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Bush Administration Tax Policy: Introduction and Background

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I. Introduction

Tax policy has played a central role in the Bush administration. Three noteworthy pieces of tax legislation have been enacted during the administration's tenure: The 2001 tax cut phased in significant reductions in income tax rates, reduced and eventually repealed the estate tax, and provided additional tax breaks for saving, education, families with children, and married couples. Legislation in 2002 significantly reduced the tax burden on new business investments. The 2003 tax cut substantially reduced the taxation of dividends and capital gains, and accelerated the phase-ins of the 2001 tax cuts. All of those tax cuts are temporary, though. Outside of the legislative arena, the administration has promulgated regulations that make it easier for firms to immediately deduct investment costs. Taken together, those policies and proposals represent a major shift in the structure, incentives, revenues, and distributional effects of the American tax system.

This article is the first of a series that summarizes and analyzes those policies and proposals. The series has two broad goals: to describe, interpret, and assess what has happened, and to examine the consequences of making the tax cuts permanent.

This article provides background information intended to help frame the issues analyzed in subsequent articles. Those articles will examine the distributional effects; tax cuts and fiscal policy; the effects on long-term growth; the effects as a short-term stimulus; the effects on government spending; and the extent to which the tax cuts serve as an effective prelude to fundamental tax reform.

Section II below summarizes the policies and rules that have been enacted to date. A complete examination of the tax policies, however, requires specification of more than just the actual provisions of recent legislation. As noted above, all of the legislated tax provisions expire before the end of 2010, so some treatment of the expiring provisions must be established. The tax cuts create significant interactions with the alternative minimum tax that are widely regarded as unsustainable but that influence the revenue, distributional, and other effects of the tax cut. And the enacted pieces of legislation contain no apparent means of paying for the tax cuts. While these issues may at first seem like diversions, their resolution is absolutely central to any evaluation of tax policy over the last four years. Sections III, IV, and V provide background information on these issues and describe the assumptions that we employ in subsequent analyses. Section VI is a short conclusion.

II. The Enacted Tax Cuts

The 2001, 2002, and 2003 tax cuts contain a host of tax provisions that phase in at different rates and expire at different times. In Tables 1a-1d, we divide the major enacted policies into four broad categories: general income and estate tax cuts; tax cuts for families and married couples; tax cuts for saving and investment; and tax cuts for education.[1]

Table 1a shows the general income and estate tax cuts. Under the 2001 tax cut, the highest income tax rates ultimately decline by different amounts. The top rate declines from 39.6 percent in 2000 to an eventual level of 35 percent. The 28, 31, and 36 percent rates ultimately fall by 3 percentage points. These reductions were scheduled to be gradual under the 2001 act: All four rates were reduced by 0.5 percentage points on July 1, 2001, and January 1, 2002, and were scheduled to be reduced by an additional percentage point at the beginning of 2004. At the beginning of 2006, the top rate was scheduled to fall by 2.6 percentage points, while the next three rates were scheduled to fall by 1 percentage point. The 2003 tax cut accelerated the reductions scheduled for 2004 and 2006 to the beginning of 2003. The reduced rates are in effect through 2010.

The 2001 act (the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA)) also created a new 10 percent tax bracket, carved out of the 15 percent bracket. The maximum taxable income level at which the

[1]For more details, *see* JCT (2001, 2002, and 2003).

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15 percent bracket ends did not change for singles, but was raised for joint filers as part of the marriage penalty relief provisions. Under the 2001 act, the 10 percent bracket applied to the first $12,000 of taxable income for married couples ($6,000 for singles, $10,000 for heads of households) through 2007.[2] The limit was scheduled to rise to $14,000 in 2008 and to be indexed for inflation starting in 2009. The 2003 tax act raised the taxable income limit to $14,000 in 2003 and $14,300 in 2004, at which point it reverts to $12,000 in 2005.

The 2003 tax cut (the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA)) reduced tax rates on dividends and capital gains. Tax rates on realized capital gains received by individual shareholders were reduced from 10 percent (in brackets where the ordinary income tax rate was 15 percent or below) and 20 percent (in brackets where the ordinary income tax was higher than 15 percent) to 5 percent and 15 percent through 2007 and to zero and 15 percent in 2008. Tax rates on dividends received by individual shareholders were reduced from the rates that apply to ordinary income to the rates that apply to capital gains.

The 2001 tax act raised the AMT exemption by $2,000 for single taxpayers and $4,000 for married taxpayers through 2004. The 2003 act raised the exemptions by another $9,000 for married couples and $4,500 for singles but again only through 2004.[3]

EGTRRA repealed the limitations on itemized deductions and phaseouts of personal exemptions. The repeal is phased in between 2005 and 2009.

EGTRRA gradually reduces and eventually repeals the estate tax and the generation-skipping transfer tax and modifies the gift tax. Under previous law, the effective exemption (that is, the amount of wealth excluded due to the unified credit) for estates and gifts would have been $700,000 in 2002, rising gradually to $1 million in 2006. Under EGTRRA, the effective exemption for estates rose to $1 million in 2002, and will rise to $2 million by 2006 and $3.5 million in 2009. The effective exemption for gifts remains at $1 million. The top effective marginal tax rates on estates and gifts fell from 60 percent under previous law to 50 percent in 2002 and then gradually falls to 45 percent in 2009. In 2010 the estate and GSTT will be repealed, the gift tax will have a $1 million lifetime gift exclusion, the highest gift tax rate will be set equal to the top individual income tax rate, and the step-up in basis for capital gains on inherited assets will be repealed and replaced with a general basis carryover provision that has a $1.3 million exemption per decedent and an additional $3 million exemption on inter-spousal transfers.

Table 1b shows the tax cuts aimed at families and married couples. The 2001 act gradually increases the child credit from its maximum value of $500 in 2000 to $600 in 2001-2004, $700 in 2005-2008, $800 in 2009, and $1,000 in 2010. The credit was made refundable to the extent of 10 percent of a taxpayer's earned income above $10,000 for 2001-2004 and 15 percent subsequently. The earnings threshold (but not the credit amount) is indexed for inflation starting in 2002. The credit will no longer be limited by the AMT. The 2003 tax cut raised the credit to $1,000 in 2003 and 2004 only.

EGTRRA addressed marriage penalties in several ways. In 2000 the standard deduction for married couples was 167 percent of the standard deductions for singles. EGTRRA raises that ratio to 174 percent in 2005 and then gradually increases it to 200 percent by 2009. JGTRRA accelerated those changes, raising the ratio to 200 percent in 2003 and 2004 only.

EGTRRA also raised the ratio of the maximum taxable income level in the 15 percent bracket for married couples relative to singles. Under pre-EGTRRA law, the ratio was 167 percent. Under EGTRRA, the ratio would rise to 180 percent in 2005 and then rise gradually to 200 percent in 2008. JGTRRA raises the ratio to 200 percent in 2003 and 2004 only.

EGTRRA raised the beginning and ending income levels of the EITC phaseout. These levels increase in three steps, by a total of $3,000 by 2008, after which they are indexed for inflation.

The 2001 tax cut expanded the child and dependent care credit, raising the cap on expenses to $3,000 per child (from $2,400) and raising the credit rate to 35 percent (from 30 percent). The credit remains nonrefundable, though. The provision expires in 2010.

Table 1c reports tax cuts for saving and investment. EGTRRA included a series of important changes to the pension and IRA laws and made the tax treatment of retirement saving significantly more generous. Contribution limits for individual retirement accounts and Roth IRAs will rise gradually to $5,000 by 2008 from $2,000 under previous law and will be indexed for inflation thereafter. Contribution limits to 401(k)s and related plans will rise gradually to $15,000 by 2006 from $10,500 under current law and then be indexed for inflation. Additional so-called ''catch-up'' contributions of up to $5,000 per year for anyone over the age of 50 will be permitted. Roth 401(k) plans can be established starting in 2006. The ''savers' credit,'' a nonrefundable credit that provides matching contributions to IRAs and 401(k) plans for low- and middle-income households, will be available between 2002 and 2006.

[2]In 2001 the 10 percent bracket was implemented by providing taxpayers with a one-time payment — the ''rebate'' — of the minimum of the taxpayer's year 2000 income tax liability or $600 for married couples ($300 for singles, $500 for heads of households). Taxpayers who in 2000 had low income or other circumstances such that the payment they received was less than what they should have received based on 2001 income were eligible to claim the difference when they filed their income taxes for 2001. Taxpayers whose payment exceeded the amount they were entitled to based on 2001 income were not required to pay back the difference. The payment thus acted as an advance credit for 2001 taxes for the first group and a combination of an advance credit for 2001 taxes and a rebate of 2000 taxes for the second group (Esenwein and Maguire 2001). Beginning in 2002, the new bracket was incorporated in withholding and tax tables.

[3]Although not shown in Table 1a, EGTRRA also stipulated that the child credit and the earned income credit would not be reduced by the AMT. The 2002 tax cut allows an individual to offset the entire regular tax liability and AMT liability with nonrefundable credits. That provision extended only though the end of 2003, however, although it was expected to be extended in 2004.

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The 2002 tax cut provides for "bonus depreciation" — a first-year deduction of 30 percent of the adjusted basis of qualified investments made after September 10, 2001, and before September 11, 2004. The 2003 tax cut increased the bonus depreciation deduction to 50 percent and extended the expiration date to January 1, 2005. Under the 2003 tax cut, the maximum dollar amount that may be expensed by small businesses increased to $100,000 (from $24,000) for investments placed in service in taxable years through 2005.

Table 1d shows education provisions. The 2001 tax act expands the definition of qualified tuition plans to include prepaid tuition (section 529) plans and allows an exclusion from gross income for distributions from such plans (regardless of whether they are prepaid tuition or savings account versions of a section 529 plan) to the extent that the distributions are used for higher education expenses. EGTRRA allows taxpayers filing jointly with income below $130,000 to take an above-the-line deduction for higher education expenses up to $3,000 in 2002-2003 and $4,000 in 2004-2005. Taxpayers filing jointly with income between $130,000 and $160,000 may take a deduction for up to $2,500 in 2004 and 2005. Effective in 2002, the contribution limit on education IRAs rose to $2,000 from $500, the income phaseout range rose, and the definition of qualified expenses expanded to include elementary and secondary school. Deductions for student loans were made more generous.

III. Sunsets

The most novel aspect of the recent tax cuts is that they all expire or "sunset" by the end of 2010. At that point, under current law, all provisions of the bills that had not already phased out are repealed, and the tax code reverts to what it would have been had the tax bill never existed.

The sunset provisions complicate analysis of the tax cuts. Virtually no one believes the bills will sunset in their entirety as written. Other temporary tax provisions are typically extended at their scheduled expiration date, and the administration has continually indicated the expectation and desire that the tax cuts be made "permanent."[4] But exactly when or which parts of the bill might be extended is unclear.

For most purposes, we analyze the tax cuts as if they were made permanent as proposed in the administration's Fiscal Year 2005 budget (OMB 2004). As described in the last column of tables 1a-1d, the administration has proposed making permanent almost all of the features of the 2001 and 2003 tax cuts, with a few notable exceptions, including the saver's credit, the AMT exemption, and the education deduction. The administration proposal does not extend or make permanent the bonus depreciation provisions enacted in 2002 and expanded in 2003.

It is worth noting that the sunsets in recent legislation represent a dramatic departure from previous practice in the use of expiring tax provisions. Those provisions have always existed, but have generally applied only to a few minor items or to occasional, explicitly temporary tax policies. For example, in January 1992, extending all of the expiring provisions (tax cuts and tax increases) would actually have raised revenue by $9 billion by 1997. By January 2002, extending all temporary provisions would have reduced revenue by $38 billion in 2007 and $297 billion in 2012. The increase largely reflects the effects of the sunsets in the 2001 legislation. By January 2004, the cost of extending all temporary provisions in 2014 would be $431 billion, or 2.4 percent of GDP (Figure 1).

The extensive use of sunsets creates uncertainty regarding expectations about future tax policy. It also creates significant complexity in tax planning and in simply understanding the law. For example, several of the provisions — including the child credit, the higher standard deduction for married couples, the expanded income range for the 15 percent bracket for married couples, and the expansion of the 10 percent bracket — essentially are scheduled to sunset twice. Under current law, the child credit is set at $1,000 through the end of 2004, at which point it falls to $700, only to rise again to $1,000 in 2010, and then fall to $500 (its pre-EGTRRA value) in 2011.

Whether sunsets are a good idea depends in large part on why they were enacted. Two sets of arguments could justify sunsets in principle, but neither applies in practice to the 2001 and 2003 tax cuts. First, when tax incentives *should* be temporary, sunsets represent sound policy.[5] But it should be clear that the massive recent increase in sunsets is not motivated by an increased desire for truly temporary tax cuts.

Second, Maggs (2003) and Murray (2003) note that even sunsets on provisions that are otherwise intended to be permanent could be construed to have some value. Controlling for the size of an annual tax cut, a sunset may provide more future policy flexibility than a permanent tax cut because it is presumably easier politically to allow a sunset to take effect than to explicitly reverse a tax cut. Thus, the sunsets might, in principle, make it easier to renegotiate the structure and level of taxes, if for no other reason than that they will focus attention on the issue. They could therefore help policymakers address in the near future the long-term fiscal gap facing the nation. But a reality check is appropriate. To the extent that policymakers in the near future will disproportionately be the same people who rushed to embrace sunsets as a way of avoiding hard budget decisions, we suspect this view may prove optimistic.

[4]Even before the 2001 tax cut was signed by the president, Treasury Secretary Paul O'Neill indicated that "All these things are going to become permanent. They'll all be fixed" (*USA Today* 2001). Every administration budget submitted after the 2001 tax cut has called for making the tax cuts permanent.

[5]For example, a temporary investment incentive is likely to prove more effective in the short term than a permanent incentive, because it encourages firms to substitute future investment for current investment. The longer the "temporary" incentive is in place, however, the less credible this motivation appears and the more the sunset seems like an accounting gimmick intended to hide the longer-term cost of the provision. Moreover, removing the sunset in this case would be counterproductive, given the purpose of the original policy, and removing or extending the sunset in advance of its termination date would be particularly damaging to the original goal.

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In fact, sunsets over the past few years have clearly been used to hide the true budgetary costs of intended policies and to increase the underlying size of the annual tax cut, by allowing a larger annual tax cut to fit within a given multiyear budget total. In essence, tax cut supporters gambled in 2001 and again in 2003 that they could get the larger annual tax cuts enacted and then made permanent at a future date, rather than adopting smaller tax cuts that very likely could have been made permanent in the first place (at least in 2001; the situation in 2003 is more difficult to evaluate).[6] Policymakers supporting sunsets have every intention of trying to make the policies permanent.[7] For example, House Speaker Dennis Hastert, R-Ill., indicated just after the House passed the 2003 tax cut that "The $350 [billion] number takes us through the next two years, basically. . . . But also it could end up being a trillion-dollar bill, because this stuff is extendable. That's a fight we're going to have to have. It's not a bad fight to have."[8]

Finally, it is worth noting that sunsets of tax provisions create a classic political economy asymmetry in which one (often relatively small) group has much to gain and each member of the public has only a little to lose. Political economy theory predicts, and evidence confirms, that in those situations, the will of the active minority dominates that of the passive majority. Historically, the sunset provisions fit this model well. Even now, with the massive increase in sunsets, the political model probably captures important future dynamics; after all, some of the most expensive provisions to extend — repeal of the estate tax, the reductions in the top marginal income tax rates, and the bonus depreciation provisions — benefit relatively narrow slices of the population who happen to be both extremely affluent and politically connected.

IV. Alternative Minimum Tax

It is difficult to discuss permanent income tax changes sensibly without considering the alternative minimum tax.[9] The AMT operates parallel to the regular income tax, imposing different income definitions, allowable deductions, and rates. Taxpayers pay the AMT when their AMT liability exceeds their regular income tax liability.

The AMT grew out of a minimum tax that first took effect in 1970 to reduce sheltering opportunities for high-income households and ensure that all high-income households paid at least some income tax every year. Although it has historically applied only to a relatively few high-income taxpayers, the AMT is destined to grow rapidly under current law. By 2010, roughly 29 million (28 percent of) income tax payers will face the AMT in the absence of policy changes, up from about 3 million today (see Figure 2). The two primary reasons for the projected explosive growth of the AMT are that the tax is not indexed for inflation and that the 2001 and 2003 tax cuts reduced regular income tax liabilities, but provided only small, temporary adjustments in the AMT.

Because the projected expansion of the AMT will create problems relating to the efficiency, equity, and complexity of the tax code, it is widely believed that policymakers will not allow the massive projected increase in the AMT to occur. The administration's prior tax cuts and its proposal to make the tax cuts permanent, however, do not address the long-term AMT problem. Under the administration's proposal to make the tax cuts permanent, 40 million (35 percent of) taxpayers would face the AMT by 2014 (see Figure 2). Almost one-quarter of the income tax cuts from the 2001 and 2003 legislation would be erased by the AMT by 2009, and 36 percent by 2014, including almost 40 percent of the tax cuts for households with income between $75,000 and $100,000 and two-thirds for households with income between $100,000 and $500,000 (Table 2). If it is not amended in the future, the AMT would eventually erase all of the income tax cuts provided in the 2001 and 2003 legislation.

The presence of the AMT thus complicates analysis of making the tax cuts permanent. Assuming the AMT will evolve according to current law would imply massive increases in the number of AMT taxpayers and would artificially reduce the cost of the tax cuts, relative to a plausible policy scenario. At the other extreme, attributing *all* the cost of reforming the AMT to the tax cuts, despite the fact that the AMT would have been increasing even in the absence of the tax cuts, would greatly inflate the apparent cost of making the tax cuts permanent.

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[6]In contrast to the 2001 and 2003 legislation, the 2002 tax cut was explicitly intended to be temporary. In particular, the bonus depreciation provision was intended to be temporary and thereby create an incentive to accelerate investment that had been planned for the future. To the administration's credit, the budget notes explicitly that the provision was intended to be temporary and opposes making the provision permanent.

[7]Some policymakers argue that they were somehow forced into adopting the sunsets. After the vote on the conference agreement, for example, Sen. Kay Bailey Hutchison, R-Texas, was quoted as saying, "The reason we have to sunset some of these taxes is because we had to fit within an artificial constraint of $350 billion" (Firestone 2003). Those claims are at least somewhat disingenuous. In recent years, the president and Republican congressional leaders have chosen to push through tax cuts under the protection of the reconciliation rules. Reconciliation legislation can not be subject to filibuster in the Senate and therefore requires only 51 votes to enact. (The cost of undertaking this expedited procedure is that policy actions that lose revenue outside the budget window require 60 votes, assuming a point of order is raised against the legislation under the Byrd rule. But the sunset in the conference agreement occurs much earlier than would be required to satisfy the Byrd rule.) The president and his allies in Congress could have chosen instead to legislate tax changes outside the reconciliation process, in which case the $350 billion cap would not have applied. Legislation outside the reconciliation process would be subject to filibuster, but requires only 51 votes even for a permanent tax cut. Put differently, tax-cut advocates made a deliberate choice to use the reconciliation process to push through tax cuts with only a slim majority in support of them. (*See* Evans 2003 for further discussion of the Byrd rule and reconciliation.)

[8]"Hastert Salutes 'Trillion-Dollar' Tax Bill, Looks To Medicare Debate," *CongressDaily* AM, May 23, 2003.

[9]*See* Burman, Gale, and Rohaly (2003a, b), Poterba and Feenberg (2004), and Rebelein and Tempalski (2000) for discussion of the AMT.

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We address these concerns by measuring the effects of the 2001 and 2003 tax cuts assuming that the AMT is adjusted so that the number of taxpayers on the AMT in future years is the same as it would have been had the 2001 and 2003 tax cuts never taken place. That is, we ascribe as a cost of the 2001 and 2003 tax cuts the changes in the AMT that are needed to offset the increase in AMT participation caused by the 2001 and 2003 tax cuts.[10] The costs and consequences of these AMT adjustments are included in the analysis of revenue, distribution, and growth effects from the tax cuts in subsequent sections.

This adjustment leaves about 21 million taxpayers on the AMT in 2014 (Figure 2), much more than the current 3 million, but much less than the 40 million that would face the tax if the AMT were allowed to evolve under current law and the tax cuts made permanent. Therefore, our assumptions do not impose all of the costs of eventually fixing the AMT on the 2001 and 2003 tax cuts. Rather, even after our adjustment, there is still a significant AMT problem for policymakers to address, but it is the same AMT problem that would exist in the absence of the 2001 and 2003 tax cuts.

V. Paying for the Tax Cuts

A third issue that complicates the analysis is that permanent tax cuts must eventually be financed with some combination of other tax increases or spending cuts. It is possible to delay payment, of course. In 2001, for example, the administration argued that the tax cuts would be ''paid for'' out of the surplus. Despite the conceptual and empirical problems with this claim (for example, see Auerbach and Gale 2001), the argument appears to have carried the day at that time. In 2003 the tax cuts were intended to boost a sagging economy, so deficit finance may have been a preferred option, at least in the short term. But tax cuts aren't free. The government's budget constraint implies that tax cuts must eventually be financed with increases in other taxes or reductions in government programs. Funding the tax cuts with increased borrowing postpones but does not eliminate the required tax or spending adjustments.

Some tax cut supporters argue that the payments can be postponed indefinitely. It is true that in a stable long-term economy, government debt can safely grow as fast as the economy. This consideration, however, is simply not relevant to the U.S. economy. As discussed in a future article, under current policies, the ratio of federal debt to GDP is projected to explode over time, in the absence of other policy changes, even if the tax cuts were not made permanent. The administration itself acknowledges that under its own policies, over the long run ''the budget is on an unsustainable path'' (OMB 2004, page 191). As a result, postponement of payment for the tax cuts can not go on forever.[11]

A different claim is that offsetting tax increases or spending cuts are not required because tax cuts can ''pay for themselves'' by raising economic growth and reducing tax avoidance and tax evasion. As discussed in a future article, however, there is no credible evidence to support this view in the context of making the recent tax cuts permanent.

In short, if they are made permanent, the tax cuts will have to be paid for with either reduced future spending or increased future taxes, relative to what would have occurred in the absence of the tax cuts. That simple fact fundamentally alters analysis of the growth and distributional effects of tax policy. We examine the effects of a variety of financing assumptions below.

VI. Conclusion

A theme to which we will frequently return in this series is the centrality of paying for the tax cuts. Most of the important conclusions regarding the long-term costs. the distributional effects, and the growth effects hinge on how and when the tax cuts are eventually financed. As we show in subsequent articles, the longer financing is postponed, the larger is the decline in national saving and in future national income. The greater the extent to which the tax cuts are financed through cuts in government consumption, the more advantageous is the effect on economic growth in most economic models, although reductions in some types of spending (for example, on education) may harm long-term growth. Furthermore, the greater the reliance on spending reductions to finance the tax cuts, the more regressive are the tax cuts plus financing likely to be. Our focus on paying for the tax cuts, and the links between financing, fiscal policy, distributional effects, and growth, serve to reinforce the standard notion that there is no such thing as a free lunch.

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[10]There are, of course, numerous ways to adjust the AMT to achieve this goal. We aim to conform as much as possible to recent trends in AMT policy choices and also to focus on extensions of current AMT expiring provisions. Therefore, we assume that the use of nonrefundable credits in the AMT is made permanent (this use is currently scheduled to expire in 2004) and, conditional on that change, that the AMT exemption is raised in each future year so that the number of AMT taxpayers in that year is the same under the administration's proposal to make the tax cuts permanent as it would have been under pre-2001 law in that year. We estimate the revenue effect of these AMT changes using the Tax Policy Center microsimulation model, which is discussed further below.

[11]Furthermore, even in the empirically irrelevant case in which government debt were *not* projected to grow more quickly than the economy, the tax cuts would not be free. In that theoretical case, no explicit increase in taxes or cut in spending would be required, but the resources used for the tax cuts could have been used for other purposes; there would still be a trade-off between tax cuts and other policy options.

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Table 1a: Features of the 2001 and 2003 Tax Cuts and the FY 2005 Budget Proposals: General Income and Estate Tax Cuts

Enacted Policy	Information Reported	Pre-EGTRRA	EGTRRA		JGTRRA		FY 2005 Budget Proposal
Reduce top four income tax rates	Tax rate	28, 31, 36, 39.6	2001-03 2004-05 2006-10	27, 30, 35, 38.6 26, 29, 34, 37.6 25, 28, 33, 35	2003-10	25, 28, 33, 35	2011 and on 25, 28, 33, 35
Create 10 percent bracket	Income taxed at 10 percent for married couples	NA	2001-07 2008 2009-10	$12,000 $14,000 Indexed	2003 2004	$14,000 $14,300	2005 and on $14,300
Reduce dividend tax rates	Tax rate	Taxed as ordinary income			2003-07 2008	5, 15 0, 15	2009 and on 0, 15
Reduce capital gains tax rates	Tax rate	10, 20 (with exceptions)			2003-07 2008	5, 15 0, 15	2009 and on 0, 15
Increase AMT exemption	Exemption level (unindexed)	$33,750 Single $45,000 Married	2001-04	$35,750 Single $49,000 Married	2003-04	$40,250 Single $58,000 Married	2005 only $40,250 Single $58,000 Married
Repeal PEP and PEASE	Percent reduction relative to pre-EGTRRA law	NA	2006-07 2008-09 2010	33% 66% Repealed			2011 and on Repeal
Repeal estate tax	Exemption level, highest effective tax rate	$675,000, 60%	2002 gradually changing to 2009 2010	$1 million, 50% $3.5 million, 45% Repeal			2011 and on Repeal

Source: JCT 2001, 2002, 2003, and OMB 2004.

Table 1b: Features of the 2001 and 2003 Tax Cuts and the FY 2005 Budget Proposals: Children and Marital Status

Enacted Policy	Information Reported	Pre-EGTRRA	EGTRRA		JGTRRA		FY 2005 Budget Proposal
Expand child credit	Maxium credit amount (unindexed)	$500	2001-04 2005-08 2009 2010	$600 $700 $800 $1,000	2003-04	$1,000	2005 and on $1,000
Expand standard deduction for married couples	Deduction for couples as percent of deduction for singles	167%	2005 2006 2007 2008 2009-10	174% 184% 187% 190% 200%	2003-04	200%	2005 and on 200%
Expand 15 percent bracket for married couples	Maximum income as percent of maximum for singles	167%	2005 2006 2007 2008-10	180% 187% 193% 200%	2003-04	200%	2005 and on 200%
Expand EITC for married couples	Increase beginning and end of phaseout	NA	2002-04 2005-07 2008 2009-10	$1,000 $2,000 $3,000 Indexed			2011 and on Indexed
Dependent Care Credit	Cap on expenses and maximum credit rate	$2,400 30%	2002-10 2002-10	$3,000 35%			Make permanent. Establish uniform definition of qualifying dependent.

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Table 1c: Features of the 2001 and 2003 Tax Cuts and the FY 2005 Budget Proposals: Saving and Investment

Enacted Policy	Information Reported	Pre-EGTRRA	EGTRRA	JGTRRA	FY 2005 Budget Proposal
Raise traditional and Roth IRA contribution limits	Contibution limit	$2,000	2002-04 $3,000 2005-07 $4,000 2008 $5,000 2009-10 Indexed		2011 and on Indexed
Increase 401(k) contribution limits	Contribution limit	$10,000	Raise by $1,000 per year for 2002 to 2006 2006 $15,000 2007-10 Indexed		2011 and on Indexed
Increase IRA and 401(k) contribution limits for people over 50	Additional allowable contributions	NA	2002-05 for IRA $500 2006-10 for IRA $1,000 2002-06 for 401(k) $1,000 to $5,000		2011 and on $1,000
Create Roth 401(k)	Contribution limit	NA	2006-07 $4000 2008 $5000 2009-10 Indexed	2005 $4000 2008 $5,000 2009-10 Indexed	2011 and on Indexed
Create Saver's Credit	Eligible income range for married couple, credit rate	NA	2002-2006 $0-30,000 50% $30,000-32,500 20% $32,500-50,000 10%		Allow expiration
Bonus depreciation allowance for business property	Additional first-year deduction as percent of adjusted basis of qualified property	NA	9/10/01-9/11/04 30%[1]	5/5/03-1/1/05 50%	Allow expiration

[1]Provision of the "Job Creation and Worker Assistance Act of 2002."

Table 1d: Features of the 2001 and 2003 Tax Cuts and the FY 2005 Budget Proposals: Education

Enacted Policy	Information Reported	Pre-EGTRRA	EGTRRA	JGTRRA	FY 2005 Budget Proposal
Expand tax preference for prepaid tuition ("section 529") programs	Summary of change	NA	2002-10 Withdrawals are excluded from gross income if used for qualified higher education.		Make permanent.
Create Deduction for Education Expenses	Eligible income cap for married couple, deduction limit	NA	2002-03 $130,000, $3,000 2004-05 $130,000, $4,000 2006 Expires		Allow expiration
Raise Education IRA contribution limts	Contribution limit	$500	2002-10 $2,000		2011 and on $2,000
Increase eligibility for education IRA contributions	Income phaseout range	$180k-210k	2002-10 $190k-220k		2011 and on $190k-220k
Expand deductible student loan interest payments	Income phaseout range	$45k-60k single $90k-120k married	2002 $50k-65k single $100k-130k married 2003-10 Indexed		2011 and on Indexed

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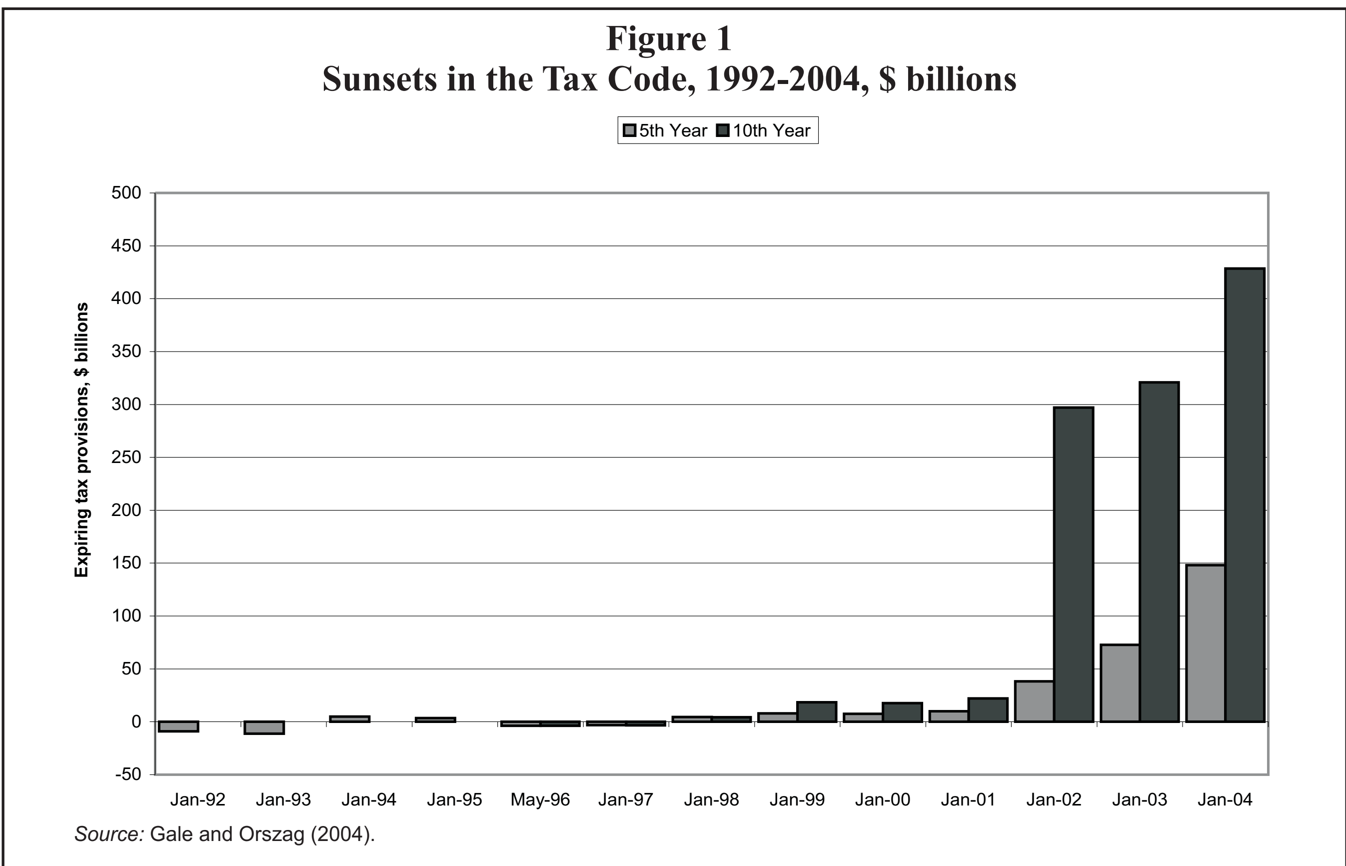
Table 2: Effect of the AMT on the Administration's Tax Cuts						
Cash Income Class (thousands of 2003$)	Percent of Tax Units With No Cut Due to AMT			Percent of Cut Taken Back By AMT		
	2006	2009	2014	2006	2009	2014
All	0.7	1.4	4.1	15.8	23.4	36.0
0-10	0.0	0.0	0.0	-0.4	-0.1	-0.1
10-20	0.0	0.0	0.0	0.0	0.0	0.0
20-30	0.0	0.0	0.0	0.0	0.0	-0.1
30-40	0.0	0.1	0.3	-0.2	-0.1	0.8
40-50	0.2	0.3	1.2	-0.1	0.3	2.6
50-75	0.6	1.1	3.7	0.3	2.3	11.4
75-100	0.8	2.1	6.0	7.9	18.1	39.3
100-200	2.2	4.5	12.8	25.9	40.0	64.3
200-500	4.2	7.3	12.7	49.2	59.2	68.9
500-1,000	1.1	1.1	1.5	14.2	16.9	20.7
More than 1,000	0.6	1.2	1.1	4.9	5.8	7.0

Source: Tax Policy Center Microsimulation Model.



Source: Gale and Orszag (2004).

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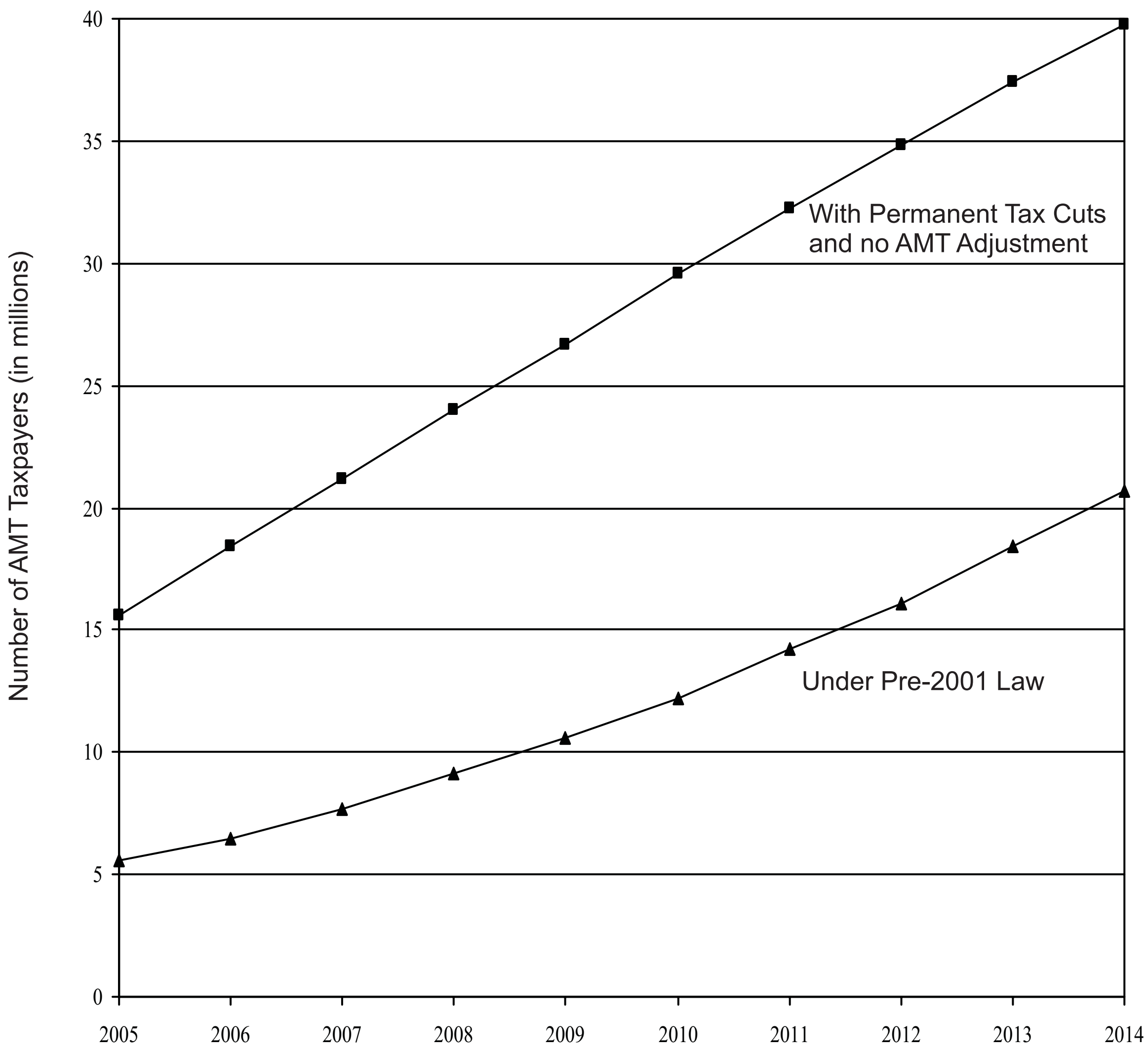

Source: Authors' calculations using the Tax Policy Center Microsimulation Model.

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