

# 2008

# TAX RELIEF KIT

U.S. DEPARTMENT OF TREASURY, OFFICE OF TAX POLICY

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## MILLIONS OF AMERICAN FAMILIES ARE BENEFITING FROM TAX RELIEF

As a result of the President's Economic Growth and Tax Relief Reconciliation Act of 2001, the Jobs and Growth Tax Relief Reconciliation Act of 2003, the Working Families Tax Relief Act of 2004, and the Tax Increase Prevention and Reconciliation Act of 2005 every taxpayer who paid income taxes will get tax relief this year.<sup>1</sup>

- 116 million taxpayers will see their taxes decline by an average of \$2,420.
- A typical family of four earning \$40,000 will receive tax relief of \$2,010.<sup>2</sup>
- Over 6 million individuals and families will see their income tax liabilities completely eliminated.
- 45 million families with children will receive average tax relief of \$3,184.
- 16 million elderly individuals will save an average of \$3,052.
- 27 million small business owners will save an average of \$5,169.

President Bush has called on Congress to act to prevent tax increases. If Congress does not act, failure to extend the President's tax relief permanently would raise taxes on American taxpayers in future years.

- In 2011, the small business expensing limit will shrink from \$134,000 (indexed) to just \$25,000, increasing the cost of capital investments for America's small businesses;
- In 2011, the top tax rate on dividends will increase from 15 to 39.6 percent, while the top tax rate on capital gains will climb from 15 to 20 percent, raising the tax burden on retirees and families investing for their future;
- In 2011, low-income families with one or two children will no longer be eligible for the refundable child tax credit; and
- In 2011, the tax rate relief, the new 10-percent tax bracket, estate tax repeal, marriage penalty relief, and all the remaining tax relief enacted over the past few years will sunset, resulting in tax increases for every taxpayer who pays income taxes.

The economy is stronger today because of the tax relief measures enacted during President Bush's administration. The success of the President's economic program, including tax relief, can be seen throughout the economy.

- Economic growth has averaged 2.8 percent since the beginning of 2003.
- Although job growth slowed in 2007, the economy has generated more than 1 million net new jobs in the year ending December 2007, and about 8.2 million since August 2003.
- While the unemployment rate has risen, at 4.9 percent, it remains relatively low.
- Real, per-capita after-tax incomes are up more than 12 percent since December 2000.
- Since 2000, labor productivity growth has averaged 2.6 percent per year, well above average productivity growth in the 1970s, 1980s, and 1990s.

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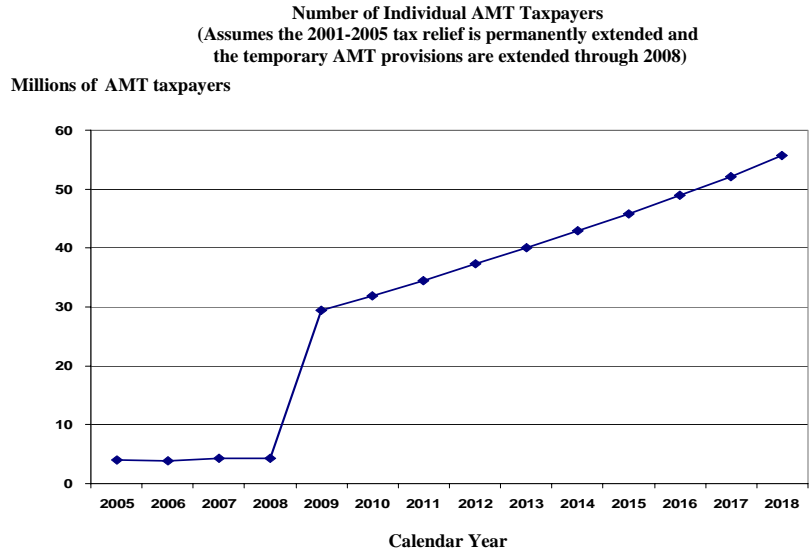
<sup>1</sup> The estimates in these bullets assume extension of the AMT patch through 2008.

<sup>2</sup> In this example, the taxpayers would claim the standard deduction because it is larger than their likely itemized deductions. In this example, the taxpayer is assumed to have itemized deductions equal to 18 percent of income.

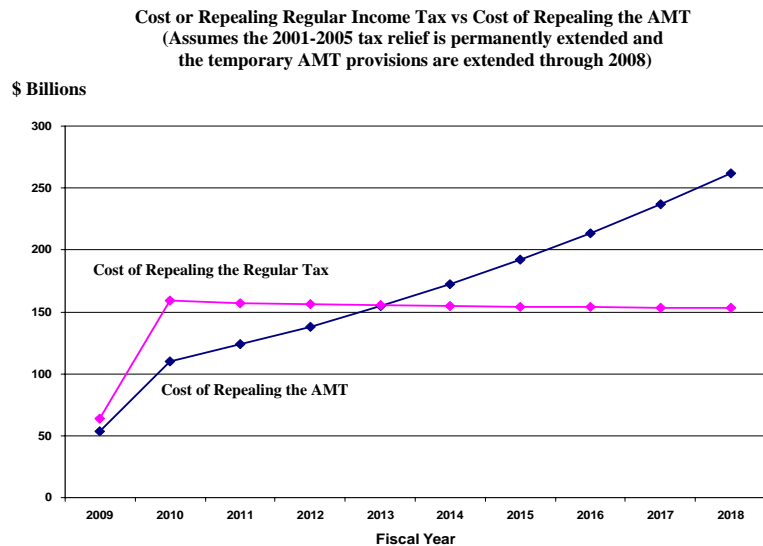
## THE TOLL OF TWO TAXES: THE REGULAR INCOME TAX AND THE AMT

The alternative minimum tax (AMT) is a second income tax system that runs parallel to the regular individual income tax. First enacted in the late 1960s, the AMT was intended to target a small group of high-income individuals—who had managed to avoid all taxes—to ensure they paid a minimum amount of tax. Changes since the AMT’s original enactment mean that today it reaches into the ranks of the middle class, potentially denying them the benefit of many of the deductions, credits, and lower tax rates available under the regular income tax system. The AMT also significantly increases the complexity of tax filing for taxpayers subject to the AMT and for millions of additional taxpayers who must complete AMT forms to determine they are not subject to the AMT.

- Left unchanged, the AMT will affect increasing numbers of taxpayers. As can be seen in the graph to the right, assuming the President’s tax relief is made permanent and the temporary AMT provisions are extended through 2008, the number of taxpayers with increased taxes due to the AMT will increase from 4 million in 2008 to almost 30 million in 2009 and to 56 million in 2018.



- The cost of addressing the AMT will also grow rapidly. Assuming the President’s tax relief is made permanent and the temporary AMT provisions are extended through 2008, in 2010 the AMT will increase the amount of tax individuals pay by \$110 billion, rising to \$260 billion in 2018.
- The graph shows that by 2014 less revenue would be lost from repealing the regular income tax than from repealing the AMT.



## WHO PAYS MOST INDIVIDUAL INCOME TAXES?

The individual income tax is highly progressive—a small group of high-income taxpayers pay most of the individual income taxes each year.

- In 2005, the latest year of available data, the top 5 percent of taxpayers paid more than one-half (59.7 percent) of all individual income taxes, but reported one-third (35.7 percent) of income.
- The top 1 percent of taxpayers paid 39.4 percent of all individual income taxes in 2005. This group of taxpayers has paid more than 30 percent of individual income taxes since 1990. Moreover, since 1990 this group's tax share has grown *faster* than their income share.

Share of Individual Income Taxes and Income, 1990-2005						
Share of Individual Income Taxes [Share of Adjusted Gross Income]						
	Top 1%	Top 5%	Top 10%	Top 25%	Top 50%	Bottom 50%
2005	39.4 [21.2]	59.7 [35.7]	70.3 [46.4]	86.0 [67.5]	96.9 [87.2]	3.1 [12.8]
2000	37.4 [20.8]	56.5 [35.3]	67.3 [46.0]	84.0 [67.2]	96.1 [87.0]	3.9 [13.0]
1995	30.3 [14.6]	48.9 [28.8]	60.8 [40.2]	80.4 [63.3]	95.4 [85.5]	4.6 [14.5]
1990	25.1 [14.0]	43.6 [27.6]	55.4 [38.8]	77.0 [62.1]	94.2 [85.0]	5.8 [15.0]

Source: U.S. Department of Treasury, Office of Tax Analysis.

- Taxpayers who rank in the top 50 percent of taxpayers by income pay virtually all individual income taxes. In all years since 1990, taxpayers in this group have paid over 90 percent of all individual income taxes. Since 1999, this group paid over 96 percent of the total. In fact, in 2005 they were paying 96.9 percent of all individual income taxes.

The President's tax relief has shifted a larger share of the individual income taxes paid to higher income taxpayers. In 2008, with nearly all of the tax relief provisions fully in effect (e.g., lower tax rates, the \$1,000 child credit, marriage penalty relief), the projected tax share for lower-income taxpayers will *fall*, while the tax share for high-income taxpayers will *rise*.

Projected Share of Individual Income Taxes and Income in 2008						
Share of Individual Income Taxes <sup>1</sup> [Share of Adjusted Gross Income]						
	Top 1%	Top 5%	Top 10%	Top 25%	Top 50%	Bottom 50%
<b>With Tax Cuts</b>	39.1 [21.5]	59.4 [36.2]	70.1 [46.9]	85.8 [67.7]	96.9 [87.3]	3.1 [12.7]
<b>Without Tax Cuts</b>	38.4 [21.5]	57.8 [36.2]	68.7 [46.9]	85.0 [67.7]	96.6 [87.3]	3.4 [12.7]

Source: U.S. Treasury, Office of Tax Analysis.  
<sup>[1]</sup>Estimates of tax paid ignore any behavioral responses to the tax cuts.  
 NOTE: Percentile groups begin at income of: Top 50% \$35,134; Top 25% \$69,687; Top 10% \$117,241; Top 5% \$164,594; Top 1% \$425,036.

- The share of taxes paid by the bottom 50 percent of taxpayers will fall from 3.4 to 3.1 percent.
- The share of taxes paid by the top 1 percent of taxpayers will rise from 38.4 percent to 39.1 percent.

**STATE BY STATE DISTRIBUTION OF THE COMBINED EFFECT OF THE 2001-2007 TAX RELIEF  
(EGTRRA (2001), JCWAA (2002), JGTRRA (2003), WFTRA (2004), AJCA (2004), TIPRA (2005), PPA (2006),  
THRC A (2006), SBWOTA (2007) and TIPA (2007))**

Based On The Number of Returns Filed in 2007 That Would Have Benefited From the Acts

(in thousands)

	Combined Effect of All the Acts <sup>1</sup>	Specific Provisions of the Acts					Addendum: Returns with Business Income <sup>3</sup> Benefiting from Acts
		New 10% Bracket	Reduction in Top Rates	Reduction of Marriage Penalty	Increase in Child Tax Credit	Reduction in Rates on Capital Gains and Dividends <sup>2</sup>	
<b>United States</b>	111,621	98,554	27,989	33,051	27,900	22,182	26,627
Alabama	1,584	1,355	307	468	469	274	355
Alaska	272	249	77	83	62	57	73
Arizona	2,152	1,897	513	638	563	414	465
Arkansas	918	789	153	284	266	155	227
California	13,155	11,545	3,759	3,778	3,109	2,779	3,480
Colorado	1,838	1,647	514	584	433	393	532
Connecticut	1,422	1,270	479	443	313	339	347
Delaware	343	309	95	102	85	70	67
Florida	6,942	6,075	1,576	1,874	1,712	1,309	1,689
Georgia	3,243	2,801	751	921	902	604	828
Hawaii	522	473	131	151	120	102	132
Idaho	513	453	93	177	140	95	151
Illinois	4,821	4,270	1,322	1,436	1,204	995	1,094
Indiana	2,346	2,097	499	743	627	438	500
Iowa	1,115	1,008	224	370	290	211	304
Kansas	1,026	916	226	340	267	200	264
Kentucky	1,429	1,257	270	456	385	256	321
Louisiana	1,462	1,247	296	403	423	255	364
Maine	507	456	98	157	125	93	139
Maryland	2,290	2,058	762	664	535	509	532
Massachusetts	2,605	2,345	849	779	542	597	647
Michigan	3,647	3,255	899	1,159	926	718	780
Minnesota	2,058	1,867	548	669	488	433	521
Montana	357	317	64	111	88	65	116
Mississippi	929	780	151	247	294	144	205
Missouri	2,124	1,886	451	659	552	396	481
North Carolina	3,214	2,801	680	971	897	592	776
North Dakota	250	226	46	79	62	46	79
Nebraska	667	601	134	216	171	125	179
Nevada	1,023	917	252	276	255	196	207
New Hampshire	546	497	153	179	126	118	134
New Jersey	3,486	3,081	1,173	1,064	800	812	781
New Mexico	680	593	139	191	182	120	154
New York	7,152	6,292	2,072	1,857	1,672	1,484	1,678
Ohio	4,445	4,004	1,048	1,218	1,042	828	905
Oklahoma	1,213	1,058	227	386	333	217	321
Oregon	1,376	1,228	322	432	337	270	356
Pennsylvania	4,789	4,295	1,157	1,466	1,168	949	982
Rhode Island	415	375	112	120	95	84	97
South Carolina	1,542	1,340	304	443	436	270	343
South Dakota	296	265	52	93	76	54	94
Tennessee	2,168	1,893	418	650	598	387	507
Texas	8,027	6,917	1,824	2,396	2,186	1,515	1,999
Utah	877	783	178	307	240	170	235
Vermont	252	228	56	76	59	49	74
Virginia	3,019	2,690	899	950	709	664	668
Washington	2,526	2,273	707	808	602	538	589
Wisconsin	2,197	1,994	510	709	544	432	481
West Virginia	598	526	102	197	160	104	115
Wyoming	210	190	52	69	52	43	61
DC	245	217	90	34	43	54	53
Other Areas	786	650	171	167	134	161	150

Notes and footnotes appear on following page.

2-21-08

## Notes

The figures in the table are based on tabulations of all individual income tax returns filed and processed through the IRS Individual Master File (IMF) during calendar year 2007. Most returns filed in 2007 were for tax year 2006.

Classification by state was based on the address used on the return. Usually this address is the taxpayer's home address. However, some taxpayers may have used the address of a tax attorney or accountant, or a place of business, and that address could be in a different state than the taxpayer's home.

## Footnotes

<sup>1</sup> The number of returns benefiting from each of the specific provisions shown may not add to the number benefiting from the entire package because some returns benefit from more than one provision.

<sup>2</sup> Only returns with capital gains and dividend income are included.

<sup>3</sup> Returns with business income are those that report at least one dollar of income or loss from a sole proprietorship, farm proprietorship, partnership, S corporation, and/or rental income.