

Married Couples with Incomes Between \$250,000 and \$300,000 Would Lose Only 1% of Their Bush Tax Cuts under Obama Plan versus GOP Plan

There seems to be a lot of confusion in the media and among the public about President Obama's plan to let the Bush income tax cuts expire for joint incomes above \$250,000 and single incomes above \$200,000. Many people seem to think that couples and singles who make more than these amounts will lose *all* of their Bush tax cuts. This is not true. In fact, it's not even slightly true.

1. Obama only proposes to let the Bush tax rate cuts expire on the *portion* of taxpayers' income that is above the \$250,000/\$200,000 threshold. For example, suppose a couple has taxable income that is \$100 above the threshold. This couple won't lose its entire Bush tax cut. On the contrary, it will lose only \$3 of its Bush tax cut. That's the difference between Bush's 33% tax rate on that \$100 of income and Obama's proposed 36%. Meanwhile, Obama would retain all of the Bush tax cuts that applied to the couple's taxable income below the threshold.

2. In most cases, large amounts of income in excess of \$250,000/\$200,000 would still be taxed under the lower rates enacted under Bush. Obama's plan ensures that all adjusted gross income (AGI) below these levels would continue to be taxed at the reduced rates put in place by Bush, but a lot of AGI *in excess* of these levels would also continue to be taxed at the reduced rates.

Obama's plan, which is reflected in the bill just approved by the House of Representatives (H.R. 4853), would allow the top two income tax rates to revert from 33 percent and 36 percent to their pre-Bush levels of 36 percent and 39.6 percent. Only taxable income in excess of a certain threshold would be affected by one or both of the top two income tax rates. Taxable income is basically AGI minus personal exemptions and deductions. A married couple would have to have at least \$250,000 of AGI to reach the taxable income threshold in Obama's plan — but a married couple with children (meaning they take more than two personal exemptions) and a lot of itemized deductions could have AGI far in excess of \$250,000 and still not have any taxable income in excess of the specified threshold.¹ **In fact, couples with AGI between \$250,000 and \$300,000 would retain 99% of their Bush tax cuts under Obama's plan.**

The following tables show how much of the Bush income tax cuts would typically be lost by upper-income couples and singles under Obama's plan versus the GOP plan to extend all of the Bush tax cuts. We hope these tables will clarify people's thinking, and calm down even most of the two percent of taxpayers who will lose any portion of their Bush tax cuts.²

¹For a married couple, taxable income would have to exceed \$237,350 in order to be affected by one or both of the top two income tax brackets. A married couple with AGI of \$250,000 has taxable income of \$237,350 if they take the standard deduction (\$11,600 in 2011) and have no children (and therefore take only two personal exemptions). But couples making, say, \$250,000 to \$300,000 typically have itemized deductions of about \$50,000 and 1 child (and thus 3 personal exemptions, worth about \$11,000). So with more than \$60,000 in deductions, even a couple making \$295,000 would still have taxable income below Obama's \$237,350 taxable-income threshold. As a result, three-quarters of all couples in the \$250,000 to \$300,000 income range would retain *all* of their Bush income-tax-rate cuts.

²Politicians who worry about showing a lack of solicitude towards the very, very rich may be comforted by the fact that while couples with AGI above \$20 million will forego 90% of their Bush income tax cuts under Obama's plan, they will still retain an average tax cut of almost \$194,000 each — far more than taxpayers in any other income group would keep.

**Obama scaleback of the Bush income tax cuts
versus the GOP plan to extend all of the Bush income tax cuts
Effects on high-income married couples in 2011**

Adjusted gross income group	Average Bush tax cut with full extension	Obama scaleback of Bush tax cut		% of Bush tax cut kept under Obama	Average Bush tax cut kept by Obama
		Average scaleback	% scaleback		
\$250,000 – 300,000	\$ -9,186	\$ 98	-1%	99%	\$ -9,088
\$300,000 – 400,000	-10,528	1,098	-10%	90%	-9,430
\$400,000 – 500,000	-10,128	2,626	-26%	74%	-7,502
\$500,000 – 750,000	-19,685	9,666	-49%	51%	-10,019
\$750,000 – 1,000,000	-36,473	23,736	-65%	35%	-12,736
\$1,000,000 – 2,000,000	-66,864	50,343	-75%	25%	-16,521
\$2,000,000 – 5,000,000	-153,460	128,069	-83%	17%	-25,391
\$5,000,000 – 10,000,000	-357,663	312,844	-87%	13%	-44,819
\$10,000,000 – 20,000,000	-694,601	616,332	-89%	11%	-78,269
\$20,000,000 or more	-1,932,994	1,739,414	-90%	10%	-193,580

Source: ITEP Tax Model.

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**Obama scaleback of the Bush income tax cuts
versus the GOP plan to extend all of the Bush income tax cuts
Effects on high-income singles in 2011**

Adjusted gross income group	Average Bush tax cut with full extension	Obama scaleback of Bush tax cut		% of Bush tax cut kept under Obama	Average Bush tax cut kept by Obama
		Average scaleback	% scaleback		
\$200,000 – 250,000	\$ -6,658	\$ 99	-1%	99%	\$ -6,559
\$250,000 – 300,000	-8,463	1,098	-13%	87%	-7,365
\$300,000 – 400,000	-8,380	2,426	-29%	71%	-5,953
\$400,000 – 500,000	-13,951	5,851	-42%	58%	-8,100
\$500,000 – 750,000	-24,250	13,786	-57%	43%	-10,464
\$750,000 – 1,000,000	-38,444	25,749	-67%	33%	-12,695
\$1,000,000 – 2,000,000	-68,871	48,990	-71%	29%	-19,881
\$2,000,000 – 5,000,000	-156,212	125,336	-80%	20%	-30,876
\$5,000,000 – 10,000,000	-366,300	304,658	-83%	17%	-61,643
\$10,000,000 – 20,000,000	-704,477	595,008	-84%	16%	-109,469
\$20,000,000 or more	-2,215,918	1,983,581	-90%	10%	-232,337

Source: ITEP Tax Model.

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