Citizens for Tax Justice

Revised March 18, 2009
Contact: Steve Wamhoff
(202) 299-1066 x33

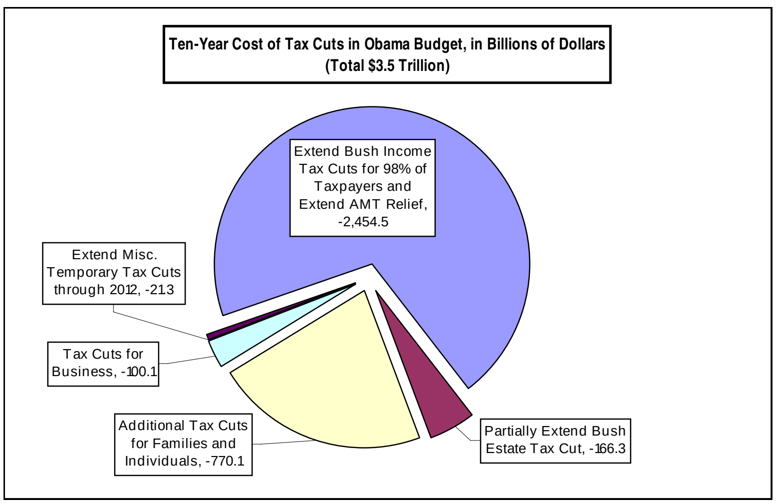
Tax Proposals in President Obama's First Budget

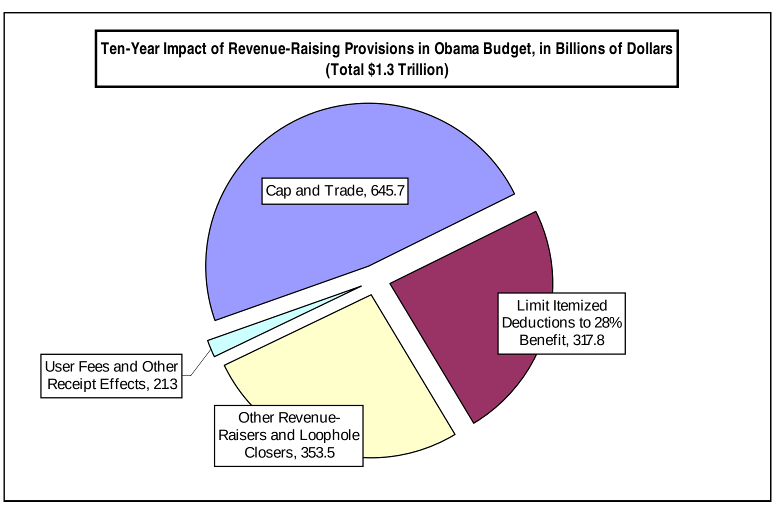
Budget Proposal Includes Significant Progressive Initiatives & Tax Reforms, But Revenues Fall Short (State-by-State Figures in Appendix)

On February 26, President Obama sent to Congress the blueprint for what could be one of the most progressive federal budgets in generations. The budget calls for national health care reform, expanded education funding, a program to reduce global warming, and several improvements in human needs programs. It would make the tax code considerably more progressive, and close a number of egregious tax loopholes.

But there is a huge flaw in the budget proposal: It does not raise enough revenue to pay for public services. Instead, its net effect is to cut taxes dramatically.

Over the upcoming decade, the Obama plan includes $3.5 trillion in tax cuts, offset in part by $1.3 trillion in tax increases. This leaves an enormous net tax reduction of $2.2 trillion.





Sources: Obama budget plan, Feb. 26, 2009, tables S5 and S6, with calculations by Citizens for Tax Justice, March 4, 2009.

Obama's largest proposed tax cut is to re-enact 80 percent of the Bush tax cuts that are scheduled to expire at the end of 2010. Most of this reflects re-enacting the Bush income tax cuts for married couples with incomes below $250,000 and others with incomes below $200,000 (or put another way, for about 98 percent of taxpayers), and permanently reducing the Alternative Minimum Tax (AMT). In addition, Obama proposes to re-enact close to half of the Bush estate tax cut.

On top of re-enacting most of the Bush tax cuts, the Obama budget includes a number of additional tax cuts for families and individuals. (These would be extensions of temporary tax cuts included in the recently passed stimulus law.) It also proposes some questionable business tax cuts.

Partially offsetting its tax-cut proposals, the Obama budget proposes some significant revenue-raising provisions. These include a cap-and-trade program to reduce carbon emissions, a limit on the benefits of itemized deductions for high-bracket taxpayers, and a number of corporate and high-income loophole-closing measures.

The table to the right shows how the combined elements of the Obama tax proposals (and his cap-and-trade proposal) would impact taxpayers in various income groups if they were all in effect in 2011.[1] In every income group except the top one percent, taxes would be cut substantially, on average by 1.8 to 2.7 percent of income. Taxpayers in the top income group would face a small tax increase, equal to 0.1 percent of their income.

As a result of these tax changes, the tax code would become considerably more progressive. Because the tax cuts for most people are debt-financed, however, these improvements may be transitory, depending on how the tax cuts are eventually paid for.

Tax Changes from the Obama Tax Proposals by Income Group in 2011

Income Group	Average Income	Average Tax Change	Tax Change / Income
Lowest 20%	$ 12,850	$ –276	–2.1%
Second 20%	25,867	–510	–2.0%
Middle 20%	41,875	–740	–1.8%
Fourth 20%	68,769	–1,332	–1.9%
Next 10%	105,120	–2,837	–2.7%
Next 5%	148,615	–3,550	–2.4%
Next 4%	261,424	–5,707	–2.2%
Top 1%	1,467,185	+1,780	+0.1%
ALL	**$ 71,803**	**$ –1,226**	**–1.7%**
Bottom 60%	$ 26,863	$ –508	–1.9%

I. Tax Cuts in the President's Budget Proposal

A. Making the Bush Income Tax Cuts Permanent for about 98 Percent of Taxpayers
Ten-Year Cost: $2.455 Trillion

Opponents of the President have attempted to argue that the budget proposal calls for tax increases that could sink the economy, but this complaint is plainly unfounded.

At the end of the Clinton years, taxes were higher than they are now, and the economy was obviously performing better than it is today. Real median household income, which grew during the Clinton years, fell in the Bush years. The poverty rate, which declined under Clinton, inched back up during the Bush years. Unemployment, which fell under Clinton, rose under Bush. And, of course, Clinton's balanced budgets turned into giant deficits under Bush. And all of this happened before the recent collapse of the financial industry and its repercussions. So it's awfully difficult to see how the Bush tax cuts resulted in the explosion of prosperity that was promised.

Impact of Extending Bush Income Tax Cuts (with AMT Reduction) for Taxpayers under $200K ($250K if Married), in 2011

Income Group	Average Income	Average Tax Cut	Share of Tax Cut
Lowest 20%	$ 12,850	$ –97	1.3%
Second 20%	25,867	–475	6.4%
Middle 20%	41,875	–800	10.8%
Fourth 20%	68,769	–1,464	19.8%
Next 10%	105,120	–2,945	19.9%
Next 5%	148,615	–4,303	14.6%
Next 4%	261,424	–7,030	19.0%
Top 1%	1,467,185	–12,123	8.2%
ALL	**$ 71,803**	**$ –1,459**	**100.0%**
Bottom 60%	26,863	–457	18.5%

Source: ITEP Microsimulation Model, March 2009

But President Bush and his allies in Congress were adamant that lower taxes are good for the economy, and they enacted tax cuts in 2001, 2002, 2003, 2004 and 2006. Some allies of the former President argue that Congress is now insufficiently focused on tax cuts, but this view seems bizarre and incredible given the sad economic facts all around us.

Indeed, one might then reasonably conclude that we could safely allow most of the Bush tax cuts to expire at the end of 2010, as they are scheduled to under current law, without any concern about how this will impact the economy.

[1] The President's budget proposes that the cap-and-trade program will take effect in 2012. For consistency, we show its effect as if it were in place in 2011.

However, President Obama has not taken this approach. The new President has proposed, during his election campaign and in his new budget document, to make the Bush income tax cuts permanent for about 98 percent of taxpayers. (He also offers his additional tax cut proposals to benefit 95 percent of taxpayers.)

In light of all of this, the claim made by anti-tax lawmakers and allies of the former President that this budget raises taxes to unacceptable levels is quite astounding.

Obama's proposal would extend all of the Bush income tax cuts for taxpayers with income below $200,000 ($250,000 if married). It would also make permanent the AMT relief that has been enacted periodically over the past eight years to keep the AMT from affecting large numbers of upper-middle-income families. (The benefits of AMT relief go mostly to the best-off ten percent of taxpayers — excluding the best-off one percent. Virtually none of the benefits go to the poorest 60 percent.)

The above table shows that extending the Bush income tax cuts and AMT relief is not particularly progressive, since the poorest 60 percent of taxpayers would only receive 18.5 percent of the benefits in 2011. In fact, the Bush tax cut for dividends that Obama would mostly extend (capping the tax rate at 20 percent versus Bush's 15 percent cap) would primarily benefit taxpayers with income above $200,000.

(For more details on what income tax provisions would be affected by Obama's extension of the Bush tax cuts, see Appendix II.)

B. Partially Extending the Bush Estate Tax Cut
Ten-Year Cost: $166 Billion

Under the tax cut enacted by President Bush in 2001, the federal estate tax has been gradually reduced over the decade. (The exemption for estates has gradually increased while the top estate tax rate has gradually decreased). In 2010, the estate tax is scheduled to be completely repealed. Like almost all of the Bush tax cuts, the cuts in the estate tax expire at the end of 2010. If Congress simply does nothing, the federal estate tax will be repealed for 2010 but then return in 2011, with exemptions at levels scheduled during the Clinton years ($1 million per decedent; $2 million for couples).

President Obama has proposed to maintain the estate tax at the level it has been reduced to this year (2009). This change would prevent the estate tax from disappearing in 2010, but would also unnecessarily cut the estate tax far below the level it would otherwise reach in years after 2010 if Congress simply does nothing.

The figures below show that about 0.9 percent of deaths in 2005 resulted in estate tax liability in 2006. (Usually the estate tax is paid in the year after the year in which a person dies.) They also show that only 0.7 percent of deaths in 2006 resulted in estate tax liability in 2007. The decrease is explained by the fact that the exemption increased, as scheduled under the 2001 law, between these two years. In 2005, the first $1.5 million (per spouse) in the value of an estate was not taxed, while in 2006 that exemption was $2 million (per spouse).

In 2009 the per-spouse exemption increased to $3.5 million, meaning even fewer estates will be subject to the tax this year. President Obama proposes to make permanent the estate tax rules that will be in effect in 2009 under current law, including the $3.5 million per-spouse exemption and a 45 percent top tax rate on the largest estates. This would be a improvement in 2010 only, since it

Number of Estates Owing Federal Estate Taxes in 2006 and 2007 by State

	# of Estates Owing Tax		% of Estates Owing Tax			# of Estates Owing Tax		% of Estates Owing Tax	
	2006	2007	2006	2007		2006	2007	2006	2007
Total United States	**22,798**	**17,416**	**0.9%**	**0.7%**	Missouri	371	222	0.7%	0.4%
Alabama	219	189	0.5%	0.4%	Montana	92	80	1.1%	0.9%
Alaska	*	*	*	*	Nebraska	62	58	0.4%	0.4%
Arizona	371	287	0.8%	0.6%	Nevada	144	119	0.8%	0.6%
Arkansas	142	82	0.5%	0.3%	New Hampshire	131	96	1.3%	1.0%
California	4,492	3,637	1.9%	1.5%	New Jersey	739	569	1.0%	0.8%
Colorado	210	180	0.7%	0.6%	New Mexico	75	101	0.5%	0.7%
Connecticut	399	393	1.4%	1.3%	New York	1,750	1,339	1.1%	0.9%
Delaware	83	36	1.1%	0.5%	North Carolina	523	379	0.7%	0.5%
District of Columbia	44	76	0.8%	1.4%	North Dakota	*	*	*	*
Florida	2,482	1,667	1.5%	1.0%	Ohio	790	425	0.7%	0.4%
Georgia	429	333	0.6%	0.5%	Oklahoma	196	180	0.5%	0.5%
Hawaii	131	75	1.4%	0.8%	Oregon	290	111	0.9%	0.4%
Idaho	48	76	0.5%	0.7%	Pennsylvania	732	578	0.6%	0.5%
Illinois	1,120	907	1.1%	0.9%	Rhode Island	111	40	1.1%	0.4%
Indiana	270	196	0.5%	0.4%	South Carolina	272	150	0.7%	0.4%
Iowa	237	158	0.9%	0.6%	South Dakota	46	51	0.6%	0.7%
Kansas	191	102	0.8%	0.4%	Tennessee	204	156	0.4%	0.3%
Kentucky	160	78	0.4%	0.2%	Texas	1,082	906	0.7%	0.6%
Louisiana	198	162	0.4%	0.4%	Utah	66	34	0.5%	0.2%
Maine	116	93	0.9%	0.8%	Vermont	47	65	0.9%	1.3%
Maryland	542	371	1.2%	0.9%	Virginia	657	573	1.1%	1.0%
Massachusetts	606	455	1.1%	0.9%	Washington	472	384	1.0%	0.8%
Michigan	551	480	0.6%	0.6%	West Virginia	163	76	0.8%	0.4%
Minnesota	230	221	0.6%	0.6%	Wisconsin	232	291	0.5%	0.6%
Mississippi	106	41	0.4%	0.1%	Wyoming	*	39	*	0.9%

* No estate tax figures are provided by IRS for these states in some years due to privacy concerns. These excluded figures are, however, included in the national totals.
Sources: IRS and Centers for Disease Control and Prevention.

would prevent the estate tax from disappearing in that year. But it would be a regressive and costly giveaway to the very wealthiest families in America thereafter, compared to the $1 million per spouse exemption and a 55 percent top tax rate that would apply under current law starting in 2011.

As Warren Buffet noted in his testimony before the Senate Finance Committee, in 2007 you would have had to "attend 200 funerals to be at one at which the decedent's estate owed a tax." But too many lawmakers ignore the truth about the estate tax. For example, some say the "death tax" causes family farmers to lose their land — a claim that has never been backed up with even one real-life example. The truth is that family farms and other closely-held businesses get additional tax breaks under the Clinton-era estate tax rules (in addition to the exemptions and deductions all estates get), including a provision that allows the tax to be paid over 14 years. The estate tax does only what it was always intended to do — reduce extreme concentration of wealth in the hands of a few super wealthy families and ask these families to contribute to the society that made their wealth possible.

C. Additional Tax Cuts for Families and Individuals
Ten-Year Cost: $770 Billion

The stimulus bill signed into law on February 17, the American Recovery and Reinvestment Tax Act of 2009 (ARRA), included several tax breaks targeting low- and middle-income families. The president's budget outline proposes to make permanent several of these.

1. Making Work Pay Credit

The ARRA introduced a new tax cut, the "Making Work Pay" tax credit, for 2009 and 2010. The credit is 6.2% of earned income (such as wages and self-employment income), up to a maximum credit of

$400 (twice that for married joint filers). It is the equivalent of a refund of Social Security taxes paid on that income. The MWPC is phased out at a rate of 2 cents for every dollar of income over $75,000 (or $150,000 for married couples). Obama's budget proposes to extend the MWPC permanently.

The MWPC was included in the ARRA with the idea that putting extra cash in the hands of middle-income families would boost consumption and help stimulate demand for goods and services to mitigate the recession. The Obama Administration has argued that it makes sense to make the MWPC permanent as a way to offset the increased cost of goods and services that will likely result from efforts to curb global warming (as explained further on in the section on the President's cap-and-trade proposal).

Impact of Additional Tax Cuts for Families (MWPC, EITC, and CTC Combined) in 2011

Income Group	Average Income	Average Tax Cut	Share of Tax Cut
Lowest 20%	$ 12,850	$ –393	17.0%
Second 20%	25,867	–443	19.1%
Middle 20%	41,875	–469	20.3%
Fourth 20%	68,769	–548	23.7%
Next 10%	105,120	–590	12.7%
Next 5%	148,615	–576	6.2%
Next 4%	261,424	–96	0.8%
Top 1%	1,467,185	–5	0.0%
ALL	**$ 71,803**	**$ –456**	**100.0%**
Bottom 60%	$ 26,863	$ –435	56.3%

Source: ITEP Microsimulation Model, March 2009

Figures do not include impact of American Opportunity Credit or Savers' Credit

2. Earned Income Tax Credit

Under prior law, the maximum Earned Income Tax Credit (EITC) for families with children was 34 percent for those with one child and 40 percent for those with two or more children. The expansion that was enacted in the ARRA in 2009 increased the amount of EITC available to families with three or more children to 45 percent for 2009 and 2010. The ARRA also increased the additional EITC benefit available low-income married couples (further decreasing the "marriage penalty"). Under the President's budget, the expansion in the EITC would be made permanent.

3. Refundability of Child Tax Credit

Before the ARRA expanded the refundability of the Child Tax Credit (CTC), a parent earning less than $12,550 could not benefit from the $1,000 per-child credit because the refundable portion of the CTC was limited to 15 percent of earnings above $12,550. The ARRA reduced the earnings threshold from $12,550 to $3,000, making more working families eligible for the refundable portion of the credit. This provision was enacted for only two years but Obama's budget would make this change permanent.

4. American Opportunity Tax Credit

The ARRA enacted an expansion of the HOPE credit for higher education, called the American Opportunity Tax Credit (AOTC). For 2009 and 2010 only, the AOTC allows a credit of 100 percent

Impact of Selected Components of the Additional Tax Cuts for Families in 2011

		Making Work Pay Credit (MWPC)		Earned Income Tax Credit (EITC)		Child Tax Credit (EITC)	
Income Group	Average Income	Average Tax Cut	Share of Tax Cut	Average Tax Cut	Share of Tax Cut	Average Tax Cut	Share of Tax Cut
Lowest 20%	$ 12,850	$ –249	12.6%	$ –9	11.0%	$ –134	53.3%
Second 20%	25,867	–322	16.2%	–34	42.6%	–86	34.3%
Middle 20%	41,875	–409	20.6%	–34	42.1%	–26	10.3%
Fourth 20%	68,769	–541	27.3%	–3	3.8%	–4	1.7%
Next 10%	105,120	–588	14.8%	—	0.0%	—	0.0%
Next 5%	148,615	–575	7.3%	—	0.0%	—	0.0%
Next 4%	261,424	–96	1.0%	—	0.0%	—	0.0%
Top 1%	1,467,185	–5	0.0%	—	0.0%	—	0.0%
ALL	**$ 71,803**	**$ –391**	**100.0%**	**$ –16**	**100.0%**	**$ –50**	**100.0%**
Bottom 60%	$ 26,863	$ –327	49.5%	$ –26	95.7%	$ –82	97.8%

Source: ITEP Microsimulation Model, March 2009 of the first $2,000 spent on higher education and 25 percent of the next $2,000; the maximum credit is $2,500. The provision allows the credit for the first four years of post-secondary education (compared to only the first two years under prior law). The provision also allows the credit to be used for amounts paid for course materials (in addition to tuition and fees) and makes 40 percent of the credit refundable. The President's Budget would make the AOTC provisions permanent.

D. Tax Cuts for Business
Ten-Year Cost: $100 Billion

The business tax cuts included in the President's budget are unlikely to provide very much benefit to the economy or to Americans generally, but fortunately the resulting revenue loss will be small relative to the rest of the budget proposal. The largest of the tax cuts in this category are the permanent research and experimentation credit and the 5-year carryback of net operating losses (NOLs).

1. Make the Research and Experimentation Tax Credit Permanent

Under current law, businesses can take a credit against their tax for increasing their research and experimentation. This credit is scheduled to expire at the end of 2009, but it is on the list of provisions that Congress extends every year. Making the credit permanent would avoid the perennial extension and would make the budget honestly reflect that the R&E Credit will cost the government revenue in every year for the next decade, instead of just this year. This is an improvement in terms of budget transparency, but the benefit of the credit itself is highly questionable.

The R&E credit, introduced during the Reagan administration, has been the subject of many tax scandals as companies have tried, often successfully, to treat activities that are obviously not scientific research — such as hamburger recipes or accounting software — as qualified R&E. In fact early in the Bush administration, the Treasury Department tried to redefine "research and experimentation" to require neither. That effort didn't succeed, but in 2004 Congress enacted a major expansion of the R&E credit, although only through the end of 2005. So every year, Congress votes to "extend" the tax credit.

The R&E credit has a curious following among politicians who normally style themselves as free-market advocates, but who nevertheless maintain that big business needs to be subsidized to do research. The fact that the tax breaks from the R&E credit are narrowly concentrated on a relative handful of very large corporations probably explains the intensity of the lobbying to keep extending this tax break, and perhaps the enthusiasm in Congress for doing so.

The price of this tax break ranges from $7 to 10 billion per year. There is little persuasive evidence that the credit actually encourages research. Instead, it is a federal subsidy to companies for research they likely would have undertaken anyway, and for non-research activities that companies call "research."

2. Expand the 5-Year Carryback for Net Operating Losses (NOLs)

As a general rule, a company operating at a loss (for tax purposes) in a given year will not have to pay taxes for that year, because its deductions will wipe out its taxable income. Under current law, if a company has excess deductions for net operating losses (NOLs) beyond its taxable income for the year, it can apply those excess deductions not only against earnings in later years, but also against income taxed in the previous two years. That allows it to get previously paid taxes refunded.

The ARRA includes a provision that allows a company to apply these excess deductions against income that was taxed in the previous 5 years (instead of just the previous 2 years). The ARRA restricted this break to businesses with less than $15 million in annual revenue, but the Obama Administration appears to want to expand this break.

There is no reason to think this change would lead to greater investment or to the creation or retention of jobs. Allowing a company to use its current year losses to get a refund of taxes paid in the past does not lower the costs of doing business or make it easier to profit. It would simply hand cash to business-owners who are not profiting currently. Smart business people will expand their business only if they can profit by doing so, regardless of how much cash they have on hand. A business owner is likely to lay off workers if she cannot earn enough to cover expenses and enjoy a profit. Simply giving the business owner some cash with no strings attached will not change that.

Worse, this provision funnels tax cuts to the financial and construction industries, which many analysts believe played a significant part in inflating the housing bubble that turned into the current recession.

II. Revenue-Raising Provisions in the President's Budget Proposal

A. "Cap-and-Trade" Emissions Reduction Program
Ten-Year Revenue Gain: $646 Billion

Environmental experts have long argued that Congress should enact either a tax on emissions that cause global warming or a "cap-and-trade" program in which a limited number of permits would be allocated to industries that emit global warming gasses. In theory, both would have the same effect of increasing the price of most goods and services, either directly or indirectly, but would have the beneficial effect of encouraging consumers and industry to use alternative energy sources.

President Obama has proposed in his budget that Congress take the latter approach and enact a cap-and-trade system. Importantly, the President proposes to have 100 percent of the permits auctioned off to the firms that need to pollute to produce their goods or services. Most previous proposals would have given a significant number of the permits away to corporations for free, which would create a massive windfall for polluters.

The system will successfully reduce greenhouse gasses only if the number of permits auctioned off is sufficiently limited. Limiting the permits makes the permits more valuable, increasing the costs of anything that cannot be provided without greenhouse gas emissions. This extra cost would likely be passed along to consumers in the form of higher prices, meaning it could have the same effect as a carbon tax.

Such a tax would have a distributional impact similar to that of any other consumption tax. This means the poor would see a larger fraction of their total income eaten up by it than the wealthy, who are likely to devote most of their income to savings rather than consumption.

The President's budget document explicitly states that this regressive impact on poor and working class families can be mitigated by the Making Work Pay Credit (MWPC) which is more targeted towards the middle-class than many other types of tax cuts. The President proposes that most of the revenues from auctioning off emissions permits be reserved to fund the MWPC.

B. Limitation on Tax Benefit of Itemized Deductions to 28 Percent for Wealthy Taxpayers
Ten-Year Revenue Gain: $318 Billion

The President's budget includes a proposal to limit the tax benefit of itemized deductions to help pay for health care reform. The proposal would limit the tax rate at which higher-income taxpayers can take those deductions to 28 percent.

The tax benefit of itemized deductions depends on the individual's tax bracket — the higher the bracket, the more the deduction is worth. Under current law, that rate may be as high as 39.6 percent (in years after 2010, since the Bush tax cuts are scheduled to expire then). The Obama administration says that limiting the tax benefit to 28 percent will raise $318 billion through 2019 (although this estimate seems high to us).

The nearby table illustrates that this tax increase would mainly impact those who have benefitted the most from the tax policies of former President Bush — the richest one percent of taxpayers.

Impact of Proposal to Limit Benefit of Itemized Deductions to 28%, in 2011

Income Group	Average Income	Average Tax Increase	Share of Tax Increase
Lowest 20%	$ 12,850	$ 0	0.0%
Second 20%	25,867	0	0.0%
Middle 20%	41,875	0	0.0%
Fourth 20%	68,769	3	0.4%
Next 10%	105,120	1	0.1%
Next 5%	148,615	17	0.6%
Next 4%	261,424	371	10.8%
Top 1%	1,467,185	12,064	88.0%
ALL	**$ 71,803**	**$ 135**	**100.0%**
Bottom 60%	$ 26,863	$ 0	0.0%

Source: ITEP Microsimulation Model, March 2009

C. Other Revenue-Raisers and Loophole-Closers
Ten-Year Revenue Gain: $354 Billion

1. International Tax Reform

In the President's Budget Blueprint, there is a line item entitled "Implement international enforcement, reform deferral, and other tax reform policies," which is shown in the budget as raising $210 billion in revenue over ten years. This is an extremely encouraging sign, even though we do not yet have details.

There is an enormous amount of tax revenues lost each year as a result of aggressive income-shifting to tax-haven countries by U.S. multinational corporations, by taxpayers using various off-shore techniques to defer income tax or create artificial losses, and by businesses and individuals using bank secrecy laws in tax haven countries to hide assets and income from the I.R.S. This "international tax gap" is estimated to cost the federal government $100 billion per year. There are plenty of loopholes in the current international tax regime that need to be closed, and it is heartening that the Obama administration has put these kinds of essential tax reforms on the agenda.

2. Repeal LIFO Inventory Rules

The budget includes a provision to repeal the "last-in, first-out" method of accounting for inventories. This accounting method allows companies to deduct the higher cost of recently acquired or produced inventory, rather than the lower cost of older inventory.

For example, we normally think of profit this way: You buy something for $30 and sell it for $50 and your profit is $20 (ignoring any other expenses). But corporations, notably oil companies, use an accounting method that doesn't fit this picture. They might buy oil for $30 a barrel, and when the price rises they might buy some more for $45 a barrel. But when they sell a barrel of oil for $50, they get to assume that they sold the very last barrel they bought, the one that cost $45. That means the profit they report to the IRS is $5 instead of $20. This "last-in, first-out" rule (LIFO) has been in place for decades, and critics have long called for its repeal. In 2005, the then-Republican-led Senate tried to repeal it for oil and gas companies. (The provision was dropped from the tax bill in conference, so oil companies still get to use LIFO.)

Repealing LIFO would greatly simplify the tax rules related to accounting for inventories. This provision, which would not be effective until 2012, would raise $61 billion over eight years.

3. Tax “Carried Interest” as Ordinary Income
Some businesses, primarily private equity, real estate, and venture capital, use a technique called a “carried interest” to compensate their managers. Instead of receiving wages, the managers get a share of the profits from investments that they manage without having to invest their own money. The tax effect of this arrangement is that the managers are paying capital gains taxes of 15 percent on their compensation instead of the ordinary income tax rates (up to 35 percent) that the rest of us pay.

Income in the form of carried interest can run into the hundreds of millions (or even in excess of a billion dollars) a year for individual fund managers. How do we know that “carried interest” is compensation, and not capital gain? There are several reasons:

The fund managers don’t invest their own money. They get a share of the profits in exchange for their financial expertise. If the fund loses money, the managers can walk away without any cost.

A “carried interest” is much like executive stock options. When corporate executives get stock options, it gives them the right to buy their company’s stock at a fixed price. If the stock goes up in value, the executives can cash in the options and pocket the difference. If the stock declines, then the executives get nothing. But they never have a loss. When corporate executives make money from their stock options, they pay both income taxes at the regular rates and payroll taxes on their earnings.

Private equity managers (sometimes) even admit that “carried interest” is compensation. In a filing with the Securities and Exchange Commission in connection with taking its management partnership public, the Blackstone Group, a leading private equity firm, had this to say about its activities (in order to avoid regulation under the Investment Act of 1940):

> “We believe that we are engaged primarily in the business of asset management and financial advisory services and not in the business of investing, reinvesting, or trading in securities.
>
> “We also believe that the primary source of income from each of our businesses is properly characterized as income earned in exchange for the provision of services.”

The President’s budget proposes to close this loophole, raising revenue of $2.7 billion in 2011 alone and almost $24 billion over ten years.

4. Eliminate Oil and Gas Company Tax Breaks
The budget proposal takes aim at several tax provisions that benefit only the oil and gas industry. The President’s proposal includes repeal of the deduction for tertiary injectants, the enhanced oil recovery credit, and the marginal well tax credit. For independent producers, it would also increase the write-off period for geological and geophysical costs from two to seven years. The toughest battle will be over other big tax breaks — described below — that oil and gas companies currently enjoy. The oil companies and their lobbyists are already mobilizing to fight these changes.

Levy Excise Taxes on Gulf of Mexico Oil and Gas
The President’s budget proposes to enact a 13 percent federal severance tax on oil and gas extracted from federal submerged lands on the outer continental shelf in the Gulf of Mexico, beginning in 2011. The new tax would raise $5.3 billion in revenue, primarily affecting companies that are not paying any royalties due to a loophole in leases granted in previous years. Producers who already pay royalties will receive a credit for those royalties against the excise tax.

Repeal Expensing of Intangible Drilling Costs
The "intangible" costs of exploration and development include wages, costs of using equipment for drilling, and the costs of materials that get used up during the process of building wells. Most businesses write off such expenses over the useful life of the property, but oil companies, thanks to their lobbying clout, get to deduct these expenses immediately. Repealing this oil-and-gas tax break would raise $3.3 billion over ten years.

Bar Oil and Gas Companies from Using the Manufacturing Tax Deduction
The manufacturing tax deduction was added to the law in 2004 and allows companies to deduct 9 percent of their net income from domestic production. In effect, a company's taxable income (which has already been reduced by all of its expenses) is reduced by another 9 percent if all of the company's income is from domestic manufacturing. Some might wonder why oil and gas companies could use a deduction for "manufacturing" in the first place. Congress specifically included "extraction" in the definition of manufacturing so that it included oil and gas production, obviously at the behest of the industry. This provision would raise $13.2 billion over 10 years.

Repeal Percentage Depletion for Oil and Natural Gas
Most businesses must write off the actual costs of property over its useful life (until it wears out). If oil companies had to do the same, they would write off the cost of oil fields until the oil was depleted. Instead, percentage depletion allows certain types of oil and gas producers to simply deduct a flat percentage of gross revenues — 15 percent in the case of oil and 22 percent in the case of natural gas. The percentage depletion deductions continue even after all of the costs of the property have been written off. The Energy Policy Act of 2005 actually expanded this provision to allow more companies to enjoy it. Repealing this special-interest tax break would raise $8.3 billion in revenue over the next ten years.

Repeal Passive Loss Exception for Oil and Gas Working Interests
The passive loss rules were enacted in the 1986 Tax Reform Act to keep taxpayers from deducting tax shelter losses. In general, the passive loss rules prevent a taxpayer from offsetting other income with losses from a business in which the taxpayer does not "materially participate." When the passive loss rules were enacted, Congress created an exception from the rules for working interests in oil and gas properties — meaning the oil and gas lobby scored a major victory for its investors. Repealing this exception would generate $1.2 billion over ten years.

To better understand how outrageous some of these tax breaks for the energy industry truly are, just imagine that you could take advantage of them when you file your own taxes. When filling out your 1040, you would reduce your gross income by 15 percent right off the top. You would get to expense, rather than depreciate or deplete, many of your capital expenditures. You would deduct your losses, even if you were just a passive investor in an oil and gas tax shelter. Then, after making all the adjustments, deducting your itemized deductions and personal exemptions, you would get to reduce your taxable income by another 9 percent.

Of course an individual taxpayer cannot enjoy these benefits, but they are available for the energy companies that have raked in record-breaking profits over the last few years. Repealing these special rules — subsidies to the industry paid for by everyone else — would raise $31.5 billion.

5. Other Revenue-Raising Provisions

Codify the "Economic Substance Doctrine"
The "economic substance doctrine" has been developed over the years by courts to disallow losses or deductions that have no economic substance apart from their tax benefits. Unfortunately, courts do not apply the doctrine uniformly. The budget proposal would put the economic substance

doctrine into the Internal Revenue Code, disallowing losses, deductions, or credits arising from "tax avoidance transactions," for example, where the present value of the tax savings far exceeds the present value of the pre-tax profits.

Tax avoidance transactions rely upon the interaction of highly technical provisions of the Internal Revenue Code to produce a tax result not contemplated by Congress. In developing the tax laws, Congress cannot possibly foresee all the ways the rules might be abused. But tax lawyers figure it out for their wealthy clients — at fees upwards of $500 per hour. If the economic substance doctrine is codified, taxpayers would be required to show that a transaction had a substantial non-tax purpose and had real economic consequences apart from the federal tax benefits. This provision is estimated to raise almost $5 billion over the next ten years.

Information Reporting for Rental Payments
Taxpayers under-report their rental income, costing tax revenues in excess of $300 million per year. The budget proposal would require certain payers of rental income to report those payments to the IRS so the IRS can make sure the recipients of those payments are reporting and paying tax on the income.

Reinstate Superfund Taxes
In 1980, Congress passed legislation (the Comprehensive Environmental Response, Compensation, and Liability Act, known as "CERCLA" or more commonly, the "Superfund") to provide broad federal authority to clean up hazardous substances that may endanger public health or the environment. The program was funded by three Superfund taxes: a petroleum tax, a chemical feedstock tax, and a corporate environmental income tax (0.12% on corporate profits over $2 million). The taxes expired in 1995, and the fund was depleted in 2003. Since that time, clean up has been funded out of the general revenues of the federal government. The President's budget would reinstate the Superfund Taxes.

Appendix I: Detailed Revenue Impacts of Tax Proposals in President Obama's Budget

President Obama's Tax Proposals, February 26, 2009 *

fiscal years, $-billions	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2009-19
Expiring Bush tax cuts reenacted												
Reenact all Bush personal income tax cuts for everyone except the very	–0.3	–8.0	–130.2	–172.4	–190.1	–207.5	–219.1	–226.1	–233.0	–241.4	–250.5	–1,878.6
Extend AMT relief (indexed)	—	–14.7	–71.6	–34.0	–39.2	–46.1	–54.3	–63.1	–72.6	–83.9	–96.3	–575.9
Maintain 2009 Bush estate tax cuts	—	+2.9	+4.6	–12.6	–16.1	–19.6	–21.6	–23.4	–25.0	–26.8	–28.7	–166.3
Total expiring Bush tax cuts reenacted (80% of total Bush tax	**–0.3**	**–19.8**	**–197.2**	**–219.1**	**–245.4**	**–273.3**	**–294.9**	**–312.5**	**–330.7**	**–352.1**	**–375.5**	**–2,620.8**
Additional tax cuts for families and individuals:												
Provide Making Work Pay Tax Credit	—	—	–11.0	–63.7	–64.1	–64.7	–65.3	–66.0	–66.7	–67.3	–68.0	–536.7
Expand Earned Income Tax Credit	—	—	–0.0	–4.0	–4.0	–4.0	–4.0	–4.1	–4.2	–4.3	–4.4	–32.9
Expand refundability of the Child Tax Credit	—	—	—	–8.7	–8.6	–8.6	–8.7	–8.8	–8.9	–9.0	–9.1	–70.5
Expand saver's credit and automatic enrollment in IRAs and 401(k)s	—	—	–0.3	–3.0	–4.7	–5.9	–6.9	–7.7	–8.4	–8.9	–9.4	–55.2
Provide American Opportunity Tax Credit	—	—	–0.9	–6.8	–7.5	–8.1	–9.2	–10.0	–10.3	–10.6	–11.3	–74.9
Total, additional tax cuts for families and individuals	**—**	**—**	**–12.2**	**–86.2**	**–88.9**	**–91.3**	**–94.1**	**–96.6**	**–98.4**	**–100.2**	**–102.2**	**–770.1**
Tax cuts for businesses:												
Eliminate capital gains taxation on small businesses	—	—	—	—	—	–0.3	–0.7	–1.0	–1.3	–1.7	–2.1	–7.2
Make research and experimentation tax credit permanent	—	–3.1	–5.5	–6.1	–6.8	–7.4	–8.0	–8.5	–9.1	–9.7	–10.3	–74.5
Expand net operating loss carryback	–27.8	–35.7	+10.7	+10.2	+7.9	+5.6	+3.9	+2.7	+1.8	+1.3	+0.9	–18.5
Modify budget treatment of aviation financing (no net budget effect)	—	—	—	—	—	—	—	—	—	—	—	—
Total, tax cuts for businesses	**–27.8**	**–38.8**	**+5.2**	**+4.1**	**+1.1**	**–2.1**	**–4.8**	**–6.9**	**–8.6**	**–10.1**	**–11.5**	**–100.1**
Continue remaining expiring provisions through calendar year	**–0.7**	**–10.2**	**–5.1**	**–0.6**	**–0.6**	**–0.6**	**–0.8**	**–0.9**	**–0.6**	**–0.6**	**–0.7**	**–21.3**
Other revenue changes and loophole closers:												
Reinstate Superfund Taxes	—	—	+1.2	+1.7	+1.8	+1.9	+2.0	+2.0	+2.1	+2.2	+2.3	+17.2
Tax carried interest as ordinary income	—	—	+2.7	+4.3	+4.2	+3.5	+2.8	+2.2	+1.7	+1.4	+1.1	+23.9
Codify "Economic Substance Doctrine"	+0.0	+0.1	+0.1	+0.2	+0.3	+0.4	+0.6	+0.7	+0.7	+0.8	+0.9	+5.0
Repeal LIFO inventory rules	—	—	—	+3.0	+6.7	+8.1	+8.4	+8.6	+8.5	+8.6	+9.0	+61.1
Implement international enforcement, reform deferral, and other tax refo	—	—	+10.0	+15.0	+20.0	+25.0	+26.0	+27.0	+28.0	+29.0	+30.0	+210.0
Require information reporting for rental payments	—	+0.3	+0.3	+0.4	+0.4	+0.4	+0.4	+0.4	+0.4	+0.5	+0.5	+4.0
Eliminate oil and gas company preferences:												
Levy excise tax on Gulf of Mexico oil and gas (limits excess royalty re	—	—	+0.6	+0.6	+0.5	+0.5	+0.5	+0.5	+0.6	+0.6	+0.7	+5.3
Repeal enhanced oil recovery credit (no effect)	—	—	—	—	—	—	—	—	—	—	—	—
Repeal marginal well tax credit (no effect)	—	—	—	—	—	—	—	—	—	—	—	—
Repeal expensing of intangible drilling costs	—	—	+0.3	+0.6	+0.5	+0.4	+0.3	+0.2	+0.2	+0.3	+0.5	+3.3
Repeal deduction for tertiary injectants	—	—	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.1
Repeal passive loss exception for working interests in oil & gas prope	—	—	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0
Repeal manufacturing tax deduction for oil and natural gas cos.	—	—	+0.8	+1.3	+1.4	+1.5	+1.5	+1.6	+1.7	+1.7	+1.8	+13.3
Increase geological and geophysical amortization period for independent producers to seven years	—	—	+0.0	+0.2	+0.2	+0.2	+0.2	+0.1	+0.1	+0.1	+0.0	+1.2
Repeal percentage depletion for oil and natural gas	—	—	+0.3	+0.8	+0.9	+1.0	+1.0	+1.0	+1.1	+1.1	+1.1	+8.3
Subtotal, eliminate oil and gas company preferences	—	—	*+2.1*	*+3.4*	*+3.6*	*+3.6*	*+3.5*	*+3.5*	*+3.7*	*+3.8*	*+4.2*	*+31.5*
Eliminate Advanced Earned Income Tax Credit	—	+0.6	+0.2	–0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.9
Total, other revenue changes and loophole closers	**+0.0**	**+1.0**	**+16.6**	**+28.0**	**+37.1**	**+42.9**	**+43.7**	**+44.5**	**+45.3**	**+46.3**	**+48.0**	**+353.5**
Cap & trade revenues	**—**	**—**	**—**	**+78.7**	**+79.1**	**+79.7**	**+80.3**	**+81.0**	**+81.7**	**+82.3**	**+83.0**	**+645.7**
Limit itemized deductions to 28% benefit	**—**	**—**	**+11.1**	**+30.8**	**+33.5**	**+35.5**	**+37.3**	**+39.3**	**+41.4**	**+43.4**	**+45.6**	**+317.8**
User fees	**+0.1**	**+0.4**	**+0.5**	**+0.6**	**+0.9**	**+0.8**	**+0.8**	**+0.8**	**+0.8**	**+0.8**	**+0.8**	**+7.2**
Other receipt effects	**—**	**+0.2**	**+1.1**	**+2.0**	**+3.9**	**+6.3**	**+1.2**	**+0.2**	**+0.1**	**–0.8**	**–0.1**	**+14.1**
TOTAL	**–28.7**	**–67.1**	**–179.9**	**–161.7**	**–179.4**	**–202.2**	**–231.4**	**–251.2**	**–269.1**	**–290.9**	**–312.6**	**–2,174.2**

ADDENDUM:	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2009-19
Compare Obama's presentation of his proposed tax changes **	**–28.6**	**–46.2**	**+38.5**	**+98.8**	**+116.2**	**+130.1**	**+129.6**	**+133.1**	**+139.0**	**+144.0**	**+151.7**	**+1,006.1**
Obama differences from conventional accounting:												
Ignore cost of extending most Bush tax cuts & AMT relief	–0.3	–19.8	–197.2	–219.1	–245.4	–273.3	–294.9	–312.5	–330.7	–352.1	–375.5	–2,620.8
Count maintaining current law for high-income Bush tax cuts as tax *inc*	+0.2	–1.1	–28.5	–49.0	–58.2	–67.3	–74.6	–80.6	–86.6	–92.3	–98.6	–636.5
Count aviation fee modification (has no net budget effect) as tax cut	—	—	+7.2	+7.6	+8.0	+8.3	+8.6	+8.9	+9.2	+9.5	+9.9	+77.1
Total difference	**–0.2**	**–20.9**	**–218.4**	**–260.5**	**–295.6**	**–332.3**	**–361.0**	**–384.2**	**–408.1**	**–434.9**	**–464.3**	**–3,180.3**

*This table shows tax changes under the Obama plan in 2011 compared to current 2011 law. Note that under current tax policy, the Bush tax cuts are scheduled to expire at the end of 2010.

**Obama's approach compares 2011 taxes under the his plan to what 2011 taxes would be if the 2009 income tax rules (indexed and including AMT relief but excluding other tax cuts enacted in the 2009 stimulus plan), plus the 2009 estate tax rules and the scheduled 2010 temporary elimination of the itemized deduction disallowance and personal exemption phase-out, remained in effect in 2011. That means compared to 2011 taxes if the Bush income tax cuts and most of the Bush estate tax cut had been extended past their scheduled Dec. 31, 2010 expiration date. President Bush and congressional Republicans proposed a similar change in policy numerous times during the Bush administration, but it was not enacted. Nevertheless, this comparison — which is inconsistent with normal federal budgeting rules — is the one that President Obama and congressional Republicans prefer.

Sources: Obama budget plan, Feb. 26, 2009, tables S5 and S6, with calculations by Citizens for Tax Justice, March 4, 2009.

Appendix II: Details on extending the Bush tax cuts for taxpayers with incomes below $200,000 for singles and $250,000 for couples

Obama's proposal would extend all of the Bush income tax cuts for taxpayers with income below $200,000 ($250,000 if married). Here are some of the details about how the President's proposal would affect various Bush-era income tax rules:

Reduced Income Tax Rates for All but the Top Two Brackets Would Be Made Permanent
The 2001 tax cuts introduced (and the 2003 tax cut extended through 2010) lower income tax rates. President Obama proposes to extend all of them except those for the top two brackets. We assume an adjustment in the brackets to ensure that no one with adjusted gross income (AGI) below $200,000 (or $250,000 for married couples) would have income in the top two brackets.

Bush Income Tax Credits that Benefit Middle and Low-Income Families Made Permanent
The doubling of the child tax credit to $1,000, the expansion of the earned-income tax credit for married couples, and the enhanced dependent-care credit would all be extended permanently.

Elimination of the Personal Exemption Phase-Out (PEPO) Extended Only for the "Non-Rich"
Personal exemptions reduce the amount of income that is considered taxable, but the use of personal exemptions is restricted for wealthy people by the personal exemption phase-out (PEPO). One provision in the Bush tax cuts gradually reduces and eventually repeals (in 2010) PEPO. President Obama proposes to extend this break beyond 2010 but only for those few taxpayers with income below the $200,000/$250,000 threshold who would be impacted by PEP.

Elimination of the Limitation on Itemized Deductions ("Pease") Extended Only for the "Non-Rich"
Itemized deductions also reduce the amount of income that is considered taxable, and the use of itemized deductions is also limited. A provision often called "Pease" (after the Congressman who proposed it) reduced itemized deductions by 3 percent of the amount that a taxpayer's adjusted gross income exceeded a certain threshold ($166,800 for 2009). Under a provision in the Bush tax cuts, this limitation is being phased out and is scheduled to be completely repealed in 2010. President Obama's budget proposal would extend this break beyond 2010 for the taxpayers with incomes below the $200,000/$250,000 threshold who would be impacted by it.

Extension of Lower Rates on Investment Income
In 2003, the Bush tax cuts reduced the top rate on capital gains from 20 percent to 15 percent (the rate had been reduced from 28 percent before 1997). The 2003 bill also reduced the top tax rate on corporate dividends to the 15 percent capital gain tax rate. Previously, dividends had been taxed as ordinary income to individuals, with rates ranging up to 39.6 percent. Obama's budget proposal would maintain this special top rate of 15 percent for capital gains and dividends for taxpayers below the $200,000/$250,000 income threshold (even though these taxpayers have little in the way of this type of income). In addition, the President proposes to extend most of Bush's break for dividends for taxpayers above that income threshold, who would pay taxes on both capital gains and dividends at a top rate of 20 percent.

These preferential rates subsidize people whose income comes from investments rather than wages, as well as the Wall Street brokers who rely on their business. Keeping these loopholes will mean that wage-earners will continue to pay much higher tax rates than those who live off their investments. A better policy would be to eliminate these loopholes entirely and treat capital gains and dividends just like any other income. There is nothing radical about this proposal. In fact, President Reagan signed a tax reform bill in 1986 that subjected this investment income to the same tax rates that applied to all income.

Appendix III: Hypothetical Full Extension of All of the Bush Income Tax Cuts and Estate Tax Repeal

Finally, it's worth noting that the Bush income tax rate cuts for high-income families, the breaks for investment income and the estate tax temporary repeal are proportionately much larger than the Bush tax cuts for low- and middle-income people. The table to the right shows what would happen in a hypothetical scenario in which *all* of the Bush tax cuts, including AMT relief and estate tax repeal, were made permanent for everyone (as Republican leaders have frequently proposed). Clearly the benefits would be heavily concentrated on those at the top of the income scale.

The following pages

Hypothetical Impact of Extending ALL Bush Tax Cuts (with AMT Relief) in 2011

Income Group	Average Income	Average Tax Cut	Share of Tax Cut
Lowest 20%	$ 12,850	$ –97	0.9%
Second 20%	25,867	–475	4.4%
Middle 20%	41,875	–800	7.5%
Fourth 20%	68,769	–1,464	13.7%
Next 10%	105,120	–2,945	13.7%
Next 5%	148,615	–4,303	10.1%
Next 4%	261,424	–7,896	14.8%
Top 1%	1,467,185	–74,802	34.9%
ALL	**$ 71,803**	**$ –2,111**	**100.0%**
Bottom 60%	$ 26,863	$ –457	12.8%

Source: ITEP Microsimulation Model, March 2009

Appendix IV: State-by-State Estimates of Impact of Tax Proposals in President Obama's Budget

The following pages include tables showing the estimated impact of the President's tax proposals in each state, as well as nationally. Because of the uncertainty surrounding how the impacts of the cap and trade proposal would vary by state, these impacts are not included in these figures. The impacts of the cap and trade program (the increased energy costs that would likely be passed on to consumers) would probably be largely offset by the tax cuts that the President proposes for working families. This will be the subject of a future CTJ report.

The figures that follow compare the President's tax proposals to current law, which is the normal way Congress projects the costs and benefits of tax proposals, and also to the baseline that the Obama administration prefers to use. The administration's baseline assumes that the income tax cuts enacted under President Bush are permanent, that the estate tax rules in effect in 2009 are permanent and that a permanent reform has already been made to prevent the Alternative Minimum Tax (AMT) from expanding its reach to more taxpayers.

Tax Proposals in President Obama's Fiscal Year 2010 Budget Impact in 2011, by State, by Income Group[1]

State / Income group	average income	Tax Changes Compared to Current Law[2]: average tax change[4]	Tax Changes Compared to Current Law[2]: tax change as % income	Tax Changes Compared to Administration's Baseline[3]: average tax change[4]	Tax Changes Compared to Administration's Baseline[3]: tax change as % income
United States					
Lowest 20%	$ 12,850	$ –483	–3.8%	$ –387	–3.0%
Second 20%	25,867	–901	–3.5%	–425	–1.6%
Middle 20%	41,875	–1,235	–2.9%	–434	–1.0%
Fourth 20%	68,769	–1,953	–2.8%	–488	–0.7%
Next 10%	105,120	–3,450	–3.3%	–505	–0.5%
Next 5%	148,615	–4,680	–3.1%	–377	–0.3%
Next 4%	261,424	–6,801	–2.6%	+515	+0.2%
Top 1%	1,467,185	–2,067	–0.1%	+49,343	+3.4%
ALL	**$ 71,803**	**$ –1,761**	**–2.5%**	**$ 96**	**+0.1%**
Bottom 60%	$ 26,863	$ –873	–3.2%	$ –416	–1.5%
Alabama					
Lowest 20%	$ 10,495	$ –444	–4.2%	$ –415	–4.0%
Second 20%	20,679	–973	–4.7%	–544	–2.6%
Middle 20%	34,995	–1,318	–3.8%	–520	–1.5%
Fourth 20%	60,094	–1,720	–2.9%	–518	–0.9%
Next 15%	102,792	–3,191	–3.1%	–518	–0.5%
Next 4%	213,517	–5,568	–2.6%	+806	+0.4%
Top 1%	1,054,232	–5,026	–0.5%	+40,591	+3.9%
ALL	**$ 58,979**	**$ –1,623**	**–2.8%**	**$ –40**	**–0.1%**
Bottom 60%	$ 22,056	$ –912	–4.1%	$ –493	–2.2%
Alaska					
Lowest 20%	$ 16,440	$ –604	–3.7%	$ –362	–2.2%
Second 20%	31,551	–1,190	–3.8%	–540	–1.7%
Middle 20%	54,740	–1,837	–3.4%	–539	–1.0%
Fourth 20%	93,478	–2,832	–3.0%	–437	–0.5%
Next 15%	154,094	–4,344	–2.8%	–376	–0.2%
Next 4%	270,809	–6,218	–2.3%	+1,468	+0.5%
Top 1%	1,185,236	–5,881	–0.5%	+44,652	+3.8%
ALL	**$ 83,579**	**$ –2,216**	**–2.7%**	**$ 75**	**+0.1%**
Bottom 60%	$ 34,299	$ –1,212	–3.5%	$ –480	–1.4%
Arizona					
Lowest 20%	$ 13,011	$ –613	–4.7%	$ –478	–3.7%
Second 20%	28,004	–1,193	–4.3%	–543	–1.9%
Middle 20%	42,632	–1,375	–3.2%	–524	–1.2%
Fourth 20%	66,783	–1,846	–2.8%	–498	–0.7%
Next 15%	112,437	–3,548	–3.2%	–453	–0.4%
Next 4%	243,453	–5,626	–2.3%	+1,280	+0.5%
Top 1%	1,294,973	+901	+0.1%	+58,649	+4.5%
ALL	**$ 69,083**	**$ –1,743**	**–2.5%**	**$ 158**	**+0.2%**
Bottom 60%	$ 27,942	$ –1,061	–3.8%	$ –515	–1.8%

[1] President Obama proposes to raise over $646 billion over ten years by auctioning off pollution allowances under a "cap and trade" program, starting in 2012. The increases in energy costs that will result from cap and trade are likely to be passed on to consumers, but the President's tax cuts for working class families are likely to offset most of those increased costs. Because of the uncertainty over how these increased costs vary by state, they are not included in these figures, but will be the subject of a future CTJ analysis.

[2] These columns show tax changes under the Obama plan in 2011 compared to current 2011 law. Note that under current tax policy, the Bush tax cuts are scheduled to expire at the end of 2010.

[3] These columns compare 2011 taxes under the Obama plan to what 2011 taxes would be if the 2009 income tax rules (indexed and including AMT relief but excluding other tax cuts enacted in the 2009 stimulus plan), plus the 2009 estate tax rules and the scheduled 2010 temporary elimination of the itemized deduction disallowance and personal exemption phase-out, remained in effect in 2011. That means compared to 2011 taxes if the Bush income tax cuts and most of the Bush estate tax cut had been extended past their scheduled Dec. 31, 2010 expiration date. President Bush and congressional Republicans proposed a similar change in policy numerous times during the Bush administration, but it was not enacted. Nevertheless, this comparison — which is inconsistent with normal federal budgeting rules — is the one that President Obama and congressional Republicans prefer.

[4] These figures do not include the impact the President's proposals to expand the Savers' Credit or make permanent the American Opportunity Tax Credit due to data limitations. These figures include the impact of the other proposals in the President's plan to change income taxes for families, businesses and corporations and the estate tax.

Source: ITEP Microsimulation Model, March 2009

Tax Proposals in President Obama's Fiscal Year 2010 Budget
Impact in 2011, by State, by Income Group (continued)

		Tax Changes Compared to Current Law		Tax Changes Compared to Administration's Baseline	
	average income	average tax change	tax change as % income	average tax change	tax change as % income
Arkansas					
Lowest 20%	$ 9,177	$ –347	–3.8%	$ –328	–3.6%
Second 20%	20,911	–955	–4.6%	–516	–2.5%
Middle 20%	35,335	–1,505	–4.3%	–589	–1.7%
Fourth 20%	57,664	–1,664	–2.9%	–552	–1.0%
Next 15%	95,972	–2,995	–3.1%	–509	–0.5%
Next 4%	210,171	–5,320	–2.5%	+494	+0.2%
Top 1%	858,207	–13,074	–1.5%	+28,948	+3.4%
ALL	**$ 55,449**	**$ –1,671**	**–3.0%**	**$ –161**	**–0.3%**
Bottom 60%	$ 21,889	$ –940	–4.3%	$ –479	–2.2%
California					
Lowest 20%	$ 13,623	$ –627	–4.6%	$ –470	–3.5%
Second 20%	28,667	–1,157	–4.0%	–551	–1.9%
Middle 20%	46,456	–1,385	–3.0%	–486	–1.0%
Fourth 20%	75,207	–2,003	–2.7%	–458	–0.6%
Next 15%	138,361	–4,131	–3.0%	–329	–0.2%
Next 4%	327,736	–6,761	–2.1%	+2,497	+0.8%
Top 1%	2,043,184	+6,394	+0.3%	+94,899	+4.6%
ALL	**$ 86,242**	**$ –1,845**	**–2.1%**	**$ 600**	**+0.7%**
Bottom 60%	$ 29,581	$ –1,056	–3.6%	$ –502	–1.7%
Colorado					
Lowest 20%	$ 12,139	$ –545	–4.5%	$ –417	–3.4%
Second 20%	29,163	–1,062	–3.6%	–445	–1.5%
Middle 20%	49,867	–1,316	–2.6%	–446	–0.9%
Fourth 20%	79,178	–2,213	–2.8%	–517	–0.7%
Next 15%	137,599	–4,051	–2.9%	–407	–0.3%
Next 4%	304,567	–6,466	–2.1%	+2,483	+0.8%
Top 1%	1,621,878	–1,462	–0.1%	+72,407	+4.5%
ALL	**$ 82,053**	**$ –1,886**	**–2.3%**	**$ 392**	**+0.5%**
Bottom 60%	$ 30,410	$ –975	–3.2%	$ –436	–1.4%
Connecticut					
Lowest 20%	$ 13,011	$ –365	–2.8%	$ –271	–2.1%
Second 20%	32,380	–1,041	–3.2%	–424	–1.3%
Middle 20%	54,390	–1,429	–2.6%	–464	–0.9%
Fourth 20%	89,564	–2,596	–2.9%	–521	–0.6%
Next 15%	159,403	–5,207	–3.3%	–187	–0.1%
Next 4%	406,060	–6,609	–1.6%	+6,222	+1.5%
Top 1%	2,560,183	–4,248	–0.2%	+134,875	+5.3%
ALL	**$ 107,090**	**$ –2,143**	**–2.0%**	**$ 1,497**	**+1.4%**
Bottom 60%	$ 33,335	$ –947	–2.8%	$ –387	–1.2%
Delaware					
Lowest 20%	$ 11,135	$ –491	–4.4%	$ –394	–3.5%
Second 20%	25,806	–908	–3.5%	–415	–1.6%
Middle 20%	45,077	–1,268	–2.8%	–379	–0.8%
Fourth 20%	71,748	–1,847	–2.6%	–519	–0.7%
Next 15%	117,043	–3,607	–3.1%	–484	–0.4%
Next 4%	246,765	–6,454	–2.6%	+1,173	+0.5%
Top 1%	1,373,366	–6,251	–0.5%	+60,214	+4.4%
ALL	**$ 71,573**	**$ –1,758**	**–2.5%**	**$ 233**	**+0.3%**
Bottom 60%	$ 27,308	$ –889	–3.3%	$ –396	–1.5%
District of Columbia					
Lowest 20%	$ 13,093	$ –630	–4.8%	$ –445	–3.4%
Second 20%	29,030	–1,002	–3.5%	–381	–1.3%
Middle 20%	50,946	–1,183	–2.3%	–339	–0.7%
Fourth 20%	81,184	–1,764	–2.2%	–221	–0.3%
Next 15%	157,887	–3,473	–2.2%	+164	+0.1%
Next 4%	455,847	–7,003	–1.5%	+6,071	+1.3%
Top 1%	2,830,404	+11,829	+0.4%	+143,353	+5.1%
ALL	**$ 104,303**	**$ –1,589**	**–1.5%**	**$ 1,411**	**+1.4%**
Bottom 60%	$ 30,973	$ –937	–3.0%	$ –388	–1.3%

Tax Proposals in President Obama's Fiscal Year 2010 Budget
Impact in 2011, by State, by Income Group (continued)

		Tax Changes Compared to Current Law		Tax Changes Compared to Administration's Baseline	
	average income	average tax change	tax change as % income	average tax change	tax change as % income
Florida					
Lowest 20%	$ 11,055	$ –562	–5.1%	$ –482	–4.4%
Second 20%	23,649	–896	–3.8%	–441	–1.9%
Middle 20%	38,001	–1,164	–3.1%	–459	–1.2%
Fourth 20%	61,952	–1,637	–2.6%	–443	–0.7%
Next 15%	113,761	–3,271	–2.9%	–360	–0.3%
Next 4%	288,656	–6,012	–2.1%	+3,248	+1.1%
Top 1%	2,087,524	–5,681	–0.3%	+95,742	+4.6%
ALL	**$ 75,602**	**$ –1,623**	**–2.1%**	**$ 661**	**+0.9%**
Bottom 60%	$ 24,231	$ –874	–3.6%	$ –461	–1.9%
Georgia					
Lowest 20%	$ 9,736	$ –496	–5.1%	$ –459	–4.7%
Second 20%	21,020	–1,023	–4.9%	–611	–2.9%
Middle 20%	36,957	–1,330	–3.6%	–540	–1.5%
Fourth 20%	61,184	–1,783	–2.9%	–539	–0.9%
Next 15%	108,554	–3,342	–3.1%	–527	–0.5%
Next 4%	242,949	–5,890	–2.4%	+1,270	+0.5%
Top 1%	1,166,093	–2,669	–0.2%	+47,369	+4.1%
ALL	**$ 62,687**	**$ –1,671**	**–2.7%**	**$ 15**	**+0.0%**
Bottom 60%	$ 22,648	$ –953	–4.2%	$ –538	–2.4%
Hawaii					
Lowest 20%	$ 10,254	$ –335	–3.3%	$ –270	–2.6%
Second 20%	25,323	–1,087	–4.3%	–545	–2.2%
Middle 20%	41,236	–1,290	–3.1%	–463	–1.1%
Fourth 20%	65,126	–1,815	–2.8%	–488	–0.7%
Next 15%	116,004	–3,377	–2.9%	–473	–0.4%
Next 4%	249,235	–5,689	–2.3%	+1,535	+0.6%
Top 1%	1,110,191	–4,821	–0.4%	+43,631	+3.9%
ALL	**$ 66,491**	**$ –1,680**	**–2.5%**	**$ 73**	**+0.1%**
Bottom 60%	$ 25,803	$ –911	–3.5%	$ –428	–1.7%
Idaho					
Lowest 20%	$ 10,990	$ –464	–4.2%	$ –400	–3.6%
Second 20%	24,395	–1,030	–4.2%	–535	–2.2%
Middle 20%	41,437	–1,469	–3.5%	–491	–1.2%
Fourth 20%	63,209	–1,990	–3.1%	–593	–0.9%
Next 15%	103,787	–3,193	–3.1%	–549	–0.5%
Next 4%	222,247	–5,570	–2.5%	+890	+0.4%
Top 1%	1,080,529	–926	–0.1%	+39,804	+3.7%
ALL	**$ 62,811**	**$ –1,693**	**–2.7%**	**$ –54**	**–0.1%**
Bottom 60%	$ 25,779	$ –995	–3.9%	$ –476	–1.8%
Illinois					
Lowest 20%	$ 10,929	$ –453	–4.1%	$ –372	–3.4%
Second 20%	27,427	–1,015	–3.7%	–490	–1.8%
Middle 20%	47,882	–1,358	–2.8%	–456	–1.0%
Fourth 20%	74,876	–2,085	–2.8%	–464	–0.6%
Next 15%	128,452	–4,232	–3.3%	–444	–0.3%
Next 4%	294,542	–6,837	–2.3%	+2,374	+0.8%
Top 1%	1,675,501	–7,266	–0.4%	+75,326	+4.5%
ALL	**$ 79,343**	**$ –1,947**	**–2.5%**	**$ 422**	**+0.5%**
Bottom 60%	$ 28,746	$ –942	–3.3%	$ –440	–1.5%

Tax Proposals in President Obama's Fiscal Year 2010 Budget Impact in 2011, by State, by Income Group (continued)

		Tax Changes Compared to Current Law		Tax Changes Compared to Administration's Baseline	
	average income	average tax change	tax change as % income	average tax change	tax change as % income
Indiana					
Lowest 20%	$ 10,816	$ –473	–4.4%	$ –402	–3.7%
Second 20%	25,277	–1,004	–4.0%	–452	–1.8%
Middle 20%	42,465	–1,417	–3.3%	–535	–1.3%
Fourth 20%	64,644	–1,877	–2.9%	–544	–0.8%
Next 15%	102,933	–3,426	–3.3%	–557	–0.5%
Next 4%	208,229	–5,563	–2.7%	+405	+0.2%
Top 1%	935,357	–6,344	–0.7%	+34,822	+3.7%
ALL	**$ 61,285**	**$ –1,741**	**–2.8%**	**$ –105**	**–0.2%**
Bottom 60%	$ 26,183	$ –964	–3.7%	$ –463	–1.8%
Iowa					
Lowest 20%	$ 11,535	$ –341	–3.0%	$ –258	–2.2%
Second 20%	29,600	–966	–3.3%	–438	–1.5%
Middle 20%	47,254	–1,427	–3.0%	–530	–1.1%
Fourth 20%	71,143	–2,065	–2.9%	–511	–0.7%
Next 15%	109,267	–3,866	–3.5%	–584	–0.5%
Next 4%	210,549	–5,968	–2.8%	+416	+0.2%
Top 1%	925,864	–7,479	–0.8%	+33,204	+3.6%
ALL	**$ 65,377**	**$ –1,836**	**–2.8%**	**$ –85**	**–0.1%**
Bottom 60%	$ 29,506	$ –912	–3.1%	$ –409	–1.4%
Kansas					
Lowest 20%	$ 10,712	$ –388	–3.6%	$ –313	–2.9%
Second 20%	27,070	–1,072	–4.0%	–487	–1.8%
Middle 20%	44,788	–1,569	–3.5%	–544	–1.2%
Fourth 20%	71,305	–2,042	–2.9%	–524	–0.7%
Next 15%	115,274	–3,871	–3.4%	–525	–0.5%
Next 4%	240,982	–6,162	–2.6%	+1,071	+0.4%
Top 1%	1,087,516	–9,639	–0.9%	+40,562	+3.7%
ALL	**$ 68,225**	**$ –1,928**	**–2.8%**	**$ –4**	**–0.0%**
Bottom 60%	$ 27,522	$ –1,010	–3.7%	$ –448	–1.6%
Kentucky					
Lowest 20%	$ 9,176	$ –346	–3.8%	$ –315	–3.4%
Second 20%	22,051	–886	–4.0%	–468	–2.1%
Middle 20%	36,960	–1,222	–3.3%	–495	–1.3%
Fourth 20%	58,759	–1,708	–2.9%	–518	–0.9%
Next 15%	95,781	–3,078	–3.2%	–594	–0.6%
Next 4%	197,310	–5,702	–2.9%	+335	+0.2%
Top 1%	866,065	–7,389	–0.9%	+30,602	+3.5%
ALL	**$ 55,670**	**$ –1,578**	**–2.8%**	**$ –128**	**–0.2%**
Bottom 60%	$ 22,732	$ –818	–3.6%	$ –426	–1.9%
Louisiana					
Lowest 20%	$ 10,501	$ –545	–5.2%	$ –499	–4.8%
Second 20%	22,997	–1,006	–4.4%	–475	–2.1%
Middle 20%	39,436	–1,285	–3.3%	–487	–1.2%
Fourth 20%	63,534	–1,901	–3.0%	–457	–0.7%
Next 15%	114,638	–3,795	–3.3%	–554	–0.5%
Next 4%	241,127	–5,998	–2.5%	+924	+0.4%
Top 1%	1,039,304	–7,830	–0.8%	+38,357	+3.7%
ALL	**$ 63,579**	**$ –1,811**	**–2.8%**	**$ –46**	**–0.1%**
Bottom 60%	$ 24,315	$ –945	–3.9%	$ –487	–2.0%

Tax Proposals in President Obama's Fiscal Year 2010 Budget
Impact in 2011, by State, by Income Group (continued)

		Tax Changes Compared to Current Law		Tax Changes Compared to Administration's Baseline	
	average income	average tax change	tax change as % income	average tax change	tax change as % income
Maine					
Lowest 20%	$ 11,867	$ –380	–3.2%	$ –300	–2.5%
Second 20%	24,531	–830	–3.4%	–358	–1.5%
Middle 20%	40,130	–1,242	–3.1%	–491	–1.2%
Fourth 20%	62,072	–1,785	–2.9%	–531	–0.9%
Next 15%	100,970	–3,160	–3.1%	–534	–0.5%
Next 4%	218,611	–5,873	–2.7%	+808	+0.4%
Top 1%	891,998	–5,616	–0.6%	+29,771	+3.3%
ALL	**$ 59,982**	**$ –1,598**	**–2.7%**	**$ –85**	**–0.1%**
Bottom 60%	$ 25,510	$ –817	–3.2%	$ –383	–1.5%
Maryland					
Lowest 20%	$ 12,300	$ –420	–3.4%	$ –328	–2.7%
Second 20%	31,468	–1,033	–3.3%	–464	–1.5%
Middle 20%	52,719	–1,411	–2.7%	–453	–0.9%
Fourth 20%	84,686	–2,186	–2.6%	–454	–0.5%
Next 15%	147,294	–4,591	–3.1%	–349	–0.2%
Next 4%	309,412	–6,920	–2.2%	+1,934	+0.6%
Top 1%	1,600,080	+143	+0.0%	+73,012	+4.6%
ALL	**$ 85,920**	**$ –1,955**	**–2.3%**	**$ 415**	**+0.5%**
Bottom 60%	$ 32,187	$ –955	–3.0%	$ –415	–1.3%
Massachusetts					
Lowest 20%	$ 11,415	$ –325	–2.8%	$ –256	–2.2%
Second 20%	28,983	–935	–3.2%	–406	–1.4%
Middle 20%	50,595	–1,191	–2.4%	–390	–0.8%
Fourth 20%	81,517	–2,280	–2.8%	–485	–0.6%
Next 15%	144,577	–4,671	–3.2%	–368	–0.3%
Next 4%	344,097	–6,853	–2.0%	+3,335	+1.0%
Top 1%	2,133,063	–7,872	–0.4%	+99,205	+4.7%
ALL	**$ 90,365**	**$ –1,981**	**–2.2%**	**$ 755**	**+0.8%**
Bottom 60%	$ 30,386	$ –819	–2.7%	$ –351	–1.2%
Michigan					
Lowest 20%	$ 9,650	$ –425	–4.4%	$ –385	–4.0%
Second 20%	23,658	–888	–3.8%	–458	–1.9%
Middle 20%	40,952	–1,274	–3.1%	–473	–1.2%
Fourth 20%	64,322	–1,805	–2.8%	–494	–0.8%
Next 15%	103,887	–3,320	–3.2%	–543	–0.5%
Next 4%	206,621	–6,011	–2.9%	+331	+0.2%
Top 1%	970,980	–9,968	–1.0%	+35,328	+3.6%
ALL	**$ 60,427**	**$ –1,693**	**–2.8%**	**$ –77**	**–0.1%**
Bottom 60%	$ 24,795	$ –864	–3.5%	$ –439	–1.8%
Minnesota					
Lowest 20%	$ 12,349	$ –440	–3.6%	$ –325	–2.6%
Second 20%	30,083	–1,005	–3.3%	–432	–1.4%
Middle 20%	49,684	–1,307	–2.6%	–449	–0.9%
Fourth 20%	75,244	–2,144	–2.8%	–534	–0.7%
Next 15%	121,143	–4,075	–3.4%	–501	–0.4%
Next 4%	269,728	–6,736	–2.5%	+1,153	+0.4%
Top 1%	1,350,351	–3,918	–0.3%	+56,506	+4.2%
ALL	**$ 75,574**	**$ –1,888**	**–2.5%**	**$ 190**	**+0.3%**
Bottom 60%	$ 30,801	$ –919	–3.0%	$ –402	–1.3%

Tax Proposals in President Obama's Fiscal Year 2010 Budget Impact in 2011, by State, by Income Group (continued)

		Tax Changes Compared to Current Law		Tax Changes Compared to Administration's Baseline	
	average income	average tax change	tax change as % income	average tax change	tax change as % income
Mississippi					
Lowest 20%	$ 9,199	$ –429	–4.7%	$ –419	–4.6%
Second 20%	18,486	–945	–5.1%	–612	–3.3%
Middle 20%	31,370	–1,146	–3.7%	–448	–1.4%
Fourth 20%	54,050	–1,724	–3.2%	–590	–1.1%
Next 15%	93,058	–2,940	–3.2%	–529	–0.6%
Next 4%	189,801	–5,260	–2.8%	+147	+0.1%
Top 1%	787,945	–4,271	–0.5%	+23,981	+3.0%
ALL	**$ 51,220**	**$ –1,519**	**–3.0%**	**$ –243**	**–0.5%**
Bottom 60%	$ 19,677	$ –840	–4.3%	$ –493	–2.5%
Missouri					
Lowest 20%	$ 10,217	$ –388	–3.8%	$ –330	–3.2%
Second 20%	23,295	–990	–4.3%	–516	–2.2%
Middle 20%	39,065	–1,268	–3.2%	–510	–1.3%
Fourth 20%	62,643	–1,850	–3.0%	–501	–0.8%
Next 15%	102,369	–3,428	–3.3%	–544	–0.5%
Next 4%	216,687	–6,049	–2.8%	+601	+0.3%
Top 1%	1,047,352	–7,732	–0.7%	+40,181	+3.8%
ALL	**$ 60,826**	**$ –1,714**	**–2.8%**	**$ –27**	**–0.0%**
Bottom 60%	$ 24,209	$ –883	–3.6%	$ –452	–1.9%
Montana					
Lowest 20%	$ 9,884	$ –317	–3.2%	$ –276	–2.8%
Second 20%	23,168	–811	–3.5%	–374	–1.6%
Middle 20%	38,384	–1,170	–3.0%	–475	–1.2%
Fourth 20%	61,314	–1,851	–3.0%	–529	–0.9%
Next 15%	102,504	–3,309	–3.2%	–484	–0.5%
Next 4%	226,356	–5,534	–2.4%	+982	+0.4%
Top 1%	953,906	–3,282	–0.3%	+28,544	+3.0%
ALL	**$ 59,922**	**$ –1,566**	**–2.6%**	**$ –78**	**–0.1%**
Bottom 60%	$ 23,928	$ –769	–3.2%	$ –376	–1.6%
Nebraska					
Lowest 20%	$ 11,485	$ –460	–4.0%	$ –365	–3.2%
Second 20%	28,059	–1,103	–3.9%	–495	–1.8%
Middle 20%	45,673	–1,270	–2.8%	–488	–1.1%
Fourth 20%	70,337	–2,047	–2.9%	–516	–0.7%
Next 15%	115,651	–3,908	–3.4%	–539	–0.5%
Next 4%	229,627	–6,206	–2.7%	+850	+0.4%
Top 1%	1,168,940	–4,963	–0.4%	+44,680	+3.8%
ALL	**$ 69,395**	**$ –1,859**	**–2.7%**	**$ 35**	**+0.0%**
Bottom 60%	$ 28,410	$ –945	–3.3%	$ –449	–1.6%
Nevada					
Lowest 20%	$ 14,603	$ –805	–5.5%	$ –559	–3.8%
Second 20%	28,950	–1,146	–4.0%	–535	–1.8%
Middle 20%	46,192	–1,366	–3.0%	–515	–1.1%
Fourth 20%	70,622	–2,022	–2.9%	–515	–0.7%
Next 15%	116,049	–3,320	–2.9%	–461	–0.4%
Next 4%	273,364	–5,540	–2.0%	+2,935	+1.1%
Top 1%	2,378,080	+9,296	+0.4%	+111,556	+4.7%
ALL	**$ 83,298**	**$ –1,676**	**–2.0%**	**$ 733**	**+0.9%**
Bottom 60%	$ 29,911	$ –1,106	–3.7%	$ –536	–1.8%

Tax Proposals in President Obama's Fiscal Year 2010 Budget Impact in 2011, by State, by Income Group (continued)

		Tax Changes Compared to Current Law		Tax Changes Compared to Administration's Baseline	
	average income	average tax change	tax change as % income	average tax change	tax change as % income
New Hampshire					
Lowest 20%	$ 15,640	$ –573	–3.7%	$ –357	–2.3%
Second 20%	34,785	–1,012	–2.9%	–429	–1.2%
Middle 20%	54,782	–1,408	–2.6%	–444	–0.8%
Fourth 20%	85,023	–2,446	–2.9%	–536	–0.6%
Next 15%	138,530	–4,540	–3.3%	–448	–0.3%
Next 4%	291,347	–6,501	–2.2%	+2,697	+0.9%
Top 1%	1,373,458	–10,479	–0.8%	+58,448	+4.3%
ALL	**$ 82,894**	**$ –2,109**	**–2.5%**	**$ 265**	**+0.3%**
Bottom 60%	$ 35,037	$ –997	–2.8%	$ –410	–1.2%
New Jersey					
Lowest 20%	$ 12,641	$ –495	–3.9%	$ –376	–3.0%
Second 20%	30,356	–964	–3.2%	–438	–1.4%
Middle 20%	52,674	–1,269	–2.4%	–404	–0.8%
Fourth 20%	85,915	–2,539	–3.0%	–472	–0.5%
Next 15%	152,362	–5,067	–3.3%	–287	–0.2%
Next 4%	349,872	–8,476	–2.4%	+2,513	+0.7%
Top 1%	1,840,360	+4,762	+0.3%	+84,921	+4.6%
ALL	**$ 90,781**	**$ –2,085**	**–2.3%**	**$ 566**	**+0.6%**
Bottom 60%	$ 31,967	$ –911	–2.9%	$ –406	–1.3%
New Mexico					
Lowest 20%	$ 10,603	$ –608	–5.7%	$ –531	–5.0%
Second 20%	23,704	–1,189	–5.0%	–584	–2.5%
Middle 20%	38,400	–1,288	–3.4%	–469	–1.2%
Fourth 20%	62,447	–1,708	–2.7%	–451	–0.7%
Next 15%	107,406	–3,314	–3.1%	–487	–0.5%
Next 4%	224,099	–5,551	–2.5%	+854	+0.4%
Top 1%	913,169	–4,957	–0.5%	+30,278	+3.3%
ALL	**$ 60,551**	**$ –1,711**	**–2.8%**	**$ –144**	**–0.2%**
Bottom 60%	$ 24,271	$ –1,029	–4.2%	$ –528	–2.2%
New York					
Lowest 20%	$ 9,745	$ –354	–3.6%	$ –319	–3.3%
Second 20%	22,728	–854	–3.8%	–455	–2.0%
Middle 20%	40,422	–1,229	–3.0%	–446	–1.1%
Fourth 20%	67,364	–1,830	–2.7%	–440	–0.7%
Next 15%	120,685	–4,116	–3.4%	–385	–0.3%
Next 4%	296,717	–6,579	–2.2%	+1,952	+0.7%
Top 1%	2,218,520	+7,727	+0.3%	+106,665	+4.8%
ALL	**$ 79,020**	**$ –1,632**	**–2.1%**	**$ 744**	**+0.9%**
Bottom 60%	$ 24,309	$ –812	–3.3%	$ –407	–1.7%
North Carolina					
Lowest 20%	$ 10,768	$ –464	–4.3%	$ –408	–3.8%
Second 20%	23,130	–1,152	–5.0%	–597	–2.6%
Middle 20%	38,558	–1,364	–3.5%	–512	–1.3%
Fourth 20%	63,233	–1,677	–2.7%	–509	–0.8%
Next 15%	108,509	–3,501	–3.2%	–546	–0.5%
Next 4%	234,799	–6,184	–2.6%	+894	+0.4%
Top 1%	1,018,010	–3,717	–0.4%	+39,583	+3.9%
ALL	**$ 62,246**	**$ –1,722**	**–2.8%**	**$ –58**	**–0.1%**
Bottom 60%	$ 24,165	$ –993	–4.1%	$ –506	–2.1%

Tax Proposals in President Obama's Fiscal Year 2010 Budget
Impact in 2011, by State, by Income Group (continued)

		Tax Changes Compared to Current Law		Tax Changes Compared to Administration's Baseline	
	average income	average tax change	tax change as % income	average tax change	tax change as % income
North Dakota					
Lowest 20%	$ 14,342	$ –409	–2.8%	$ –264	–1.8%
Second 20%	29,540	–936	–3.2%	–451	–1.5%
Middle 20%	49,287	–1,374	–2.8%	–493	–1.0%
Fourth 20%	79,367	–2,473	–3.1%	–500	–0.6%
Next 15%	122,316	–4,225	–3.5%	–517	–0.4%
Next 4%	250,464	–5,887	–2.4%	+996	+0.4%
Top 1%	1,019,354	–4,194	–0.4%	+33,672	+3.3%
ALL	**$ 72,836**	**$ –1,951**	**–2.7%**	**$ –47**	**–0.1%**
Bottom 60%	$ 30,841	$ –901	–2.9%	$ –401	–1.3%
Ohio					
Lowest 20%	$ 10,481	$ –437	–4.2%	$ –371	–3.5%
Second 20%	24,502	–963	–3.9%	–473	–1.9%
Middle 20%	40,891	–1,264	–3.1%	–436	–1.1%
Fourth 20%	61,924	–1,744	–2.8%	–480	–0.8%
Next 15%	98,592	–3,327	–3.4%	–504	–0.5%
Next 4%	205,383	–6,157	–3.0%	+515	+0.3%
Top 1%	945,182	–7,350	–0.8%	+34,116	+3.6%
ALL	**$ 59,216**	**$ –1,678**	**–2.8%**	**$ –65**	**–0.1%**
Bottom 60%	$ 25,295	$ –888	–3.5%	$ –427	–1.7%
Oklahoma					
Lowest 20%	$ 9,706	$ –439	–4.5%	$ –398	–4.1%
Second 20%	22,060	–1,100	–5.0%	–574	–2.6%
Middle 20%	38,748	–1,332	–3.4%	–502	–1.3%
Fourth 20%	63,228	–1,865	–2.9%	–540	–0.9%
Next 15%	108,978	–3,318	–3.0%	–491	–0.5%
Next 4%	234,910	–5,470	–2.3%	+598	+0.3%
Top 1%	1,163,750	–2,707	–0.2%	+47,844	+4.1%
ALL	**$ 63,361**	**$ –1,673**	**–2.6%**	**$ 25**	**+0.0%**
Bottom 60%	$ 23,515	$ –957	–4.1%	$ –492	–2.1%
Oregon					
Lowest 20%	$ 10,963	$ –323	–2.9%	$ –259	–2.4%
Second 20%	25,026	–1,001	–4.0%	–511	–2.0%
Middle 20%	42,552	–1,339	–3.1%	–492	–1.2%
Fourth 20%	67,874	–1,829	–2.7%	–464	–0.7%
Next 15%	115,976	–3,521	–3.0%	–436	–0.4%
Next 4%	248,484	–5,680	–2.3%	+1,539	+0.6%
Top 1%	1,071,384	–3,361	–0.3%	+39,729	+3.7%
ALL	**$ 66,609**	**$ –1,671**	**–2.5%**	**$ 46**	**+0.1%**
Bottom 60%	$ 26,230	$ –890	–3.4%	$ –422	–1.6%
Pennsylvania					
Lowest 20%	$ 11,087	$ –373	–3.4%	$ –305	–2.8%
Second 20%	26,292	–802	–3.1%	–384	–1.5%
Middle 20%	44,600	–1,304	–2.9%	–466	–1.0%
Fourth 20%	69,073	–1,932	–2.8%	–480	–0.7%
Next 15%	114,958	–4,030	–3.5%	–534	–0.5%
Next 4%	249,602	–6,516	–2.6%	+1,167	+0.5%
Top 1%	1,194,195	–7,455	–0.6%	+47,586	+4.0%
ALL	**$ 68,465**	**$ –1,798**	**–2.6%**	**$ 114**	**+0.2%**
Bottom 60%	$ 27,340	$ –827	–3.0%	$ –385	–1.4%

Tax Proposals in President Obama's Fiscal Year 2010 Budget
Impact in 2011, by State, by Income Group (continued)

		Tax Changes Compared to Current Law		Tax Changes Compared to Administration's Baseline	
	average income	average tax change	tax change as % income	average tax change	tax change as % income
Rhode Island					
Lowest 20%	$ 10,129	$ –292	–2.9%	$ –256	–2.5%
Second 20%	23,273	–877	–3.8%	–461	–2.0%
Middle 20%	42,150	–1,210	–2.9%	–468	–1.1%
Fourth 20%	66,989	–1,724	–2.6%	–484	–0.7%
Next 15%	114,619	–3,494	–3.0%	–491	–0.4%
Next 4%	242,984	–6,224	–2.6%	+1,199	+0.5%
Top 1%	1,093,703	–4,375	–0.4%	+40,344	+3.7%
ALL	**$ 65,564**	**$ –1,618**	**–2.5%**	**$ 45**	**+0.1%**
Bottom 60%	$ 25,205	$ –794	–3.1%	$ –395	–1.6%
South Carolina					
Lowest 20%	$ 10,232	$ –562	–5.5%	$ –502	–4.9%
Second 20%	22,235	–1,032	–4.6%	–556	–2.5%
Middle 20%	35,591	–1,228	–3.4%	–491	–1.4%
Fourth 20%	58,582	–1,704	–2.9%	–512	–0.9%
Next 15%	100,910	–3,184	–3.2%	–533	–0.5%
Next 4%	216,008	–5,792	–2.7%	+727	+0.3%
Top 1%	934,001	–4,316	–0.5%	+32,976	+3.5%
ALL	**$ 57,656**	**$ –1,637**	**–2.8%**	**$ –132**	**–0.2%**
Bottom 60%	$ 22,714	$ –942	–4.1%	$ –517	–2.3%
South Dakota					
Lowest 20%	$ 10,873	$ –397	–3.6%	$ –322	–3.0%
Second 20%	25,796	–880	–3.4%	–427	–1.7%
Middle 20%	45,539	–1,664	–3.7%	–613	–1.3%
Fourth 20%	69,564	–2,177	–3.1%	–556	–0.8%
Next 15%	111,163	–3,830	–3.4%	–506	–0.5%
Next 4%	244,249	–5,443	–2.2%	+1,494	+0.6%
Top 1%	1,207,984	–4,534	–0.4%	+47,719	+4.0%
ALL	**$ 68,157**	**$ –1,843**	**–2.7%**	**$ 79**	**+0.1%**
Bottom 60%	$ 27,419	$ –980	–3.6%	$ –454	–1.7%
Tennessee					
Lowest 20%	$ 10,643	$ –485	–4.6%	$ –428	–4.0%
Second 20%	23,267	–997	–4.3%	–537	–2.3%
Middle 20%	39,096	–1,443	–3.7%	–546	–1.4%
Fourth 20%	60,252	–1,722	–2.9%	–537	–0.9%
Next 15%	101,803	–3,145	–3.1%	–532	–0.5%
Next 4%	226,113	–5,582	–2.5%	+1,085	+0.5%
Top 1%	1,109,480	–5,769	–0.5%	+46,768	+4.2%
ALL	**$ 61,321**	**$ –1,663**	**–2.7%**	**$ 21**	**+0.0%**
Bottom 60%	$ 24,348	$ –976	–4.0%	$ –504	–2.1%
Texas					
Lowest 20%	$ 12,255	$ –697	–5.7%	$ –553	–4.5%
Second 20%	26,856	–1,338	–5.0%	–622	–2.3%
Middle 20%	43,913	–1,476	–3.4%	–522	–1.2%
Fourth 20%	72,537	–2,205	–3.0%	–508	–0.7%
Next 15%	130,589	–4,151	–3.2%	–438	–0.3%
Next 4%	292,972	–6,280	–2.1%	+2,580	+0.9%
Top 1%	1,566,394	–6,827	–0.4%	+70,597	+4.5%
ALL	**$ 77,253**	**$ –2,067**	**–2.7%**	**$ 299**	**+0.4%**
Bottom 60%	$ 27,676	$ –1,170	–4.2%	$ –566	–2.0%

Tax Proposals in President Obama's Fiscal Year 2010 Budget
Impact in 2011, by State, by Income Group (continued)

		Tax Changes Compared to Current Law		Tax Changes Compared to Administration's Baseline	
	average income	average tax change	tax change as % income	average tax change	tax change as % income
Utah					
Lowest 20%	$ 12,131	$ –591	–4.9%	$ –459	–3.8%
Second 20%	28,513	–1,219	–4.3%	–578	–2.0%
Middle 20%	46,060	–1,720	–3.7%	–608	–1.3%
Fourth 20%	72,061	–2,406	–3.3%	–637	–0.9%
Next 15%	119,923	–4,094	–3.4%	–555	–0.5%
Next 4%	243,974	–5,650	–2.3%	+1,204	+0.5%
Top 1%	1,211,099	–659	–0.1%	+50,319	+4.2%
ALL	**$ 70,767**	**$ –2,011**	**–2.8%**	**$ 12**	**+0.0%**
Bottom 60%	$ 28,915	$ –1,177	–4.1%	$ –548	–1.9%
Vermont					
Lowest 20%	$ 11,572	$ –393	–3.4%	$ –305	–2.6%
Second 20%	26,323	–989	–3.8%	–450	–1.7%
Middle 20%	42,868	–1,275	–3.0%	–479	–1.1%
Fourth 20%	63,871	–1,945	–3.0%	–568	–0.9%
Next 15%	107,917	–3,944	–3.7%	–509	–0.5%
Next 4%	231,827	–6,860	–3.0%	+1,177	+0.5%
Top 1%	991,203	–9,341	–0.9%	+34,922	+3.5%
ALL	**$ 64,187**	**$ –1,875**	**–2.9%**	**$ –34**	**–0.1%**
Bottom 60%	$ 27,013	$ –890	–3.3%	$ –413	–1.5%
Virginia					
Lowest 20%	$ 11,535	$ –462	–4.0%	$ –356	–3.1%
Second 20%	27,143	–982	–3.6%	–459	–1.7%
Middle 20%	47,000	–1,467	–3.1%	–511	–1.1%
Fourth 20%	77,292	–2,103	–2.7%	–533	–0.7%
Next 15%	136,165	–4,121	–3.0%	–398	–0.3%
Next 4%	288,083	–6,750	–2.3%	+1,737	+0.6%
Top 1%	1,426,672	–2,051	–0.1%	+61,341	+4.3%
ALL	**$ 78,198**	**$ –1,897**	**–2.4%**	**$ 250**	**+0.3%**
Bottom 60%	$ 28,568	$ –971	–3.4%	$ –442	–1.5%
Washington					
Lowest 20%	$ 12,318	$ –493	–4.0%	$ –354	–2.9%
Second 20%	30,119	–1,013	–3.4%	–459	–1.5%
Middle 20%	51,926	–1,501	–2.9%	–468	–0.9%
Fourth 20%	81,593	–2,322	–2.8%	–492	–0.6%
Next 15%	135,866	–4,146	–3.1%	–437	–0.3%
Next 4%	297,541	–6,349	–2.1%	+3,416	+1.1%
Top 1%	1,558,863	–10,095	–0.6%	+69,827	+4.5%
ALL	**$ 81,555**	**$ –2,007**	**–2.5%**	**$ 407**	**+0.5%**
Bottom 60%	$ 31,475	$ –1,003	–3.2%	$ –427	–1.4%
West Virginia					
Lowest 20%	$ 8,974	$ –322	–3.6%	$ –301	–3.4%
Second 20%	19,885	–702	–3.5%	–434	–2.2%
Middle 20%	32,405	–1,057	–3.3%	–462	–1.4%
Fourth 20%	54,954	–1,819	–3.3%	–575	–1.0%
Next 15%	89,498	–2,710	–3.0%	–550	–0.6%
Next 4%	170,404	–5,088	–3.0%	–55	–0.0%
Top 1%	638,739	–6,413	–1.0%	+17,742	+2.8%
ALL	**$ 49,281**	**$ –1,436**	**–2.9%**	**$ –257**	**–0.5%**
Bottom 60%	$ 20,420	$ –693	–3.4%	$ –399	–2.0%

Tax Proposals in President Obama's Fiscal Year 2010 Budget
Impact in 2011, by State, by Income Group (continued)

		Tax Changes Compared to Current Law		Tax Changes Compared to Administration's Baseline	
	average income	average tax change	tax change as % income	average tax change	tax change as % income
Wisconsin					
Lowest 20%	$ 12,891	$ –503	–3.9%	$ –386	–3.0%
Second 20%	26,897	–864	–3.2%	–421	–1.6%
Middle 20%	44,843	–1,316	–2.9%	–450	–1.0%
Fourth 20%	69,958	–1,998	–2.9%	–546	–0.8%
Next 15%	107,899	–3,795	–3.5%	–580	–0.5%
Next 4%	220,489	–6,168	–2.8%	+619	+0.3%
Top 1%	1,101,915	–5,792	–0.5%	+42,817	+3.9%
ALL	**$ 66,521**	**$ –1,800**	**–2.7%**	**$ 3**	**+0.0%**
Bottom 60%	$ 28,226	$ –895	–3.2%	$ –419	–1.5%
Wyoming					
Lowest 20%	$ 14,108	$ –584	–4.1%	$ –401	–2.8%
Second 20%	33,912	–1,042	–3.1%	–437	–1.3%
Middle 20%	55,982	–1,486	–2.7%	–426	–0.8%
Fourth 20%	85,748	–2,661	–3.1%	–493	–0.6%
Next 15%	134,442	–4,600	–3.4%	–498	–0.4%
Next 4%	308,060	–6,696	–2.2%	+3,548	+1.2%
Top 1%	2,623,768	–15,670	–0.6%	+120,959	+4.6%
ALL	**$ 96,782**	**$ –2,269**	**–2.3%**	**$ 935**	**+1.0%**
Bottom 60%	$ 34,819	$ –1,041	–3.0%	$ –422	–1.2%