

# Federal Tax System on the Precipice



**Presented by  
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of the Joint Committee on Taxation**

# Agenda

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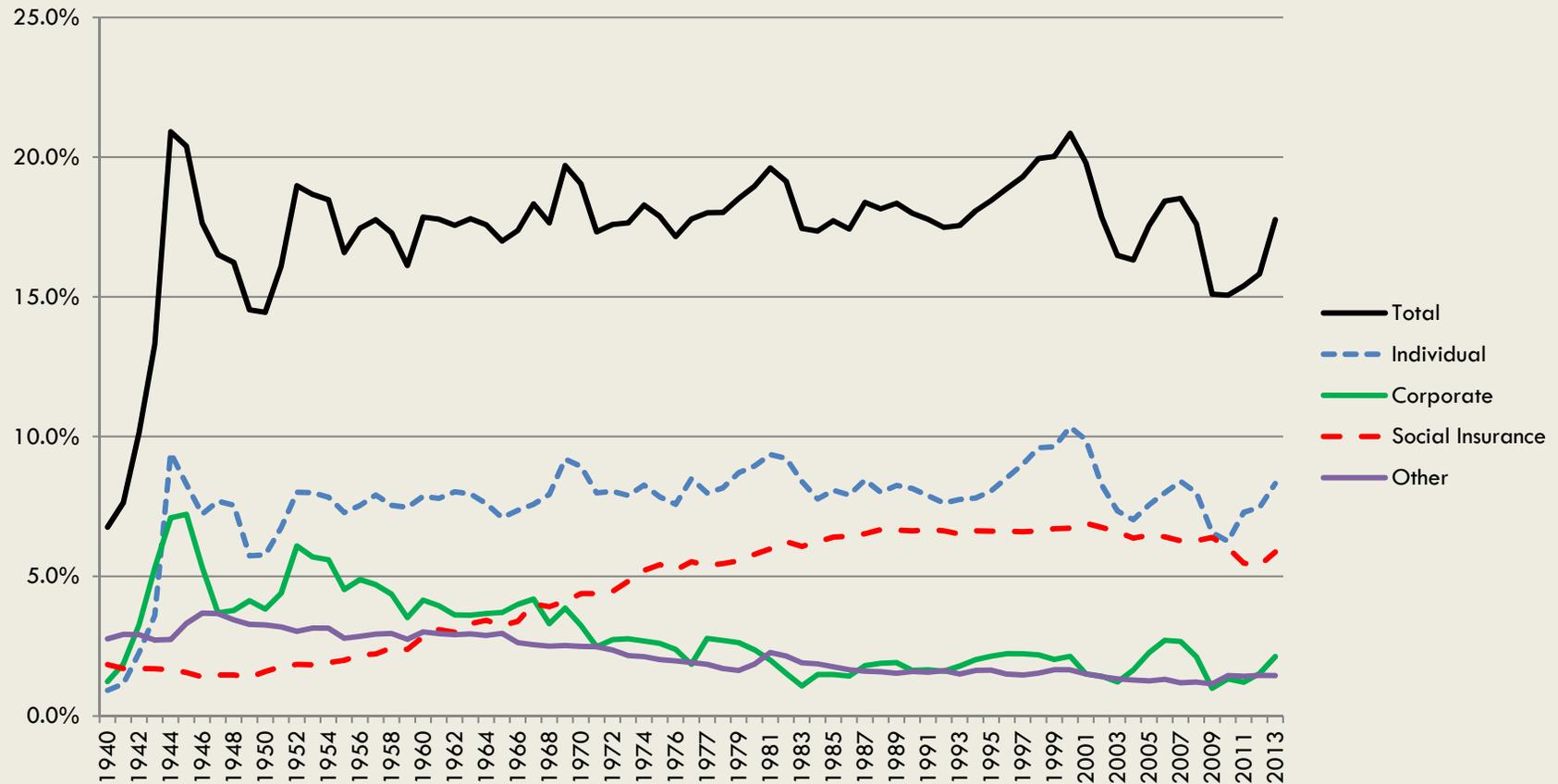
## The Precipice – 2012 Year End Tax Issues

1. The Individual Alternative Minimum Tax
2. The EGTRRA/JGTRRA tax rates
3. Marriage Penalty relief
4. The Child Tax Credit
5. Other expiring tax provisions

## The Internal Revenue Code and Tax Expenditures

# Composition of Federal Receipts as a Percentage of GDP

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Source: Economic Report of the President 2012, Table B-78 and B-80; Department of the Treasury and Office of Management and Budget.

Note: Data for 2012 and 2013 are estimates.

# 2012 Year-End Tax Issues

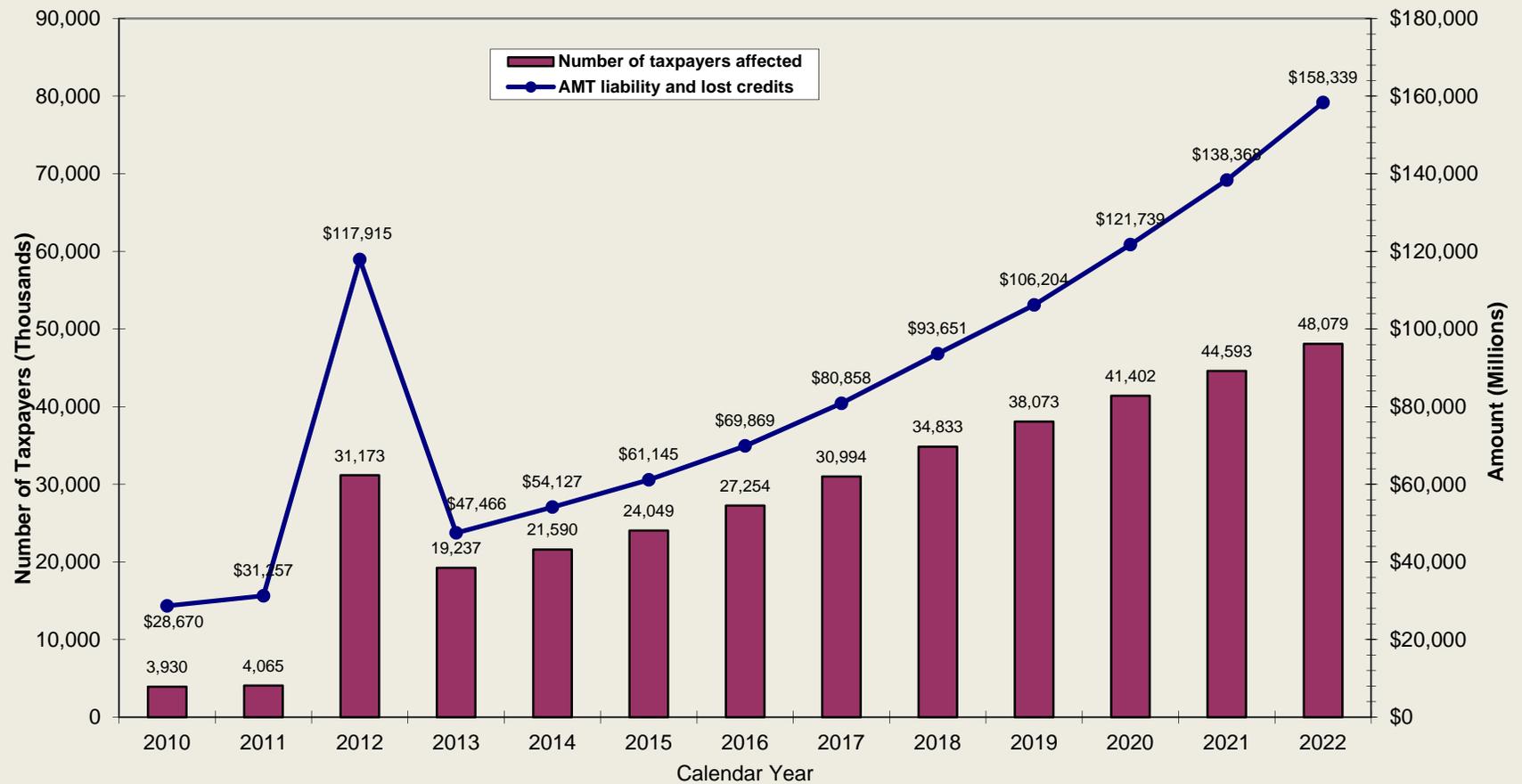
# Alternative Minimum Tax

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- The exemption amount for the Alternative Minimum Tax (“AMT”) has not yet been adjusted (“patched”) for calendar year 2012 so as to preserve the current number of taxpayers affected by the AMT. Absent the patch, 27 million additional taxpayers will have AMT liability in 2013.
  
- The estimated cost of a one-year patch is approximately \$92 billion.
  
- Previous AMT patches have consisted of two items:
  - Holding the number of taxpayers affected by the AMT constant at approximately 4 million by raising the exemption amount;
  - Allowing all personal credits against the AMT (only some, but not all, are allowed against the AMT otherwise).

# Taxpayers Affected by the AMT: 2010-2022

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# AMT and the 2013 Filing Season

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- ❑ IRS systems are currently being programmed to anticipate an AMT patch for 2012.
- ❑ If a patch is not enacted before the end of 2012, the IRS plans to reprogram its systems to reflect that fact.
- ❑ The IRS has represented that this reprogramming could delay the 2013 filing season significantly.

# EGTRRA/JGTRRA/ARRA Expiring Provisions

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- ❑ Major provisions expiring at the end of 2012 (cost of one-year extension through 2013):
  - ❑ Individual income tax rate relief (~\$105 billion)
  - ❑ Marriage penalty relief (~\$9 billion)
  - ❑ Increased child tax credit (~\$36 billion)
  - ❑ Reduced rate on capital gains (~\$10 billion)
  - ❑ Reduced rate on dividends (~\$15 billion)
  - ❑ American Opportunity Tax Credit (~\$13 billion)
  - ❑ Expanded refundable child tax credit (~\$11 billion)
  - ❑ Estate tax exemption amount at \$5 million (~\$31 billion)

# Individual Income Tax Rates

## Individual Income Tax Rates for Single Individuals 2012

If taxable income is:	Then income tax equals:
Single Individuals	
Not over \$8,700	<b>10%</b> of the taxable income
Over \$8,700 but not over \$35,350	\$870 plus <b>15%</b> of the excess over \$8,700
Over \$35,350 but not over \$85,650	\$4,867.50 plus <b>25%</b> of the excess over \$35,350
Over \$85,650 but not over \$178,650	\$17,442.50 plus <b>28%</b> of the excess over \$85,650
Over \$178,650 but not over \$388,350	\$43,482.50 plus <b>33%</b> of the excess over \$178,650
Over \$388,350	\$112,683.50 plus <b>35%</b> of the excess over \$388,350

## Individual Income Tax Rates for Single Individuals 2013

If taxable income is:	Then income tax equals:
Single Individuals	
Not over \$36,100	<b>15%</b> of the taxable income
Over \$36,100 but not over \$87,550	\$5,422 plus <b>28%</b> of the excess over \$36,100
Over \$87,550 but not over \$182,600	\$19,814 plus <b>31%</b> of the excess over \$87,550
Over \$182,600 but not over \$397,000	\$49,280 plus <b>36%</b> of the excess over \$182,600
Over \$397,000	\$126,464 plus <b>39.6%</b> of the excess over \$397,000

# Individual Income Tax Rates

## Individual Income Tax Rates for Joint Filers 2012

If taxable income is:	Then income tax equals:
Married Individuals Filing Joint Returns	
Not over \$17,400	<b>10%</b> of the taxable income
Over \$17,400 but not over \$70,750	\$1,740 plus <b>15%</b> of the excess over \$17,400
Over \$70,700 but not over \$142,700	\$9,735 plus <b>25%</b> of the excess over \$70,700
Over \$142,700 but not over \$217,450	\$27,735 plus <b>28%</b> of the excess over \$142,700
Over \$217,450 but not over \$388,350	\$48,665 plus <b>33%</b> of the excess over \$217,450
Over \$388,350	\$105,062 plus <b>35%</b> of the excess over \$388,350

## Individual Income Tax Rates for Joint Filers 2013

If taxable income is:	Then income tax equals:
Married Individuals Filing Joint Returns	
Not over \$60,350	<b>15%</b> of the taxable income
Over \$60,350 but not over \$145,900	\$9,052 plus <b>28%</b> of the excess over \$60,350
Over \$145,900 but not over \$222,300	\$33,006 plus <b>31%</b> of the excess over \$145,900
Over \$222,300 but not over \$397,000	\$56,650 plus <b>36%</b> of the excess over \$222,300
Over \$397,000	\$119,582 plus <b>39.6%</b> of the excess over \$397,000

# Marriage Penalty and Child Credit

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## Length of 15% Bracket for Married Joint Filers 2012

<b>If taxable income is:</b>	<b>Then income tax equals:</b>
Married Individuals Filing Joint Returns	
Not over \$17,400	10% of the taxable income
Over \$17,400 but not over <b>\$70,750</b>	\$1,740 plus 15% of the excess over \$17,400

## Length of 15% Bracket for Married Joint Filers 2013

<b>If taxable income is:</b>	<b>Then income tax equals:</b>
Married Individuals Filing Joint Returns	
Not over <b>\$60,350</b>	15% of the taxable income

# Marriage Penalty and Child Credit

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## Value of Standard Deduction

	2012	2013*
Single Filer	\$5,950	\$6,100
Joint Filer	\$11,900	\$10,150

\*estimate

## Value of Child Tax Credit

2012	\$1,000 per qualifying child
2013	\$500 per qualifying child

# Other Major Provisions Expiring in 2012

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- ❑ Major provisions expiring in 2012 (cost of one year extension through 2013):
  - ❑ Temporary payroll tax reduction (~\$115 billion)
  - ❑ 50-percent bonus depreciation (~\$4.9 billion)
  - ❑ Placed-in-service date for wind facilities (~\$3.5 billion)
  - ❑ Discharge of indebtedness on principal residence excluded from gross income (~\$1.3 billion)

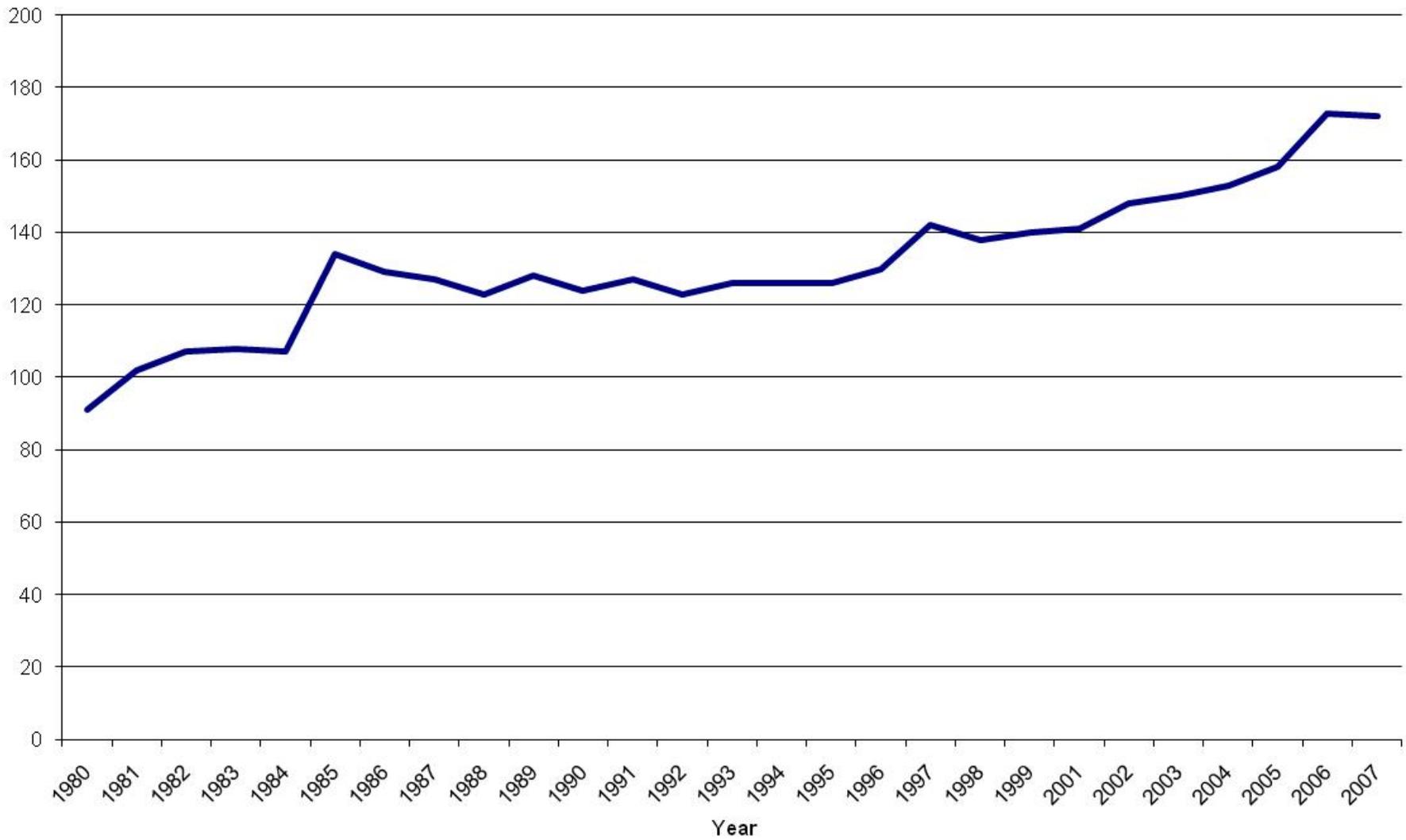
# Other Major Provisions Expired in 2011

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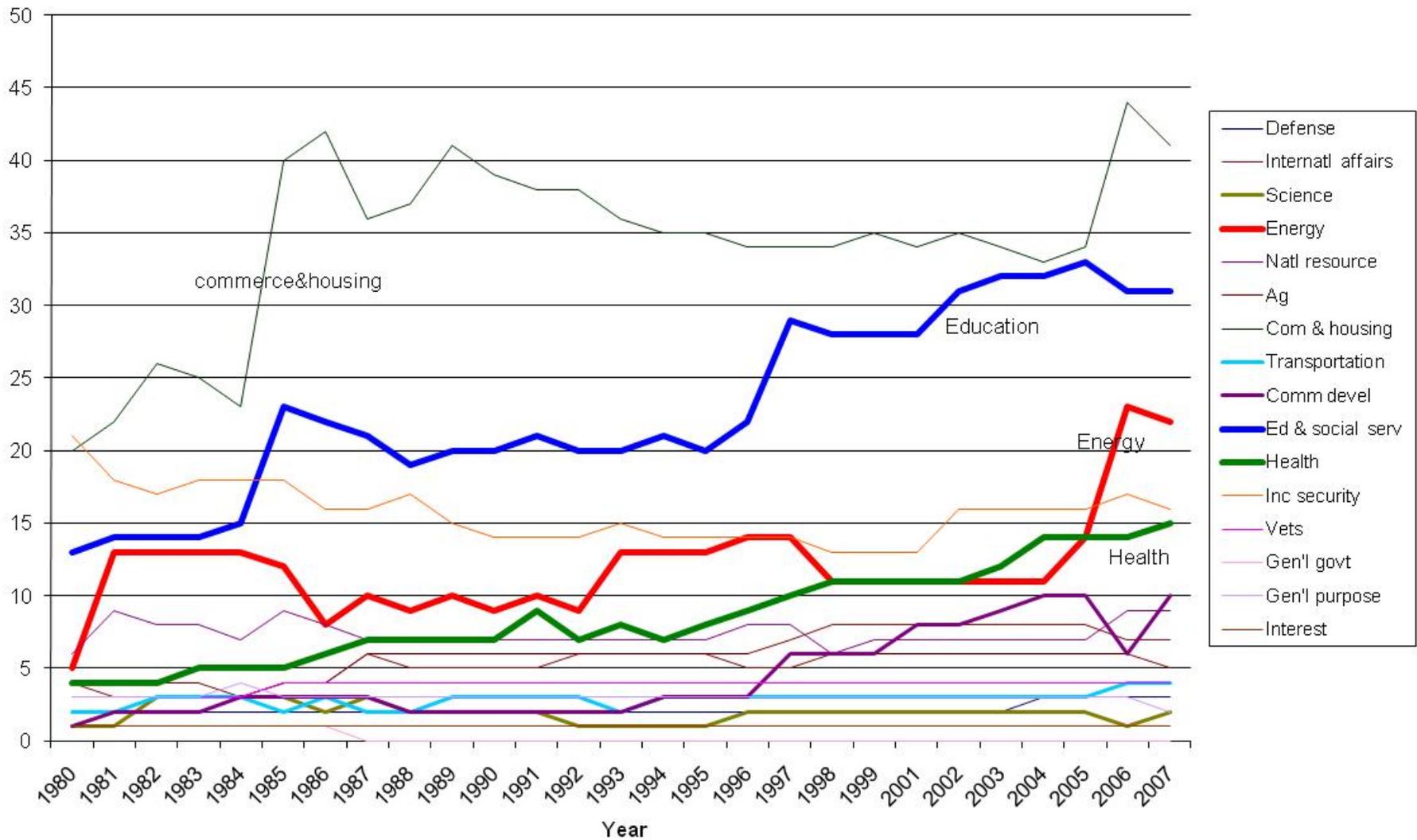
- ❑ Major provisions that expired in 2011 (cost of two-year extension through 2013)
  - ❑ R&D tax credit (~\$14.3 billion)
  - ❑ Exception under Subpart F for active financing income (~\$11.2 billion)
  - ❑ Alcohol fuels income tax credit (~\$10.6 billion)
  - ❑ Deduction of state and local sales taxes (~\$4.4 billion)

# Internal Revenue Code and Tax Expenditures

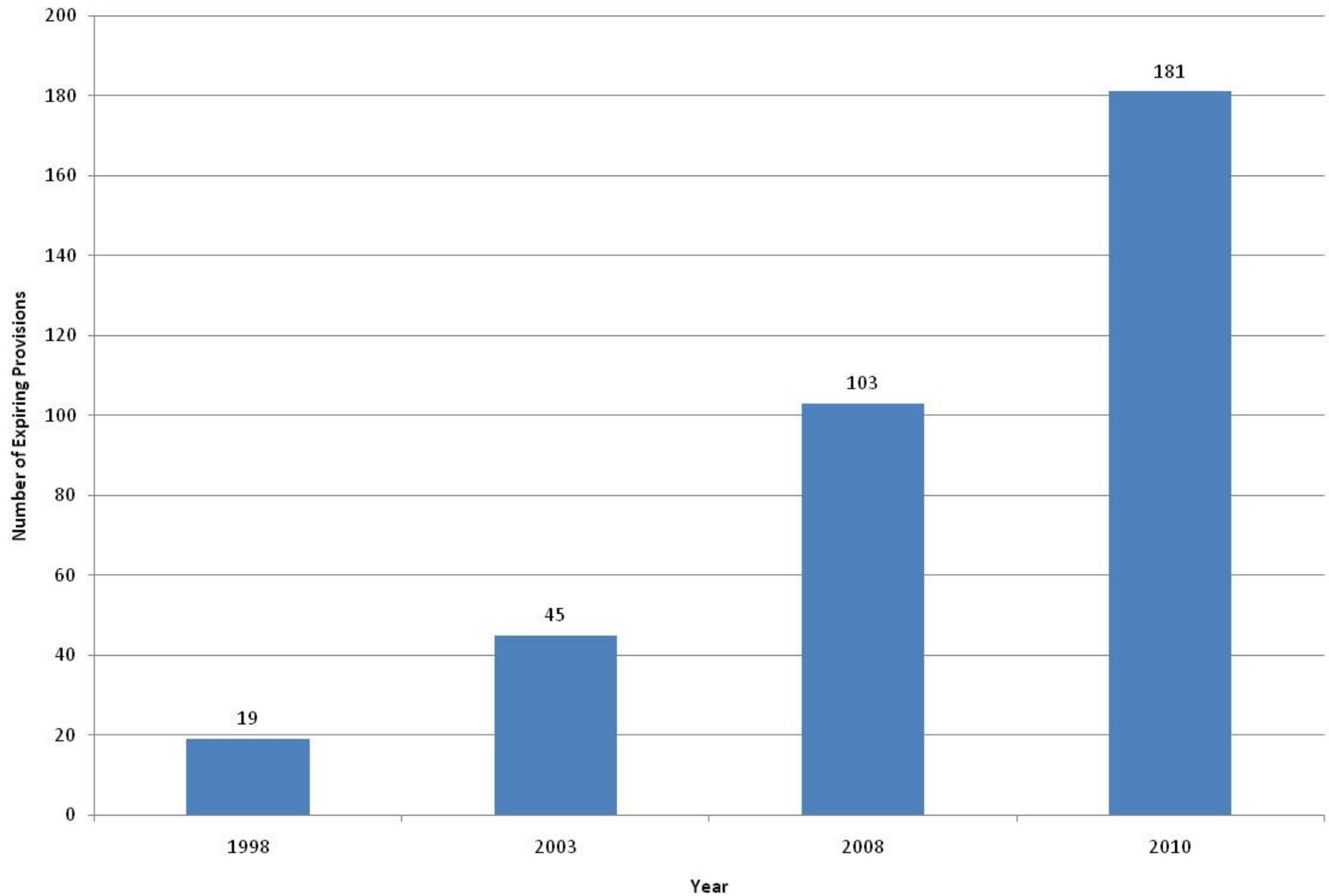
Count of JCT Tax Expenditures, 1980-2007



Count of Tax Expenditures by Category, 1980-2007



## Expired or Expiring Within Three Years



Source: JCX-53R-98, JCX-1-03, JCX-1-08, JCX-3-10

## Expired in Prior Year or Expiring in Current Year

