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The Biden-McConnell Tax Deal Would Save Less than Half as Much Revenue as President Obama's Original Tax Proposal

The tax deal negotiated between Vice President Joe Biden and Senate Minority Leader Mitch McConnell and approved by the Senate early on January 1 would save less than half as much revenue as President's Obama's original proposal.

President Obama began negotiations with the aim of saving \$1.6 trillion in revenue, compared to what would happen if Congress extended the Bush tax cuts and made no other significant changes to the tax code. Based on the last several budget proposals he had submitted to Congress, it was understood that \$1.4 trillion of this would come from his two major proposals for the personal income tax. The first would extend the Bush income tax cuts for income up to \$250,000 for married couples and up to \$200,000 for singles. The second would limit the tax savings of each dollar of deductions (and certain exclusions) to 28 cents. (Otherwise someone in the 39.6 percent bracket would save nearly 40 cents for each dollar of deductions and exclusions.)

The main personal income tax proposals in this Biden-McConnell deal would save about \$640 billion over a decade, just 45 percent as much as the President's original proposals, as illustrated in the table below.

Revenue Savings from Different Income Tax Proposals, Compared to Simply Extending All Bush Income Tax Cuts			
Proposal	Revenue impact (in billions) in calendar year 2013	Revenue impact (in billions) of measure if enacted for ten fiscal years (2013-2022)	As percentage of Obama's original major personal income tax proposals
Obama's Original Major Proposals for the Personal Income Tax:			
Extend Bush Income Tax Cuts for \$250k/\$200k (higher rates on ordinary income, higher rates on capital gains and dividends, PEP and Pease come back into effect) & allow max 28¢ of savings for each dollar of deductions/exclusions	\$ 104	\$ 1,433	100%
Obama's Major Proposals for the Personal Income Tax, Adjusted to Reflect Senate Democrats' Decision to Tax Dividends at Top Rate of 20%	\$ 95	\$ 1,314	92%
Obama's December 17 Proposal: Same as above except rate reductions expire for ordinary income only above \$400k (effectively just means 33 percent rate does not revert to 36%)	\$ 88	\$ 1,214	85%
Obama's December 17 Proposal Not Counting the 28¢ limit on deductions/exclusions	\$ 57	\$ 704	49%
Speaker Boehner's "Plan B": Allow rate reductions to expire for ordinary income and cap gains/dividends above \$1 million, extend the full repeal of PEP and Pease	\$ 27	\$ 338	24%
Biden-McConnell Deal Allow rates for ordinary income and investment income to go up to 39.6% and 20% respectively for income exceeding \$450,000 for married couples, \$400,000 for singles. Allow PEP and Pease to come back into effect for married couples with income over \$300,000, singles with income over \$250,000. No 28¢ limit on deductions/exclusions.	\$ 52	\$ 642	45%
<small>These estimates include personal income tax proposals, not estate tax proposals. All proposals include the extension of AMT relief (which is considered part of the Bush tax cuts). These estimates do not include the impact of President Obama's proposal to extend 2009 provisions expanding the child tax credit and EITC. The estimates for the Biden-McConnell deal do not include extensions of other tax breaks (mostly business tax breaks and education tax breaks) that are also part of that deal. Source: Institute on Taxation and Economic Policy (ITEP) tax microsimulation model, December 2012 and January 2013.</small>			

The Biden-McConnell deal would essentially extend the Bush-era rate reductions on ordinary income and investment income for income up to \$450,000 for married couples and up to \$400,000 for singles. It would extend some other Bush-era tax cuts (repeal of the personal exemption phase-out and limit on itemized deductions, otherwise known as PEP as Pease) for married couples with income up to \$300,000 and singles with income up to \$250,000. Unlike Obama's original proposal, the Biden-McConnell does not include a provision limiting the tax savings of each dollar of deductions (and certain exclusions) to 28 cents.

Revenue Savings from Different Tax Proposals, Compared to Current Law (compared to Congress doing nothing)		
Proposal	Revenue impact (in billions) in calendar year 2013	Revenue impact (in billions) of measure if enacted for ten fiscal years (2013-2022)
Obama's Original Major Proposals for the Personal Income Tax:		
Extend Bush Income Tax Cuts for \$250k/\$200k (higher rates on ordinary income, higher rates on capital gains and dividends, PEP and Pease come back into effect) & allow max 28¢ of savings for each dollar of deductions/exclusions	\$ -193	\$ -2,431
Obama's Major Proposals for the Personal Income Tax, Adjusted to Reflect Senate Democrats' Decision to Tax Dividends at Top Rate of 20%	\$ -201	\$ -2,550
Obama's December 17 Proposal: Same as above except rate reductions expire for ordinary income only above \$400k (effectively just means 33 percent rate does not revert to 36%)	\$ -209	\$ -2,650
Obama's December 17 Proposal Not Counting the 28¢ limit on deductions/exclusions	\$ -239	\$ -3,160
Speaker Boehner's "Plan B": Allow rate reductions to expire for ordinary income and cap gains/dividends above \$1 million, extend the full repeal of PEP and Pease	\$ -269	\$ -3,526
Biden-McConnell Deal Allow rates for ordinary income and investment income to go up to 39.6% and 20% respectively for income exceeding \$450,000 for married couples, \$400,000 for singles. Allow PEP and Pease to come back into effect for married couples with income over \$300,000, singles with income over \$250,000. No 28¢ limit on deductions/exclusions.	\$ -244	\$ -3,222
<p>These estimates include personal income tax proposals, not estate tax proposals. All proposals include the extension of AMT relief (which is considered part of the Bush tax cuts). These estimates do not include the impact of President Obama's proposal to extend 2009 provisions expanding the child tax credit and EITC. The estimates for the Biden-McConnell deal do not include extensions of other tax breaks (mostly business tax breaks and education tax breaks) that are also part of that deal. Source: Institute on Taxation and Economic Policy (ITEP) tax microsimulation model, December 2012 and January 2013.</p>		

These figures include only the impacts of changes in the personal income tax. They do not include changes in the federal estate tax. President Obama originally proposed to reinstate and make permanent the estate rules that were in effect for one year in 2009. Republican leaders and several Democrats in Congress proposed to make permanent the estate tax rules in effect for 2011 and 2012, which cut the estate tax much more substantially. CTJ's national and state-by-state figures on the deaths in 2009 that resulted in estate tax liability demonstrate that even the President's position is overly generous to the families rich enough to pass on large estates from one generation to the next.¹ The Biden-McConnell deal includes estate tax provisions that are much closer to the even more generous rules of 2011 and 2012 than the 2009 rules.²

¹ Citizens for Tax Justice, "State-by-State Estate Tax Figures Show that President's Plan Is Too Generous to Millionaires," November 18, 2011. <http://www.ctj.org/pdf/estatetax2011.pdf>

² Under the deal, the estate tax will continue to exempt at least \$5 million of estate assets (\$10 million for married couples) but the estate tax rate will be 40 percent, compared to the 35 percent rate in effect for 2011 and 2012. The exemption levels will also be indexed to rise with inflation.

Competing Income Tax Proposals, Impact on U.S. Taxpayers in 2013 Compared to Current Law (Compared to Congress Doing Nothing)

U.S. Taxpayers		Obama's Original Income Tax Proposals		Republican Original Income Tax Proposals		Obama's Dec. 17 Income Tax Proposals		Speaker Boehner's "Plan B"		Biden-McConnell Deal	
		<small>(Extend Bush income tax cuts for first \$200k/\$250k, extend EITC and child credit expansions from recovery act, limit deductions/exclusions to 28%)</small>		<small>(Extend Bush income tax cuts for all income, no EITC or child credit expansions from recovery act)</small>		<small>(Extend Bush income tax cuts for first \$200k/\$250k except rate for dividends does not exceed 20%, lower ordinary rates extended for first \$400,000, extend EITC and child credit expansions from recovery act, limit deductions/exclusions to 28%)</small>		<small>(Extend Bush income tax rate reductions for ordinary and capital gains/dividends for first \$1 million, extend full repeal of PEP and Pease, no EITC or child credit expansions from recovery act)</small>		<small>(Extend Bush income tax rate reductions for ordinary and capital gains/dividends for first \$450k/\$400k, extend full repeal of PEP and Pease for taxpayers making up to \$300k/\$250k, extend EITC and child credit expansions from recovery act)</small>	
Income Group	Average Income	Average Tax Change	As % of Income	Average Tax Change	As % of Income	Average Tax Change	As % of Income	Average Tax Change	As % of Income	Average Tax Change	As % of Income
Poorest 20%	\$13,900	\$ -270	-1.9%	\$ -120	-0.8%	\$ -270	-1.9%	\$ -120	-0.8%	\$ -270	-1.9%
Second 20%	28,100	-630	-2.3%	-520	-1.8%	-630	-2.3%	-520	-1.8%	-630	-2.3%
Middle 20%	45,200	-880	-2.0%	-830	-1.8%	-880	-2.0%	-830	-1.8%	-880	-2.0%
Fourth 20%	74,400	-1,580	-2.1%	-1,570	-2.1%	-1,580	-2.1%	-1,570	-2.1%	-1,580	-2.1%
Next 15%	129,100	-3,810	-2.9%	-3,810	-3.0%	-3,810	-2.9%	-3,810	-3.0%	-3,810	-3.0%
Next 4%	278,500	-6,310	-2.3%	-8,320	-3.0%	-6,930	-2.5%	-8,320	-3.0%	-8,270	-3.0%
Richest 1%	1,514,800	+9,830	0.6%	-53,630	-3.5%	+1,350	0.1%	-34,700	-2.3%	-17,840	-1.2%
ALL	\$76,800	\$ -1,380	-1.8%	\$ -2,020	-2.6%	\$ -1,490	-1.9%	\$ -1,830	-2.4%	\$ -1,730	-2.3%
Bottom 60%	\$29,000	\$ -590	-2.0%	\$ -490	-1.7%	\$ -590	-2.0%	\$ -490	-1.7%	\$ -590	-2.0%

These estimates include personal income tax proposals, not estate tax proposals.

All proposals include the extension of AMT relief (which is considered part of the Bush tax cuts).

Unlike the estimates in the tables showing the total costs, these estimates do include the impact of the President's proposals to extend the 2009 provisions expanding the Child Tax Credit and EITC.

Average income figures rounded to the nearest hundred dollars, tax figures rounded to the nearest ten dollars.

Source: Institute on Taxation and Economic Policy (ITEP) tax microsimulation model, December 2012 and January 2013.