31 percent, 36 percent and 39.6 percent rates are reduced to 25 percent, 28 percent, 33 percent and 36 percent, respectively (sec. 1(i)(2))	12/31/10
3. Repeal of the personal exemptions phase-outs (“PEP”) for high income taxpayers ⁴³ (sec. 151(d)(3)(F))	12/31/10
4. Repeal of overall limitation on itemized deductions (the “Pease limitation”) ⁴⁴ (sec. 68(g))	12/31/10
5. <u>Child credit.</u> —Increase from \$500 to \$1,000, expand eligibility for refundable portion of the credit, alternative minimum tax (“AMT”) relief, provide that child credit not treated as income or resources for purposes of benefit or	12/31/10

⁴¹ The termination applies to all the Economic Growth and Tax Relief Reconciliation Act of 2001, Pub. L. No. 107-16, (“EGTRRA”) provisions otherwise in effect on the date December 31, 2010 (EGTRRA sec. 901). The Holocaust Restitution Tax Fairness Act of 2002, Pub. L. No. 107-358, repealed the termination contained in EGTRRA with respect to the exclusion from Federal income tax for restitution received by victims of the Nazi Regime. The Pension Protection Act of 2006, Pub. L. No. 109-280, repealed the termination contained in EGTRRA with respect to the pension and IRA provisions contained in subtitles A through F of title VI of EGTRRA and with respect to the qualified tuition program provisions in section 402 of EGTRRA.

⁴² Provisions relating to reduced capital gains rates and dividends taxed at capital gains rates, enacted in the Jobs and Growth Tax Relief Reconciliation Act of 2003, Pub. L. No. 108-27, (“JGTRRA”), terminate on December 31, 2010, under JGTRRA section 303 as modified by section 102 of the Tax Increase Prevention and Reconciliation Act of 2005, Pub. L. No. 109-222 (“TIPRA”).

⁴³ The phaseout is reduced for taxable years beginning in 2006 through 2009.

⁴⁴ The limitation is phased out for taxable years beginning in 2006 through 2009.

Provision (Code section)	Expiration Date
assistance programs financed in whole or in part with Federal funds (secs. 24(a) and (b)(3))	
6. <u>Adoption credit and adoption assistance exclusion.</u> —Increase to \$10,000 for maximum credit and maximum exclusion, special needs adoptions deemed to have \$10,000 eligible expenses for purposes of credit and exclusion, increase the beginning and ending points of phase-out range for credit and exclusion, the credit is allowed against AMT (secs. 23 and 137)	12/31/10
7. <u>Dependent care credit.</u> —Increase of dollar limit on creditable expenses from \$2,400 to \$3,000 (\$4,800 to \$6,000 for two or more children), increase of applicable credit percentage from 30 to 35 percent, increase of beginning point of phase-out range from \$10,000 to \$15,000 (secs. 21(a)(2) and 21(c))	12/31/10
8. Credit for employer-provided child care (sec. 45F)	12/31/10
9. Increase of the standard deduction for married filers to double that of unmarried filers (sec. 63(c)(2)(A))	12/31/10
10. Increase of the size of 15 percent rate bracket for married filers to double that of unmarried filers (sec. 1(f)(8))	12/31/10
11. <u>Earned income tax credit (“EITC”).</u> —Increase in the beginning point of the phase-out range for joint returns, modification of EITC treatment of amounts not includible in income, repeal of reduction of EITC for AMT liability, expansion of math error authority	12/31/10

Provision (Code section)	Expiration Date
(secs. 32(b)(2), (c)(2)(A)(i), (h), and 6213(g)(2))	
12. <u>Education IRAs.</u> —Increase of maximum annual contribution from \$500 to \$2,000, expansion of definition of qualified education expenses, increase in the size of the phase-out range for married filers to double that of unmarried filers, provision of special needs beneficiary rules, contributions by corporations and other entities, and contributions until April 15th, permitted (secs. 530(b)(1), (b)(2), (b)(4), (c)(1), (d)(2))	12/31/10
13. <u>Employer-provided educational assistance.</u> —Expansion to graduate education and making the exclusion permanent (sec. 127(c)(1))	12/31/10
14. <u>Student loan interest deduction.</u> —Increase and indexation for inflation of the phase-out ranges, repeal of the limit on the number of months that interest payments are deductible, repeal of the rule that voluntary payments of interest are not deductible (sec. 221)	12/31/10
15. Elimination of tax on awards under the National Health Service Corps Scholarship Program and the F. Edward Hébert Armed Forces Health Professions Scholarship and Financial Assistance Program (sec. 117(c)(2))	12/31/10
16. <u>Tax-exempt bonds for educational facilities and activities.</u> —Increase in amount of bonds qualifying for small-issuer arbitrage rebate exception, expansion of tax-exempt bond treatment to public school facilities (secs. 142(a)(13) and (k), and 148(f)(4)(D)(vii))	12/31/10

Provision (Code section)	Expiration Date
17. Reduced capital gain rates for individuals (secs. 1(h)(1)(B), 1(h)(1)(C), 55(b)(3)(B), 55(b)(3)(C), 1445(e)(1), 7518(g)(6)(A) and sec. 102 of Pub. L. No. 109-222)	12/31/10
18. Dividends of individuals taxed at capital gain rates (secs. 1(h)(11), 163(d)(4)(B), 854(a), 854(b) and 857(c) and sec. 102 of Pub. L. No. 109-222)	12/31/10
19. Repeal of collapsible corporation rules (sec. 341)	12/31/10
20. Temporary repeal of the estate and generation-skipping transfer taxes (secs. 2210 and 2264) ⁴⁵	12/31/10
21. Reduction in the maximum gift tax rate to 35 percent ⁴⁶ (sec. 2502)	12/31/10
22. Treatment of certain transfers in trust as taxable gifts under section 2503 (sec. 2511(c))	12/31/10

⁴⁵ Prior to the enactment of EGTRRA, the estate and gift tax exemption amount was scheduled to rise gradually from \$675,000 to \$1 million between 2001 and 2006 and to be fixed at \$1 million thereafter. Under section 521 of EGTRRA, before repealing the estate and generation-skipping transfer taxes for decedents dying and gifts made in 2010, the estate and generation-skipping tax exemption amounts increased to \$1 million for 2002 and 2003, \$1.5 million for 2004 and 2005, \$2 million for 2006 through 2008 and \$3.5 million for 2009. The EGTRRA estate and gift tax provisions sunset for decedents dying and gifts made after December 31, 2010, and the estate and generation-skipping tax exemption amount scheduled to be in effect under pre-EGTRRA law (\$1 million for 2006 and later years) will apply. (Secs. 2010, 2505, 2631 and sec. 901 of Pub. L. No. 107-16.)

⁴⁶ Before repealing the estate and generation-skipping transfer taxes for decedents dying and gifts made in 2010, section 511 of EGTRRA reduced the maximum estate and gift tax rate from 55 percent to 50 percent for 2002, then phased down of the maximum estate and gift tax rate from 49 percent to 45 percent from 2002 through 2007. The maximum estate and gift tax rate remained at 45 percent from 2007 through 2009. Under EGTRRA, the gift tax rate is reduced to 35 percent for gifts made in 2010. The EGTRRA estate and gift tax provisions sunset for decedents dying and gifts made after December 31, 2010, and the maximum estate and gift tax rate in effect under pre-EGTRRA (55 percent) will apply. (Secs. 2001 and 2502.)

Provision (Code section)	Expiration Date
23. Repeal of the qualified family-owned business deduction (sec. 2057)	12/31/10
24. Estate tax deduction for State death taxes paid ⁴⁷ (secs. 2011, 2053, 2058, 2102, 2106, and 2604)	12/31/10
25. Modified carryover basis rules for property acquired from a decedent who dies during 2010 ⁴⁸ (secs. 1022, 1040, 6018, and 6716)	12/31/10
26. Expansion and clarification of estate tax conservation easement rules (secs. 2031(c)(2) and (c)(8)(A)(i))	12/31/10
27. Modifications to generation-skipping transfer tax rules regarding deemed allocations of exemption to certain transfers in trust, severing of trusts, valuation, and relief for late elections (secs. 2632(c) and 2642(a)(3), (b)(1) and (b)(2)(A))	12/31/10
28. Modifications to estate tax installment payment rules (sec. 6166(b)(1)(B)(ii), (b)(1)(C)(ii), (b)(8)(B), (b)(9)(B)(iii)(I) and (b)(10))	12/31/10

⁴⁷ Prior to 2005, an estate was allowed a credit for State death taxes paid. Sections 561-564 of EGTRRA phased down the allowable credit amount from years 2002 through 2004, before repealing the credit and replacing it with a deduction for State death taxes paid for estates of decedents dying after 2004.

⁴⁸ Under the modified carryover basis rules in effect for decedents dying in 2010, an executor of an estate may increase, or “step-up,” the basis in property passing from the estate by \$1.3 million. This \$1.3 million amount may be increased for certain unused built-in losses and loss carryforwards. An additional basis increase of \$3 million is available for property passing to a surviving spouse. After 2010, pre-EGTRRA law applies and property acquired from a decedent will generally receive a fair market value, or “stepped-up,” basis (sec. 1014).

Provision (Code section)	Expiration Date
29. Tax treatment of electing Alaska Native Settlement Trusts and their beneficiaries (sec. 646)	12/31/10
30. Expansion from 90 days to 120 days the postponement of certain tax related deadlines in the case of Presidentially-declared disasters (sec. 7508A(a))	12/31/10