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Desperately Seeking Revenue

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Abstract

In August 2009, the Congressional Budget Office (CBO) projected that the federal budget deficit would total $7.1 trillion over the 2010-2019 decade—under current law. That outcome would require the 2001 and 2003 tax cuts to sunset as scheduled in 2011 and Congress to stop "patching" the alternative minimum tax to minimize its bite. If neither of those things happens, CBO says the cumulative deficit over the decade would jump to $11.1 trillion, more than doubling the national debt. Our economy cannot sustain that rate of debt increase. How can we reverse it? This paper poses a simple question: could incremental reforms of the current tax system raise enough revenue to reduce the deficit to an average of 2 percent of GDP over the last five years of the budget window? We use the Urban-Brookings Tax Policy Center Tax Model to simulate several revenue-raising tax changes, including raising all income tax rates proportionally, hiking taxes only for high-income taxpayers, and either limiting or eliminating itemized deductions to broaden the tax base. We conclude that politically feasible tax increases within the current tax structure cannot generate sufficient revenues to bring federal budget deficits under control.

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Desperately Seeking Revenue

In August 2009, the Congressional Budget Office (CBO, 2009) projected that the federal budget deficit would total $7.1 trillion over the 2010-2019 decade—under current law. That outcome would require the 2001 and 2003 tax cuts to sunset as scheduled in 2011 and Congress to stop "patching" the alternative minimum tax (AMT) to minimize its bite. If neither of those things happens, CBO says the cumulative deficit over the decade would jump to $11.1 trillion, more than doubling the national debt. CBO characterizes that situation as being unsustainable and it is hard to find anyone who would disagree.

At the same time, few policymakers want to raise taxes or cut government spending during the current recession, fearing that fiscal austerity would destroy our nascent economic recovery. As a result, any serious attempt to bring the federal budget into balance will likely wait at least a couple of years. In the interim, prudent budget policy would suggest that the president and Congress should focus on not making the situation worse by binding themselves or the nation to policies that preclude a concentrated attack on the nation's fiscal problems after the economy strengthens.

In principle, we could reduce the deficit by cutting spending or raising taxes. In practice, Congress has repeatedly failed to take the first course, even though doing so might have a less adverse effect on the economy than tax increases. Entrenched interests that benefit from current spending programs mobilize to protect their benefits and politicians seem loath to go against them. Congress takes nips and tucks around the edges but never seems to make the big cuts needed to make a serious dent in outlays. The tax route appears to face similar obstacles with a substantial number of members of Congress pledging never to vote to raise taxes and President

Obama promising not to impose tax increases on families making less than $250,000 a year and single taxpayers making less than $200,000. Even so, over the past two decades, the president and Congress did increase revenues—in 1990 and 1993—and, with lots of help from a booming economy, the country ran a budget surplus for a few years at the turn of the century.

Our goal in this paper is more modest than balancing the federal budget. We examine several possible tax increases to determine how much tax rates would have to rise to reduce the average deficit over the 2015-2019 period to 2 percent of GDP.[1] Deficits at that level could be sustainable in a growing economy, since growth would reduce debt as a share of GDP over time. We also consider tax increases required to hold the deficit at 3 percent of GDP over the same period, a goal that Office of Management and Budget director Peter Orszag deemed sustainable in a November 2009 briefing (Bloomberg.com 2009).

CBO projects that, under current law, debt held by the public will jump from 41 percent of GDP in 2008 to 54 percent in 2009 and 61 percent in 2010 and then climb more slowly to 68 percent in 2019. Assuming that all of the deficit reduction from our "2 percent of GDP" revenue target resulted in lower debt held by the public, that measure would decline slowly over the 2015-19 period to 62 percent of GDP in 2019 and would continue to go down in subsequent years. Although running budget surpluses that would reduce the federal debt—rather than only slow its growth—might be preferable, we find that the magnitude of tax increases needed to meet our goal (or even Orszag's more modest goal) great enough to make a more stringent target prohibitive.

[1] For proposals that would eliminate or limit itemized deductions, we ask how much a given policy would reduce the deficit, measured as a percentage of GDP.

Using the Tax Policy Center's microsimulation tax model, we find that reaching either the administration's goal or ours would require huge increases in tax rates, particularly when we preclude increases on all of the low- and middle-income taxpayers President Obama would protect. The size of the required tax increases would almost certainly induce affected taxpayers to adjust their behavior in ways that would reduce economic efficiency and thus offset at least some of the gains from smaller deficits and lower national debt. We conclude that a combination of tax increases and spending cuts would provide a more politically palatable approach that would likely have a smaller adverse impact on the economy.

Budget Projections and Revenue Targets

The Congressional Budget Office projects a federal budget deficit in 2009 of nearly $1.6 trillion, more than three times the previous post-World War II record and 11.2 percent of GDP (see Table 1). Much of that deficit results from short-term spending increases and tax cuts to stimulate the economy and reduced revenues because of the recession. Under current law, the projected deficit will fall to $1.4 trillion in 2010 and just over $900 billion in 2011 as the economy recovers and the economic stimulus expires. The sunset in 2011 of most of the Bush tax cuts will boost revenues substantially and cut the deficit to less than $600 billion annually from 2012 through 2015. After that, rising entitlement spending will push the deficit upward to more than $700 billion in 2019. Relative to GDP, the deficit will drop to 3.1 percent in 2015 before rising to 3.4 percent in 2019. Over the last five years of the decade (2015-19), the deficit will average $630 billion, or 3.2 percent of GDP (see the upper half of Table 2).[2] According to estimates from the Tax Policy Center (TPC), a growing and significant portion of taxpayers will

[2] CBO (2009) provides an excellent discussion of the fiscal outlook.

move off of the regular income tax schedule and onto the AMT in the last half of the budget window (from about one-fifth in 2015 to almost one-third in 2019).[3]

President Obama's 2010 budget calls for a baseline—which we call "the administration baseline"—that would permanently extend the Bush tax cuts, make the estate tax permanent with 2009 parameters (indexed for inflation), and permanently patch and index the AMT. Under that baseline, annual budget deficits would jump substantially after 2010, never dropping much below $900 billion and exceeding $1 trillion in all but four years (see Table 1). By 2019, the deficit would top $1.3 trillion, 6.5 percent of GDP; over the 2015-19 period, the deficit would average nearly $1.2 billion, or 6 percent of GDP (see the upper half of Table 2). In this scenario, because the baseline assumes permanent patching of the AMT, the percentage of taxpayers facing the alternative tax would grow from about 5 percent in 2009 to 6 percent in 2015 and to 7 percent in 2019 (Lim and Rohaly 2009).

Our revenue target calls for increasing taxes enough to reduce the average federal deficit to 2 percent of GDP over the last five years of the decade. We also consider the Orszag target, which we interpret as the administration target: deficits averaging about 3 percent of GDP over the 2015-2019 period. Although Congress might raise taxes before 2015, we don't look at earlier years.[4] Despite concerns about rising deficits, few people want to see either tax increases or substantial spending cuts during the current economic downturn. Furthermore, few if any policymakers want to see the Bush tax cuts expire entirely, fearing the depressing effect on the

[3] See Lim and Rohaly (2009).

[4] Note that the two baselines we consider incorporate specific assumptions about what will happen to taxes between now and 2015. The current law baseline assumes that taxes will rise sharply over time, particularly in 2011 when the Bush tax cuts expire. The administration baseline assumes that those tax cuts will not expire, that the estate tax continues at the 2009 levels, and that the AMT patch is permanent.

economy of such a massive tax increase. The revenue increases we examine would still be substantial and would markedly reduce after-tax incomes of affected taxpayers.

Under current law, the requisite tax increase would have to equal about 1.2 percent of GDP to bring down the five-year average deficit from its projected 3.2 percent to 2 percent of GDP. That would require increasing revenues by an average of $239 billion per year, or about 6 percent of revenues expected under current law (see the lower half of Table 2). Those values assume, however, that the Bush tax cuts all sunset in 2011 as scheduled. If we assume instead a revenue baseline that extends those tax cuts, makes permanent and indexes the estate tax at 2009 levels, and permanently patches the AMT—all as President Obama's 2010 baseline assumes—then our target would require that revenues rise an average of $775 billion annually over the 2015-19 period, nearly 21 percent of the lowered baseline revenues. While neither target is easy to hit, extending the past decade's tax cuts makes it much harder to achieve our goal.

The administration's goal of reducing the deficit to 3 percent of GDP by the end of the decade requires a more modest increase in revenues *under current law*. Revenues would have to increase by an average of "only" $43 billion a year (see the lower half of Table 2). If we instead assume the administration baseline, the task becomes much harder: hitting the 3 percent goal would require increasing revenues by $579 billion annually over the 2015-2019 period, about 5 percent of baseline revenues.

Alternative Ways to Increase Revenues

We use the TPC microsimulation model to simulate the revenue and distributional effects of tax reforms designed to satisfy our revenue targets. The TPC tax model uses two data sources: the 2004 public-use file (PUF) produced by the Statistics of Income (SOI) Division of the

Internal Revenue Service and the March 2005 Current Population Survey (CPS). The PUF contains 150,047 income tax records with detailed information from federal individual income tax returns filed during 2004. It provides key data on the level and sources of income and deductions, income tax liability, marginal tax rates, and the use of particular credits. TPC uses a constrained statistical match with the March 2005 CPS of the U.S. Census Bureau to add non-filers and to map non-tax information onto the PUF.[5] For the years from 2005 to 2019, we "age" the data based on forecasts and projections for the growth in various types of income from CBO, the growth in the number of tax returns from the IRS, and the demographic composition of the population from the Census Bureau.

We examine five possible ways in which we could raise the additional revenues needed to reach the goal of bringing down the five-year average deficit to either 2 percent or 3 percent of GDP. Three options would increase individual income tax rates on some or all tax brackets while the other two would eliminate itemized deductions or reduce their value. Our estimates of the effects of these policies are static and do not take into account behavioral changes induced by the policies considered. In fact, affected taxpayers would likely act differently in the face of higher tax rates or limits on itemized deductions and we would realize substantially smaller revenue gains than our simulations show.

Table 3 shows projected statutory rates under current law and the administration baseline in 2019 along with the rates required to meet our revenue targets for the three policies that

[5] The statistical match provides important information not reported on tax returns, including measures of earnings for head and spouse separately, their ages, the ages of their children, and transfer payments. The statistical match also generates a sample of individuals who do not file income tax returns ("non-filers"). By combining the dataset of filers with the dataset of estimated non-filers from the CPS, we are able to carry out distributional analysis on the entire population rather than just the subset that files individual income tax returns.

increase individual rates. Table 4 shows the revenue raised under the two polices we consider that would limit itemized deductions. Appendix tables 1 and 2 show basic information on the distribution of federal taxes in 2019 under current law and under the administration baseline.

The five policies we analyze would have substantially different effects on revenue raised and taxpayers affected. Because they hit specified revenue targets by design, the three policies that would increase tax rates on some or all taxpayers would necessarily raise sufficient revenue but would affect different taxpayers. In contrast, the two policies that would limit or eliminate itemized deductions would, in some cases, fail to collect enough revenue to meet our deficit targets.

Specifically, the five options we examine are:

- *Raise all individual income tax rates proportionately*. Under current law, reaching our "2 percent of GDP" deficit target would require boosting all tax rates, including those on long-term capital gains and qualified dividends, by 15 percent. The bottom 15 percent tax rate would thus become 17.2 percent, the 28 percent rate would increase to 32.2 percent, and so forth (see the upper half of Table 3). Under the administration baseline, rates would have to rise by nearly half. The bottom 10 percent rate[6] would become almost 15 percent, for example, and the top rate would increase from 35 percent to 52 percent.

  In contrast, using Orszag's "3 percent of GDP" deficit target, tax rates would have to rise just 3 percent under current law. The 15 percent rate for the bottom tax bracket would increase to 15.5 percent, for example, and the top tax rate would go from 39.6

[6] Because it assumes extension of the 2001 and 2003 tax cuts beyond their scheduled sunset in 2011, the administration baseline would maintain the current bottom 10 percent tax rate; under current law, that rate would disappear and the lowest tax rate would be 15 percent.

percent to 40.9 percent (see the lower half of Table 3). Under the administration baseline, tax rates would have to rise substantially more—by about 37 percent. The bottom 10 percent tax rate would go up to 13.7 percent, for example, while the top tax rate would climb from 35 percent to 48 percent.

- *Raise the top three tax rates proportionately*. This alternative would protect the taxpayers in the lowest tax brackets and impose a tax increase on 6 percent of taxpayers, most of whom are in the top income quintile. To meet our "2 percent of GDP" deficit target, the top three tax rates would have to jump 30 percent, raising the top rate from 39.6 percent to 52.5 percent, assuming that the Bush tax cuts expire under current law. If those and other cuts are extended as called for in the administration baseline, the top three rates would have to more than double, with the top rate increasing from 35 percent to 76 percent.

  Again, the necessary tax increases would be much smaller if we aim to reduce the 2015-2019 average budget deficit to 3 percent of GDP. Under current law, the top three tax rates would have to increase only 6 percent, taking the top 39.6 percent rate to 42.1 percent, for example. Under the administration baseline, the tax increase would have to be much larger—88 percent—jumping the top 35 percent tax rate to 65.7 percent.

- *Raise tax rates proportionately on single taxpayers with income over $200,000 and married couples filing jointly with income over $250,000*. This policy would impose tax increases only on those taxpayers targeted by President Obama during the 2008 presidential election for tax increases under the expiration of the 2001 and 2003 tax cuts. We model a proportional increase in tax rates for taxpayers for whom adjusted gross

income minus the standard deduction and one personal exemption (two exemptions for married couples) exceeds the relevant threshold.[7] To meet our revenue target under current law, the top two tax rates would have to increase more than 40 percent, lifting the top rate to 56.4 percent. Under the administration baseline, the top rates would leap by 160 percent, lifting the top rate to nearly 91 percent.

We would need much smaller—but still substantial—tax increases to meet Orszag's deficit target. For example, under the administration baseline, the top tax rates would have to more than double, pushing the top tax rate to almost 77 percent. Under current law, the top rate would have to increase to about 43 percent.

- *Eliminate itemized deductions.* This option would limit all taxpayers to claiming the standard deduction, thus increasing taxes on the 32 percent of taxpayers who currently itemize their deductions. Ignoring possible behavioral change, this policy would increase revenues under current law by nearly half again the amount needed to reach our "2 percent of GDP" revenue goal (see Table 4). Annual revenue would increase by an average of nearly $350 billion, well more than our $239 billion annual target. Under the administration baseline, however, the revenue gain would be much smaller and the necessary revenue much larger, leaving us well short of our goal. The average annual revenue increase would be just under $300 billion, just 38 percent of the $775 billion needed to close the deficit to 2 percent of GDP.

[7] This method of determining which taxpayers would see a tax increase follows the Obama administration's approach in its proposed 2010 budget (Department of the Treasury, 2009). During the 2008 election, candidate Obama did not specify what income measure he intended when he promised to avoid tax increases on individuals with income under $200,000 and couples with income under $250,000. This approach is just one of many definitions he could have chosen to use.

Eliminating all itemized deductions would provide more than eight times the revenue needed to close the budget deficit to 3 percent of GDP under current law. In contrast, that option would yield just half the additional revenue required to meet that deficit target under the administration baseline.

- *Limit the value of itemized deductions to 15 percent.* This policy, a more lenient version of which is included in Obama's 2010 budget,[8] would reduce the value of itemized deductions for taxpayers with tax rates above 15 percent by cutting the tax savings from itemized deductions from their tax rate times the deductions to just 15 percent of deductions. For taxpayers in the 39.6 percent top tax bracket, the value of deductions would drop more than 60 percent. That limitation would yield about 80 percent of the revenue needed to meet our 2 percent goal for deficit reduction under current law but only about 20 percent of the revenue needed under the administration baseline. Again, however, behavioral changes would almost certainly mean smaller revenue gains and hence less closing of the revenue gap.

  Limiting the value of itemized deductions would provide more than enough revenue to reduce the 2015-2019 average deficit below 3 percent of GDP under current law. The $194 billion this option would raise would be four and one-half times the $43 billion needed annually to meet that relaxed deficit target. Again, however, the option would yield insufficient revenue under the administration baseline: it would raise just 28 percent of the $579 billion needed.

[8] The budget calls for limiting the value of itemized deductions to 28 percent (Department of the Treasury, 2009). That limitation would affect only taxpayers in the top two tax brackets, which have tax rates over 28 percent.

Distributional Effects of Alternative Policies

Before discussing the distributional effects of our various policy alternatives, we provide some information on the distribution of federal taxes under current law and under the administration baseline. Appendix tables 1 and 2 show these distributions for 2019. Under the administration baseline, the average federal rate across all quintiles is 3 full percentage points (or 13 percent) lower than under current law: 20.7 percent versus 23.7 percent. That outcome results from the lower statutory rates under the administration baseline, which assumes extension of all of the 2001-2003 tax cuts beyond their scheduled expiration in 2011. Three other features of the tax system (under both baselines) are worth noting. First, the current system is progressive: average tax rates increase with income. Second, tax units in the top quintile pay the bulk of all federal taxes (and earn the bulk of pre-tax income—55 percent in 2019).[9] Under both baselines, the top quintile would pay 65 percent of federal taxes in 2019. Finally, most taxpayers are in the lower tax brackets. Under current law, only 3.3 percent of tax units will be in the top three regular tax brackets in 2019 and not quite 1 percent will be in the top bracket (see Table 5). Similar shares of tax units would fall into those top brackets under the administration baseline, but fewer than half as many would be in the top two brackets.

All of the policies examined in this paper would maintain or increase the progressivity of the federal income tax. Tables 6-8 show the change in after-tax income and average federal tax rates associated with the changes. Raising all rates proportionally (including those on long-term

[9] Tax units can differ from either families or households. Tax units are individuals or married couples (plus their tax dependents) who either file tax returns or would have to file if they had enough income. In contrast, families are related people living together and households are people, related or not, who share a housing unit. Thus, for example, two cohabiting individuals compose one household but, if they are not legally married, they would file separate tax returns and thus count as two tax units. A family consisting of a married couple and the wife's mother would similarly comprise two tax units since the mother would be a tax unit separate from the couple. Thus the number of tax units exceeds the number of families or households.

capital gains and qualified dividends) would reduce after-tax income for all tax units by an average of just over 2 percent but losses would be greater for those further up the income distribution (see Table 6). Under current law, those in the bottom quintile would lose about 0.2 percent of after-income; in contrast, those in the top quintile would lose almost 15 times as much—2.9 percent of after-tax income and the top one percent would lose nearly 5 percent of after-tax income. On average, 61 percent of tax units would face a tax increase.[10] This tax change would be even more progressive under the administration baseline: after-tax income would drop 0.4 percent in the lowest quintile compared with almost nine percent in the top quintile. Overall, 68 percent of tax units would experience a tax increase. The average federal tax rate would increase from 23.7 percent to 25.3 percent under current law and from 20.7 percent to 25.8 percent under the administration baseline (see Table 6). Under either baseline, the average tax rate would increase relatively more for taxpayers higher up the income distribution.

Limiting the rate increases to the top three rates would sharply reduce the proportion of tax units affected. Under current law, about 6 percent of tax units would pay more tax. No tax units in the bottom three quintiles would face tax increases. In contrast, about 4 percent of tax units in the fourth quintile and nearly 40 percent of those in the top quintile would face higher taxes. Under the administration baseline, about 8 percent of all tax units, all from the top two quintiles, would pay higher taxes. Since this policy raises only the top rates, it is more progressively distributed than the previous policy that raises all rates proportionally. Under

[10] Two groups might not experience a tax increase under the option: people with no tax liability and taxpayers subject to the alternative minimum tax (AMT). Because the option would not raise the AMT, some people who pay AMT would see no tax increase. Similarly, some—but not all—people with no tax liability would continue to pay nothing under the option. In 2019, an estimated 34 percent of all tax units will pay no income tax under current law and 37 percent will have no income tax liability under the administration baseline (see http://www.taxpolicycenter.org/numbers/displayatab.cfm?Docid=2408).

current law, this tax increase would have virtually no effect on after-tax income of the bottom four quintiles but would increase the average tax rate of the top quintile by 10 percent from 28.1 percent to 30.9 percent (see Table 6). The average tax rate for the top 1 percent would go up nearly twice as much (in percentage terms)—from 30.7 percent to 37.0 percent. Roughly the same tax units would be affected under the administration baseline but the tax increase would be larger: the top quintile would see their average tax rate rise more than a third from 24.6 percent to 33.9 percent and that for the top 1 percent would jump by more than two-thirds from 26.7 percent to 46.1 percent.

Limiting rate changes to single tax units with income over $200,000 and married couples filing jointly with income over $250,000 would affect the smallest proportion of tax units.[11] Under current law, only about 2 percent of tax units would face higher tax rates and everyone affected would fall in the top income quintile. Compared with the previous policy that would raise rates for the top three brackets, this option would boost taxes less for all but the 1 percent of tax units with the highest incomes; the latter group would see their average tax rate bump up an additional percentage point to 38.3 percent, nearly 8 percentage points above the projected 30.7 percent under current law. The same situation would prevail under the administration baseline, but the tax increase for the top 1 percent would be much larger—their average tax rate would nearly double from 26.7 percent to 51.3 percent. Only about 4 percent of tax units would face tax increases.

The distributional analysis is qualitatively the same but changes in after-tax income and average federal tax rates are much smaller for the 3% target (see Table 7). The three policy

[11] As noted earlier, we follow the administration in defining income as total income minus the standard deduction and one personal exemption (two for joint filers). Under that approach, some taxpayers would actually see their tax rates drop. For a discussion of this issue, see "Breaking News: Obama Cuts Taxes for Rich" at http://taxvox.taxpolicycenter.org/blog/_archives/2009/5/12/4182953.html

experiments would slightly increase the progressivity of the tax system relative to current law. After-tax income would drop less than half a percent under current law and by 4.8 percent under the administration baseline. Average tax rates would rise moderately, increasing more under each of the policies at the top of the income distribution relative to the bottom, regardless of which baseline we use. The overall average tax rate would increase very little under current law —from 23.7 percent to 24.0 percent—but substantially more under the administration baseline—from 20.7 percent to 24.5 percent. After-tax income would experience similarly smaller declines.

By construction, the first three policies raised the revenue required to meet our revenue targets. Our two other options that would eliminate or limit itemized deductions would either undershoot or overshoot our goals (see Table 4). Therefore we do not want to compare the quantitative effects on after-tax income and average tax rates across the plans. We can, however, examine how the plans would change after-tax incomes throughout the income distribution.

Either eliminating or limiting itemized deductions would make federal income taxes more progressive (see Table 8).[12] Because few of them itemize their deductions, people in the bottom quintile would experience virtually no change in after-tax income if we eliminated itemization—under current law, less than 2 percent would be affected. In contrast, almost 90% of tax units in the top quintile would see their after-tax income fall by an average of nearly 4 percent. Limiting the value of itemized deductions to 15 percent would have no effect on the bottom two quintiles since their value for itemized deductions is already limited to their marginal tax rate, which never exceeds 15 percent. This option would reduce after-tax income by just two-thirds as

[12] Regardless of which deficit target we use, these options would have a fixed effect on revenue—and hence the same effect on an individual's taxes. Therefore we do not separately examine the distributional effects for the "2 percent of GDP" and "3 percent of GDP" goals.

much, on average, as complete elimination of itemized deductions, but much more of the impact would fall on those in the upper end of the income distribution. Under the administration baseline, the impact of either proposal on after-tax income would be smaller than under current law since the lower tax rates mean that itemizing has less value before implementing the proposal. At the same time, the distributional effects would differ little for the two baselines.

Concluding thoughts

None of the options we have examined would provide a realistic approach to reducing the deficit over the coming decade, particularly if we impose our more stringent goal of cutting the deficit to just 2 percent of GDP. That goal would require tax increases that would cut after-tax income by an average of just over 2 percent, a politically difficult action. All of the changes we examine would be progressive, imposing greater costs on those higher up the income distribution; some of the options would be significantly more progressive than others. However, the most progressive—raising tax rates only for the wealthiest taxpayers—would require increasing the top tax rate to 56.4 percent under current law and to over 90 percent under the administration baseline. Because most of the additional tax burden would hit the top end of the income distribution, either situation would impose substantial efficiency costs on the economy, raise less revenue than generated in our simple simulations that ignore behavioral effects, and meet with great political opposition. We need a different approach.

Combining tax increases with spending cuts would allow smaller changes on each dimension—we would not have to raise taxes nearly as much as in our examples. However, cutting spending could well have adverse distributional effects, falling relatively more heavily on low-income households than any of the tax increases we examine. A more basic change in how

we raise revenue could offer a fairer and more efficient approach. Reducing the federal budget deficit to a level that is sustainable over the long run will likely require either more comprehensive tax reform or tapping a new source of revenue, such as a value-added tax.

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Table 1. CBO's Baseline Budget Projections (August 2009)

	Actual 2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2010-2014	2010-2019
	in billions of dollars													
Total Revenues	2,524	2,100	2,264	2,717	3,010	3,221	3,403	3,577	3,737	3,908	4,081	4,260	14,614	34,177
Total Outlays	2,983	3,688	3,644	3,638	3,600	3,759	3,961	4,135	4,358	4,534	4,703	4,982	18,602	41,314
Current Law Deficit	-459	-1,587	-1,381	-921	-590	-538	-558	-558	-620	-626	-622	-722	-3,988	-7,137
Extend EGTRRA and JGTRRA and Index AMT	0	0	-10	-206	-302	-354	-395	-437	-482	-532	-585	-644	-1,267	-3,946
Alternative Deficit	-459	-1,587	-1,391	-1,127	-892	-892	-953	-995	-1,102	-1,157	-1,207	-1,367	-5,255	-11,083
	as a percentage of GDP													
Total Revenues	17.7	14.9	15.7	18.1	19.1	19.4	19.6	19.9	19.9	20.0	20.1	20.2	18.5	19.3
Total Outlays	21.0	26.1	25.2	24.3	22.8	22.6	22.9	22.9	23.2	23.2	23.2	23.6	23.5	23.4
Current Law Deficit	-3.2	-11.2	-9.6	-6.1	-3.7	-3.2	-3.2	-3.1	-3.3	-3.2	-3.1	-3.4	-5.0	-4.0
Alternative Deficit	-3.2	-11.2	-9.6	-7.5	-5.7	-5.4	-5.5	-5.5	-5.9	-5.9	-5.9	-6.5	-6.6	-6.3
Gross Domestic Product	14,222	14,140	14,439	14,993	15,754	16,598	17,319	18,019	18,760	19,524	20,308	21,114	79,103	176,828
Debt Held by Public	5,803	7,612	8,868	9,782	10,382	10,870	11,439	11,986	12,581	13,174	13,611	14,324		
Percentage of GDP	41	54	61	65	66	65	66	67	67	67	67	68		

Source: Congressional Budget Office, *The Budget and Economic Outlook: An Update (*August 2009) at http://www.cbo.gov/ftpdocs/105xx/doc10521/08-25-BudgetUpdate.pdf.

Note: The alternative deficit is the deficit under the administration baseline, which extends all of the individual income tax provisions included in 2001 EGTRRA and 2003 JGTRRA; maintains the estate tax at its 2009 parameters; extends the 2009 AMT Patch and indexes the AMT exemption, rate bracket threshold, and phase-out exemption threshold for inflation.

Table 2. Revenue Needed to Reduce Average Deficit to 2% and 3% of GDP over 2015-2019

	2015	2016	2017	2018	2019	Average, 2015-19
CBO Projections, August 2009						
Billions of Dollars						
Total Revenues	3,577	3,737	3,908	4,081	4,260	3,913
Total Outlays	4,135	4,358	4,534	4,703	4,982	4,542
Current Law Deficit	-558	-620	-626	-622	-722	-630
Extend EGTRRA and JGTRRA and Index AMT	-437	-482	-532	-585	-644	-536
Administration Baseline Deficit	-995	-1,102	-1,157	-1,207	-1,367	-1,166
Percentage of GDP						
Total Revenues	19.9	19.9	20.0	20.1	20.2	20.0
Total Outlays	22.9	23.2	23.2	23.2	23.6	23.2
Current Law Deficit	-3.1	-3.3	-3.2	-3.1	-3.4	-3.2
Administration Baseline Deficit	-5.5	-5.9	-5.9	-5.9	-6.5	-6.0
Gross Domestic Product	18,019	18,760	19,524	20,308	21,114	19,545
2 Percent Deficit Target						
Percentage of GDP	-1.88	-2.09	-1.98	-1.84	-2.20	-2.00
Additional Revenue Needed (billions of dollars)[a]						
Current Law Deficit	220	229	239	248	258	239
Administration Baseline Deficit	714	744	774	805	837	775
3 Percent Deficit Target						
Percentage of GDP	-2.88	-3.09	-2.98	-2.84	-3.20	-2.00
Additional Revenue Needed (billions of dollars)[a]						
Current Law Deficit	40	42	43	45	47	43
Administration Baseline Deficit	534	556	579	602	626	579

Source: Congressional Budget Office, *The Budget and Economic Outlook: An Update (*August 2009) at http://www.cbo.gov/ftpdocs/105xx/doc10521/08-25-BudgetUpdate.pdf.

a. The additional revenue needed each year equals the percentage of GDP by which the average deficit over 2015-2019 exceeds 2 percent of GDP (see right-hand column). The percentage reductions were 1.2 percent for Current Law and 4.0 percent for the administration baseline.

Table 3. Statutory Tax Rates Required in 2019 to Meet Revenue Targets

Deficit Target: 2 Percent of GDP

Current Law				Administration Baseline [a]			
Current Tax Rates	Raise All Rates[b]	Raise Top Three Rates[c]	Raise Top Two Rates[d]	Current Tax Rates	Raise All Rates[b]	Raise Top Three Rates[c]	Raise Top Two Rates[d]
Regular Rates[e]				*Regular Rates*			
15.0	17.2	15.0	15.0	10.0	14.9	10.0	10.0
				15.0	22.3	15.0	15.0
28.0	32.2	28.0	28.0	25.0	37.2	25.0	25.0
31.0	35.6	41.1	31.0	28.0	41.7	60.8	28.0
36.0	41.4	47.7	51.2	33.0	49.1	71.7	85.7
39.6	45.5	52.5	56.4	35.0	52.1	76.1	90.9
Rates on Capital Gains[f]				*Rates on Capital Gains and Qualified Dividends*[g]			
10.0	11.5	10.0	10.0	0.0	0.0	0.0	0.0
20.0	23.0	26.5	28.5	15.0	22.3	32.6	39.0
8.0	9.2	8.0	8.0				
18.0	20.7	18.0	18.0				

Deficit Target: 3 Percent of GDP

Current Law				Administration Baseline [a]			
Current Tax Rates	Raise All Rates[b]	Raise Top Three Rates[c]	Raise Top Two Rates[d]	Current Tax Rates	Raise All Rates[b]	Raise Top Three Rates[c]	Raise Top Two Rates[d]
Regular Rates[e]				*Regular Rates*			
15.0	15.5	15.0	15.0	10.0	13.7	10.0	10.0
				15.0	20.6	15.0	15.0
28.0	28.9	28.0	28.0	25.0	34.3	25.0	25.0
31.0	32.0	33.0	31.0	28.0	38.4	52.6	28.0
36.0	37.1	38.3	39.0	33.0	45.2	61.9	72.4
39.6	40.9	42.1	42.9	35.0	48.0	65.7	76.8
Rates on Capital Gains[f]				*Rates on Capital Gain and Qualified Dividends*[g]			
10.0	10.3	10.0	10.0	0.0	0.0	0.0	0.0
20.0	20.6	21.3	21.7	15.0	20.6	28.2	32.9
8.0	8.3	8.0	8.0				
18.0	18.6	18.0	18.0				

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0509-4)

a. Administration baseline extends all of the individual income tax provisions included in 2001 EGTRRA and 2003 JGTRRA; maintains the estate tax at its 2009 parameters; extends the 2009 AMT Patch; and indexes the AMT exemption, rate bracket threshold, and phase-out exemption threshold for inflation.

b. Raise all individual income tax rates proportionally for all tax units. Alternative minimum tax rates remain at 26 and 28 percent.

c. Increase tax rates proportionally for the top three tax brackets (including capital gains rate). Do not increase the 8 and 18 percent rates on gains held for more than 5 years. Alternative minimum tax rates remain at 26 and 28 percent.

d. Increase tax rates proportionally for the top two tax brackets (including capital gains rate). Do not increase the 8 and 18 percent rates on gains held for more than 5 years. Alternative minimum tax rates remain at 26 and 28 percent.

e. Under current law baseline, dividends are taxed at ordinary rates.

f. The 10 and 15 percent current law capital gains rates are for gains held for more than one year but not over 5 years. The 10 percent rate applies to taxpayers in the 15 percent marginal tax rate bracket. The 8 and 18 percent current law capital gains rates are for gains held over 5 years. The lower 8 percent rate applies to taxpayers in the 15 percent marginal tax rate bracket.

g. The 0 and 15 percent capital gains rates under the administration baseline are for gains held for more one year and for qualified dividends. The zero percent rate applies to taxpayers in the 10 and 15 percent marginal tax rate brackets.

Table 4. Revenue Effects of Limiting or Eliminating Itemized Deductions[a]

	Current Law Baseline	Administration Baseline[b]
	Eliminate All Itemized Deductions	
Additional revenue (billions $)	346	296
Percentage of Needed Revenue[c]		
Reduce deficit to 2% of GDP[c]	145	38
Reduce deficit to 3% of GDP[d]	805	51
	Limit Itemized Deduction to 15 Percent[e]	
Additional revenue (billions $)	194	165
Percentage of Needed Revenue		
Reduce deficit to 2% of GDP[c]	81	21
Reduce deficit to 3% of GDP[d]	451	28

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0509-4)

a. These static revenue estimates do not account for behavioral change.

b. Administration baseline extends all of the individual income tax provisions included in 2001 EGTRRA and 2003 JGTRRA; maintains the estate tax at its 2009 parameters; extends the 2009 AMT Patch; and indexes the AMT exemption, rate bracket threshold, and phase-out exemption threshold for inflation.

c. Revenue required in 2019 to reduce deficit to 2 percent of GDP: current law—$239 billion; administration baseline—$775 billion.

d. Revenue required in 2019 to reduce deficit to 3 percent of GDP: current law—$43 billion; administration baseline—$579 billion.

e. Itemized deductions are limited to a value of 15 percent.

Table 5. Distribution of Tax Units By Statutory Rate, 2019

Current Law Baseline [a]

Statutory Marginal Income Tax Rate [b]	All Tax Units			
	Number (thousands)	Percent of Total	Average Cash Income	Percent of Cash Income
Non-filers	28,500	16.6	22,757	4.0
0%	21,769	12.7	22,421	3.0
15%	63,033	36.7	48,655	18.8
26% (AMT)	25,955	15.1	160,689	25.5
28% (Regular)	22,145	12.9	111,326	15.1
28% (AMT)	5,015	2.9	388,132	11.9
31%	3,022	1.8	187,454	3.5
36%	1,007	0.6	484,050	3.0
39.6%	1,468	0.9	1,703,776	15.3
All	171,915	100.0	95,056	100.0

Administration Baseline[c]

Statutory Marginal Income Tax Rate [b]	All Tax Units			
	Number (thousands)	Percent of Total	Average Cash Income	Percent of Cash Income
Non-filers	28,842	16.8	22,945	4.0
0%	22,809	13.3	23,081	3.2
10%	23,903	13.9	36,858	5.4
15%	49,228	28.6	69,416	20.9
25%	33,476	19.5	132,598	27.2
26% (AMT)	3,654	2.1	349,975	7.8
28% (Regular)	5,424	3.2	221,560	7.4
28% (AMT)	3,525	2.1	625,022	13.5
33%	410	0.2	369,209	0.9
35%	643	0.4	2,458,586	9.7
All	171,915	100.0	95,056	100.0

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0509-4).

a. Calendar year. Baseline is current law. Tax units that are dependents of other tax units are excluded from the analysis.

b. Statutory rate is based on taxable income net of capital gains and qualified dividends.

c. Calendar year. Baseline is the administration's baseline, which extends all of the individual income tax provisions included in 2001 EGTRRA and 2003 JGTRRA; maintains the estate tax at its 2009 parameters; extends the 2009 AMT Patch and indexes the AMT exemption, rate bracket threshold, and phase-out exemption threshold for inflation. Tax units that are dependents of other tax units are excluded from the analysis.

Table 6. Change in After-tax Income and Average Federal Tax Rate from Raising Tax Rates Proportionally to Reach "2 Percent of GDP" Revenue Target, 2019[a]

Cash Income Percentile[b]	Percent Change in After-Tax Income[c]			Average Federal Tax Rate[d]			
	Raise All Tax Rates[e]	Raise Top Three Rates[f]	Raise Top Two Rates[g]	Current Law	Raise All Tax Rates[e]	Raise Top Three Rates[f]	Raise Top Two Rates[g]
	Measured Against Current Law Baseline						
Lowest Quintile	-0.2	0.0	0.0	5.5	5.7	5.5	5.5
Second Quintile	-0.7	0.0	0.0	11.8	12.4	11.8	11.8
Middle Quintile	-1.3	0.0	0.0	18.8	19.8	18.8	18.8
Fourth Quintile	-1.5	-0.1	0.0	22.9	24.1	23.0	22.9
Top Quintile	-2.9	-4.0	-4.0	28.1	30.2	30.9	31.0
All	-2.1	-2.1	-2.1	23.7	25.3	25.3	25.3
Addendum							
80-90	-1.8	-0.3	0.0	25.5	26.9	25.8	25.5
90-95	-1.6	-0.7	0.0	27.1	28.2	27.6	27.1
95-99	-2.7	-3.9	-2.4	28.0	30.0	30.8	29.8
Top 1 Percent	-4.7	-9.1	-11.0	30.7	34.0	37.0	38.3
Top 0.1 Percent	-5.2	-10.3	-13.2	33.0	36.5	39.9	41.9
	Measured Against Administration Baseline[h]						
Lowest Quintile	-0.4	0.0	0.0	4.8	5.1	4.8	4.8
Second Quintile	-1.8	0.0	0.0	10.0	11.6	10.0	10.0
Middle Quintile	-3.9	0.0	0.0	16.7	19.9	16.7	16.7
Fourth Quintile	-5.6	-0.2	0.0	19.9	24.4	20.1	19.9
Top Quintile	-8.8	-12.3	-12.4	24.6	31.2	33.9	33.9
All	-6.5	-6.5	-6.5	20.7	25.8	25.8	25.8
Addendum							
80-90	-6.9	-1.2	-0.1	22.3	27.7	23.3	22.4
90-95	-7.7	-4.0	-0.5	23.4	29.3	26.5	23.8
95-99	-8.0	-12.3	-7.2	25.0	30.9	34.2	30.4
Top 1 Percent	-11.6	-26.5	-33.6	26.7	35.2	46.1	51.3
Top 0.1 Percent	-12.7	-30.1	-40.5	28.6	37.6	50.1	57.5

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0509-4).

a. Static estimates that do not take behavioral change into account. Proposals would increase tax rates for all or some tax brackets, which would likely induce taxpayers to change how and when they receive income.

b. Tax units with negative cash income are excluded from the lowest income class but are included in the totals. For a description of cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm. The cash income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2009 dollars): 20% $21,024, 40% $39,958, 60% $72,320, 80% $127,029, 90% $185,589, 95% $260,396, 99% $665,719, 99.9% $3,053,478.

c. After-tax income is cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); and estate tax.

d. Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, and the estate tax) as a percentage of average cash income.

e. Raise all individual income tax rates proportionally for all tax units. Alternative minimum tax rates remain at 26 and 28 percent.

f. Increase tax rates proportionally for the top three tax brackets (including capital gains rate). Do not increase the 8 and 18 percent rates on gains held for more than 5 years. Alternative minimum tax rates remain at 26 and 28 percent.

g. Increase tax rates proportionally for the top two tax brackets (including capital gains rate). Do not increase the 8 and 18 percent rates on gains held for more than 5 years. Alternative minimum tax rates remain at 26 and 28 percent.

h. Administration baseline extends all of the individual income tax provisions included in 2001 EGTRRA and 2003 JGTRRA; maintains the estate tax at its 2009 parameters; extends the 2009 AMT Patch; and indexes the AMT exemption, rate bracket threshold, and phase-out exemption threshold for inflation.

Table 7. Change in After-tax Income and Average Federal Tax Rate from Raising Tax Rates Proportionally to Reach "3 Percent of GDP" Revenue Target, 2019[a]

Cash Income Percentile[b]	Percent Change in After-Tax Income[c]			Average Federal Tax Rate[d]			
	Raise All Tax Rates[e]	Raise Top Three Rates[f]	Raise Top Two Rates[g]	Current Law	Raise All Tax Rates[e]	Raise Top Three Rates[f]	Raise Top Two Rates[g]
	Measured Against Current Law Baseline						
Lowest Quintile	0.0	0.0	0.0	5.5	5.5	5.5	5.5
Second Quintile	-0.2	0.0	0.0	11.8	11.9	11.8	11.8
Middle Quintile	-0.3	0.0	0.0	18.8	19.0	18.8	18.8
Fourth Quintile	-0.3	0.0	0.0	22.9	23.1	22.9	22.9
Top Quintile	-0.5	-0.7	-0.7	28.1	28.5	28.6	28.6
All	-0.4	-0.4	-0.4	23.7	24.0	24.0	24.0
Addendum							
80-90	-0.3	-0.1	0.0	25.5	25.7	25.6	25.5
90-95	-0.2	-0.1	0.0	27.1	27.2	27.2	27.1
95-99	-0.4	-0.6	-0.3	28.0	28.4	28.5	28.3
Top 1 Percent	-1.0	-1.8	-2.1	30.7	31.4	31.9	32.1
Top 0.1 Percent	-1.1	-2.0	-2.6	33.0	33.8	34.4	34.7
	Measured Against Administration Baseline[h]						
Lowest Quintile	-0.3	0.0	0.0	4.8	5.0	4.8	4.8
Second Quintile	-1.4	0.0	0.0	10.0	11.2	10.0	10.0
Middle Quintile	-2.9	0.0	0.0	16.7	19.1	16.7	16.7
Fourth Quintile	-4.3	-0.2	0.0	19.9	23.3	20.0	19.9
Top Quintile	-6.5	-9.2	-9.3	24.6	29.5	31.5	31.6
All	-4.8	-4.8	-4.8	20.7	24.5	24.5	24.5
Addendum							
80-90	-5.3	-0.9	-0.1	22.3	26.4	23.0	22.4
90-95	-5.8	-3.0	-0.5	23.4	27.8	25.7	23.8
95-99	-5.7	-9.0	-5.4	25.0	29.2	31.7	29.0
Top 1 Percent	-8.7	-20.0	-25.1	26.7	33.1	41.3	45.1
Top 0.1 Percent	-9.6	-22.8	-30.2	28.6	35.4	44.8	50.1

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0509-4).

a. Static estimates that do not take behavioral change into account. Proposals would increase tax rates for all or some tax brackets, which would likely induce taxpayers to change how and when they receive income.

b. Tax units with negative cash income are excluded from the lowest income class but are included in the totals. For a description of cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm. The cash income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2009 dollars): 20% $21,024, 40% $39,958, 60% $72,320, 80% $127,029, 90% $185,589, 95% $260,396, 99% $665,719, 99.9% $3,053,478.

c. After-tax income is cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); and estate tax.

d. Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, and the estate tax) as a percentage of average cash income.

e. Raise all individual income tax rates proportionally for all tax units. Alternative minimum tax rates remain at 26 and 28 percent.

f. Increase tax rates proportionally for the top three tax brackets (including capital gains rate). Do not increase the 8 and 18 percent rates on gains held for more than 5 years. Alternative minimum tax rates remain at 26 and 28 percent.

g. Increase tax rates proportionally for the top two tax brackets (including capital gains rate). Do not increase the 8 and 18 percent rates on gains held for more than 5 years. Alternative minimum tax rates remain at 26 and 28 percent.

h. Administration baseline extends all of the individual income tax provisions included in 2001 EGTRRA and 2003 JGTRRA; maintains the estate tax at its 2009 parameters; extends the 2009 AMT Patch; and indexes the AMT exemption, rate bracket threshold, and phase-out exemption threshold for inflation.

Table 8. Change in After-tax Income and Average Federal Tax Rate from Elimination or Limitation of Itemized Deductions, 2019[a]

Cash Income Percentile[b]	Percent Change in After-Tax Income[c]		Average Federal Tax Rate[d]		
	Eliminate Itemized Deductions	Limit Value to 15%[e]	Current Law	Eliminate Itemized Deductions	Limit Value to 15%[e]
	Measured Against Current Law Baseline				
Lowest Quintile	-0.1	0.0	5.5	5.6	5.5
Second Quintile	-0.4	0.0	11.8	12.1	11.8
Middle Quintile	-1.4	-0.4	18.8	19.9	19.1
Fourth Quintile	-2.8	-1.4	22.9	25.1	24.0
Top Quintile	-3.8	-2.3	28.1	30.8	29.8
All	-2.8	-1.6	23.7	25.8	24.9
Addendum					
80-90	-3.4	-1.9	25.5	28.1	27.0
90-95	-3.8	-1.9	27.1	29.8	28.5
95-99	-3.9	-2.5	28.0	30.8	29.9
Top 1 Percent	-4.2	-2.7	30.7	33.5	32.6
Top 0.1 Percent	-4.6	-3.0	33.0	36.1	35.0
	Measured Against Administration Baseline[f]				
Lowest Quintile	0.0	0.0	4.8	4.8	4.8
Second Quintile	-0.3	0.0	10.0	10.2	10.0
Middle Quintile	-1.0	-0.3	16.7	17.5	17.0
Fourth Quintile	-1.9	-1.0	19.9	21.5	20.7
Top Quintile	-3.3	-2.0	24.6	27.1	26.0
All	-2.3	-1.3	20.7	22.5	21.7
Addendum					
80-90	-2.9	-1.8	22.3	24.6	23.7
90-95	-3.3	-2.0	23.4	25.9	24.9
95-99	-3.2	-1.8	25.0	27.3	26.3
Top 1 Percent	-3.8	-2.2	26.7	29.4	28.3
Top 0.1 Percent	-4.3	-2.5	28.6	31.7	30.4

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0509-4).

a. Static estimates that do not take behavioral change into account.

b. Tax units with negative cash income are excluded from the lowest income class but are included in the totals. The cash income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2009 dollars): 20% $21,024, 40% $39,958, 60% $72,320, 80% $127,029, 90% $185,589, 95% $260,396, 99% $665,719, 99.9% $3,053,478.

c. After-tax income is cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); and estate tax.

d. Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, and the estate tax) as a percentage of average cash income.

e. Proposal limits the value of itemized deductions to 15 percent rather than taxpayer's marginal statutory tax rate.

f. Administration baseline extends all of the individual income tax provisions included in 2001 EGTRRA and 2003 JGTRRA; maintains the estate tax at its 2009 parameters; extends the 2009 AMT Patch; and indexes the AMT exemption, rate bracket threshold, and phase-out exemption threshold for inflation.

Appendix Table 1. Distribution of Income and Federal Taxes by Cash Income Percentile, Current Law Baseline. 2019

Cash Income Percentile[1,2]	Tax Units[3]		Average Income (Dollars)	Average Federal Tax Burden (Dollars)	Average After-Tax Income[4] (Dollars)	Average Federal Tax Rate[5]	Share of Pre-Tax Income	Share of Post-Tax Income	Share of Federal Taxes
	Number (thousands)	Percent of Total					Percent of Total	Percent of Total	Percent of Total
Income Quintile									
Lowest	41,495	24.1	14,385	789	13,596	5.5	3.7	4.5	0.9
Second	38,769	22.6	35,026	4,124	30,903	11.8	8.3	9.6	4.1
Middle	34,763	20.2	63,844	11,981	51,863	18.8	13.6	14.5	10.8
Fourth	28,990	16.9	113,073	25,924	87,149	22.9	20.1	20.3	19.4
Top	25,209	14.7	354,382	99,486	254,897	28.1	54.7	51.5	64.8
All	171,915	100.0	95,056	22,527	72,529	23.7	100.0	100.0	100.0
Addendum									
80-90	12,721	7.4	178,642	45,612	133,031	25.5	13.9	13.6	15.0
90-95	6,188	3.6	255,923	69,321	186,602	27.1	9.7	9.3	11.1
95-99	5,017	2.9	441,228	123,686	317,541	28.0	13.6	12.8	16.0
Top 1 Percent	1,284	0.8	2,231,343	684,252	1,547,091	30.7	17.5	15.9	22.7
Top 0.1 Percent	131	0.1	9,692,810	3,199,705	6,493,106	33.0	7.8	6.8	10.8

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0509-4).

Number of AMT Taxpayers (millions). Baseline: 38.3 Proposal: 35.6

(1) Tax units with negative cash income are excluded from the lowest income class but are included in the totals. For a description of cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm

(2) The cash income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2009 dollars): 20% $21,024, 40% $39,958, 60% $72,320, 80% $127,029, 90% $185,589, 95% $260,396, 99% $665,719, 99.9% $3,053,478.

(3) Includes both filing and non-filing units but excludes those that are dependents of other tax units.

(4) After-tax income is cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); and estate tax.

(5) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, and the estate tax) as a percentage of average cash income.

Appendix Table 2. Distribution of Income and Federal Taxes by Cash Income Percentile, Administration Baseline, 2019

Cash Income Percentile[1,2]	Tax Units[3]		Average Income (Dollars)	Average Federal Tax Burden (Dollars)	Average After-Tax Income[4] (Dollars)	Average Federal Tax Rate[5]	Share of Pre-Tax Income	Share of Post-Tax Income	Share of Federal Taxes
	Number (thousands)	Percent of Total					Percent of Total	Percent of Total	Percent of Total
Income Quintile									
Lowest	41,495	24.1	14,385	687	13,698	4.8	3.7	4.4	0.8
Second	38,769	22.6	35,026	3,490	31,536	10.0	8.3	9.4	4.0
Middle	34,763	20.2	63,844	10,659	53,185	16.7	13.6	14.3	11.0
Fourth	28,990	16.9	113,073	22,514	90,559	19.9	20.1	20.3	19.3
Top	25,209	14.7	354,382	87,016	267,366	24.6	54.7	52.0	64.8
All	171,915	100.0	95,056	19,687	75,368	20.7	100.0	100.0	100.0
Addendum									
80-90	12,721	7.4	178,642	39,856	138,786	22.3	13.9	13.6	15.0
90-95	6,188	3.6	255,923	59,946	195,977	23.4	9.7	9.4	11.0
95-99	5,017	2.9	441,228	110,078	331,150	25.0	13.6	12.8	16.3
Top 1 Percent	1,284	0.8	2,231,343	594,780	1,636,563	26.7	17.5	16.2	22.6
Top 0.1 Percent	131	0.1	9,692,810	2,768,140	6,924,671	28.6	7.8	7.0	10.7

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0509-4).
Number of AMT Taxpayers (millions). Baseline: 7.3 Proposal: 4.5

(1) Tax units with negative cash income are excluded from the lowest income class but are included in the totals. For a description of cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm

(2) The cash income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2009 dollars): 20% $21,024, 40% $39,958, 60% $72,320, 80% $127,029, 90% $185,589, 95% $260,396, 99% $665,719, 99.9% $3,053,478.

(3) Includes both filing and non-filing units but excludes those that are dependents of other tax units.

(4) After-tax income is cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); and estate tax.

(5) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, and the estate tax) as a percentage of average cash income.