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An Overview and Comparison of Proposals to Extend the "Bush Tax Cuts": S. 3412, S. 3413, H.R. 8

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Introduction

Many of the provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA; P.L. 107-16) and the Jobs Growth Tax Relief Reconciliation Act of 2003 (JGTRRA; P.L. 108-27), henceforth referred to as the Bush tax cuts, are scheduled to expire at the end of 2012. Two bills introduced in the Senate—S. 3412, the Middle Class Tax Cut Act, offered by Senator Reid and S. 3413, the Tax Hike Prevention Act, offered by Senator Hatch—propose to extend some or all of these tax cuts for one year through the end of 2013.[1] A bill introduced in the House—H.R. 8, the Job Protection and Recession Prevention Act of 2012—is virtually identical to S. 3413 except for its treatment of a business expensing provision. On July 25, 2012, the Senate agreed to the Reid proposal by a vote of 51-48, while they rejected the Hatch proposal (which was offered as amendment 2573 to the Reid proposal) by a vote of 45-54. Any further action would be on a house-originated tax measure.[2] The House is expected to vote on H.R. 8 before the August recess.[3]

This report is organized to first provide an overview of the Bush tax cuts, followed by brief summaries of S. 3412 and S. 3413, henceforth referred to as the Reid and Hatch proposals, respectively. Revenue loss estimates of certain provisions of these bills are also included, as well as a brief summary of H.R. 8, henceforth referred to as the Camp proposal. In addition, detailed summary tables comparing the Reid and Hatch/Camp proposals—to each other and to current law—are provided. Finally, this report concludes with a brief overview of the current policy debate surrounding the partial or full extension of the Bush tax cuts.

Overview

The Bush tax cuts gradually reduced individual income and estate tax liabilities between 2002 and 2010.[4] These tax cuts were extended for 2011 and 2012 by the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (P.L. 111-312), henceforth referred to as the 2010 Tax Act.

The Bush tax cuts lowered income taxes in a variety of ways, including by

- reducing marginal tax rates on ordinary income;

[1] Conceptually S. 3413 is similar to S. 3401, but includes an additional provision extending Section 179 expensing for one year. Similarly, S. 3412 is similar to S. 3393, but does not address the estate tax.

[2] Under Article I, Section 7, clause 1 of the U.S. Constitution, known as "the Origination Clause," the Senate may not originate any measure that includes a provision for raising revenue. The House's primary method for enforcement of the Origination Clause is through a process known as "blue-slipping," which returns to the Senate a measure that the House has determined violates its prerogatives as defined by the Origination Clause. Alternately, on a number of occasions the House has chosen to ignore a Senate-passed bill, and instead to take action on a House bill. For more information, see CRS Report RL31399, The Origination Clause of the U.S. Constitution: Interpretation and Enforcement, by James V. Saturno.

[3] Sam Goldfarb, "Parties Hone Messages on Taxes," *CQ Weekly*, July 30, 2012, http://www.cq.com/doc/weeklyreport-4132597?wr=eFF6UlQqRXM3azIyb3JlTWgxUVozZw.

[4] Other laws enacted during the Bush Administration accelerated the implementation of certain provisions of EGTRRA and JGTRRA or modified provisions in these bills, including the Working Families Tax Relief Act of 2004 (WFTRA; P.L. 108-311), The Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA; P.L. 109-222) and the Emergency Economic Stabilization Act of 2008 (EESA; P.L. 110-343).

- reducing long-term capital gains tax rates and the tax rate on dividends;
- reducing and then repealing income limitations for personal exemptions and itemized deductions (often referred to as PEP and Pease, respectively);
- expanding tax credits, including the earned income tax credit (EITC), the child tax credit, the adoption tax credit, and the dependent care tax credit;
- reducing the marriage penalty by expanding for married couples the standard deduction, the 15% tax bracket and the income phase-out for the EITC; and
- modifying education tax incentives, including Coverdell education saving accounts (ESAs), the student loan interest deduction, and the tax treatment of certain scholarships and fellowships. The Bush tax cuts also created an exclusion for employer-provided educational assistance.

The Bush tax cuts also gradually reduced the estate tax between 2002 and 2009, with a full repeal of the estate tax in 2010.[5] The estate tax is a tax on the estate of a decedent, levied against and paid by the estate.[6] Under EGTRRA, the amount of an estate which was exempt from taxation gradually rose from $1 million per decedent in 2002 to $3.5 million per decedent in 2009, while the top tax rate under the estate tax fell from 50% to 45% over the same time period. In 2010 there was no federal estate tax.

The 2010 Tax Act reinstated the estate tax, but raised the exemption level and lowered the tax rate in comparison to the estate tax in effect in 2009. Specifically, the exemption amount in 2011 was set at $5 million per decedent (adjusted for inflation, this amount equals $5,120,000 per decedent in 2012) and the top tax rate was set at 35%. The estate tax is scheduled to increase in 2013 under current law, with a $1 million per decedent exemption level and 55% top tax rate.

The Bush tax cuts also temporarily enacted the AMT patch which was then extended several more times, most recently by the 2010 Tax Act which extended the AMT patch for one year—2011. The Alternative Minimum Tax, or AMT, was designed to ensure that higher-income taxpayers who owed little or no taxes under the regular income tax because they could claim tax preferences would still pay some tax.[7] Unlike the ordinary income tax however, key components of the AMT are not indexed to inflation. This means that *without* Congressional action to adjust the structure of the AMT, additional taxpayers will be subject to the AMT as a result of inflation.

The AMT patch is an increase in the amount of income exempt from the AMT. In 2011, the AMT-exemption amounts were $74,450 for married individuals filing joint returns and $48,450 for unmarried individuals. These exemption amounts revert to $45,000 for married individuals and $33,750 for unmarried individuals in 2012. In addition, an AMT patch generally also includes a provision which allows taxpayers to reduce their AMT by nonrefundable personal tax credits. In

[5] For more information on the estate tax, see CRS Report 95-444, *A History of Federal Estate, Gift, and Generation-Skipping Taxes*, by John R. Luckey and CRS Report RL30600, *Estate and Gift Taxes: Economic Issues*, by Donald J. Marples and Jane G. Gravelle.

[6] The federal estate and gift taxes are unified. This means that these taxes have the same rate structure. The federal gift tax is imposed on lifetime gifts of property. For more information the relationship between the estate and gift taxes, see CRS Report 95-416, *Federal Estate, Gift, and Generation-Skipping Taxes: A Description of Current Law*, by John R. Luckey.

[7] For more information on the AMT, see CRS Report RL30149, *The Alternative Minimum Tax for Individuals*, by Steven Maguire.

2012, since under current law there is no AMT patch, most nonrefundable personal credits are no longer allowed against the AMT.

A Comparison of S. 3412, S. 3413, and H.R. 8

While there are many similarities between the Reid, Hatch, and Camp proposals, they also differ in several key ways. (A complete comparison of the two bills is included in **Table 1**.) Specifically:

- The Reid proposal would extend the Bush tax cuts for taxpayers with income below $200,000 for single filers, $225,0000 for head of household filers, and $250,000 for married joint filers for 2013.[8] Taxpayers with income above these thresholds would be subject to higher marginal tax rates—36% and 39.6%—than are currently in effect. Both the Hatch and Camp proposals would extend all the Bush tax cuts for 2013. For a detailed example of marginal tax rates under these proposals, see **Table 2**.
- The Reid proposal would extend other temporary provisions for 2013 that were originally included in the American Recovery and Reinvestment Act of 2009 (ARRA; P.L. 111-5) and subsequently extended by the 2010 Tax Act. Specifically, the Reid proposal would extend ARRA provisions that expanded the refundability of the child tax credit, reduced the marriage penalty of the EITC, increased the EITC for families with three or more children, created a new higher education tax credit—the American Opportunity Tax Credit, and disregarded tax refunds and refundable credits in the administration of means-tested Federal programs. Both the Hatch and Camp proposals would not extend these provisions.
- The Reid proposal does not address the estate tax. Hence, under current law, the estate tax would revert to a $1 million exemption level per decedent and a top tax rate of 55%. Both the Hatch and Camp proposals would extend the 2010 Tax Act provisions of the estate tax—a $5 million exemption level per decedent and top tax rate of 35%—for 2013.
- The Reid proposal would extend the AMT patch for one year, 2012, while both the Hatch and Camp proposals would extend the AMT patch for 2012 and 2013.
- The Reid proposal would extend enhanced Section 179 expensing amounts and threshold limits—$250,000 and $800,000, respectively—for 2013. The Hatch proposal would extend the 2010 and 2011 enhanced expensing amounts and threshold limits—$500,000 and $2 million, respectively—for 2013. The Camp proposal would extend the Section 179 expensing amounts and threshold limits—$100,000 and $400,000, respectively—for 2013 (these levels are indexed for inflation and are estimated to be $127,000 and $510,000, respectively in 2013).
- Finally, the Hatch proposal would require the Senate Finance Committee to report tax reform legislation within 12 months with a top individual rate of 35%, a top corporate rate of 25% and a permanent repeal of the AMT. The Camp

[8] According to the legislative language, these thresholds will be indexed for inflation occurring since 2009.

proposal does not include this requirement, but a companion bill H.R. 6169 would allow the House to consider tax reform legislation under expedited procedures in the 113th Congress. The Reid proposal does not include the requirement of the Hatch proposal.

To provide additional context for these proposals, **Table 1** and **Table 2** also include the tax law in effect for 2012 (referred to as current policy) and the tax law scheduled to be in effect in 2013 (referred to as current law).

Budgetary Cost

The Joint Committee on Taxation (JCT) estimates the revenue losses from the Reid proposal (S. 3412) to be $249.66 billion over the 10-year budgetary window of 2013 through 2022 and the revenue losses from the Camp proposal to be $403.15 billion over the same 10-year budgetary window, while a complete estimate of the revenue losses from the Hatch proposal (S. 3413) is not currently available.[9] According to these estimates:

- Under the Reid proposal, the revenue losses from extending the EGTRRA and JGTRRA individual income tax provisions for 2013 are estimated to be $129.53 billion over the 10-year budgetary window of 2013 through 2022, while the equivalent revenue losses under the Hatch proposal are estimated to be $177.49 billion between 2013 through 2022. The equivalent revenue losses under the Camp proposal are estimated to be $178.63 billion between 2013 through 2022.[10]
- Under the Reid proposal, the revenue losses from extending temporary tax cut provisions included in ARRA for 2013 are estimated to be $27.22 billion over the 10-year budgetary window of 2013 through 2022. Both the Hatch and Camp proposals do not extend these provisions.
- Under the Reid proposal, the revenue losses from extending enhanced Section 179 expensing amounts and threshold limits are estimated to be $878 million over the 10-year budgetary window of 2013 through 2022, while the revenue losses from the Hatch proposal regarding enhanced Section 179 expensing amounts and threshold limits are not currently available. The revenue losses under the Camp proposal are estimated to be $581 million between 2013 through 2022.
- Under the Reid proposal, the revenue losses from extending the AMT patch *for one year—2012*—are estimated to be $92.04 billion over the 10-year budgetary window of 2013 through 2022. An estimate of the revenue losses of the Hatch proposal AMT patch provision—which would extend the AMT patch for 2012 and 2013—is currently unavailable. However, the revenue loss estimates from

[9] Joint Committee on Taxation, *Estimated Revenue Effects of the "Middle Class Tax Cut Act",* July 19, 2012, #12-2-112 R3, Joint Committee on Taxation, *Estimated Revenue Effects of a Possible Modification to the "Tax Relief Act of 2012,"* July 18, 2012, #12-2-116 and Joint Committee on Taxation, *Estimated Revenue Effects of H.R. 8, the "Job Protection and Recession Prevention Act of 2012,"*July 24, 2012, JCX-64-12.

[10] The slight differences in the score arise from a $1.14 billion difference in how the extension of the current tax rates on dividends is scored, not as a result of a policy difference between the Hatch and Camp proposals.

the Camp proposal would result in an estimated $192.73 billion in revenue losses over the 10-year budgetary window of 2013 through 2022.

- The Reid proposal does not address the estate tax and hence there are no revenue losses under this proposal in comparison to current law, while the revenue losses from the Hatch and Camp proposals—which extend the 2011 and 2012 estate tax provisions for 2013—are estimated to be $31.21 billion over the 10-year budgetary window of 2013 through 2022.

Table 1. Side by Side Comparison of the Bush Tax Cut Proposals for 2013

Provision	**Current Policy** *In Effect in 2012* *(Bush Tax Cuts in Effect)*	Hatch and Camp Proposals for 2013	Reid Proposal for 2013	**Current Law** *In Effect in 2013* *(Bush Tax Cuts Expired)*
		Bush Tax Cuts (EGTRRA and JGTRRA) and Applicable ARRA Modifications		
10% Tax Bracket	This tax bracket applies to a portion of taxable income that was, prior to the Bush Tax Cuts, subject to the 15% bracket. For more detail, see **Table 2**.	Same as under the Scenario "Current Policy." For more detail, see **Table 2**.	Same as under the Scenario "Current Policy." For more detail, see **Table 2**.	This bracket expires and taxable income that was previously subject to the 10% rate will be subject to the 15% rate. For more detail, see **Table 2**.
Tax Rates in Top Four Tax Brackets	35% | 33% | 28% | 25% For more detail, see **Table 2**.	Same as under the Scenario "Current Policy." For more detail, see **Table 2**.	The 28% and 25% brackets would remain unchanged from "Current Policy." The 33% bracket would be in effect for taxpayers with AGI under $200,000 single filers, $225,000 head of household filers and $250,000 married joint filers.[a] Taxable income above this threshold and below the limit for the 36% threshold would be subject to the 36% rate Taxable income subject to 35% rate would now be subject to 39.6% rate For more detail, see **Table 2**.	39.6% | 36% | 31% | 28% For more detail, see **Table 2**.

Provision	**Current Policy** *In Effect in 2012* *(Bush Tax Cuts in Effect)*	**Hatch and Camp Proposals for 2013**	**Reid Proposal for 2013**	**Current Law** *In Effect in 2013* *(Bush Tax Cuts Expired)*
Tax Rates on Capital Gains and Dividends	The top tax rate for both long-term capital gains and qualified dividends is 15%.	Same as under the Scenario "Current Policy."	The top tax rate for both long-term capital gains and qualified dividends remains 15% for taxpayers with AGI under the applicable threshold. The top tax rate for both long-term capital gains and qualified dividends would rise to 20% for taxpayers with AGI above the applicable threshold. The applicable threshold is $200,000 for single filers, $225,000 for head of household filers, and $250,000 for married joint filers. [a]	The top tax rate for long-term capital gains will rise to 20% and dividends will be taxed at ordinary income tax rates.[b]
Limits on Itemized Deductions (Pease)	There are no income limitations on the overall amount of itemized deductions a taxpayer can claim (i.e., the Pease imitation is fully repealed).	Same as under the Scenario "Current Policy."	There will be no income limitations on the overall amount of itemized deductions for taxpayers with AGI below the applicable threshold. The overall limitation on itemized deductions would be in effect for taxpayers with income above the applicable AGI threshold (i.e., the Pease imitation is partially repealed). The applicable threshold is $200,000 and $250,000 for married joint filers.[a]	The overall limitation on itemized deductions will be restored. For higher income taxpayers, the total amount of itemized deductions will be reduced by 3% of the amount by which the taxpayer's AGI exceeds an applicable threshold, adjusted annually for inflation. The total amount of itemized deductions will not be reduced by more than 80%. For 2013, the JCT estimates the applicable Pease threshold to be $177,550.

Provision	**Current Policy** *In Effect in 2012 (Bush Tax Cuts in Effect)*	Hatch and Camp Proposals for 2013	Reid Proposal for 2013	**Current Law** *In Effect in 2013 (Bush Tax Cuts Expired)*
Personal Exemptions Phase-Out (PEP)	There are no overall income restrictions on the amount of personal exemptions a taxpayer can claim (i.e., the PEP limitation is fully repealed).	Same as under the Scenario "Current Policy."	There will be no income limitations on the overall amount of personal exemptions for taxpayers with AGI below the applicable threshold. The overall limitation on personal exemptions would be in effect for taxpayers with income above the applicable AGI threshold (i.e., the PEP limitation is partially repealed). The applicable threshold is set at $200,000 for singles, $225,000 for head of household filers, and $250,000 for married joint filers.[a]	The limit on personal exemptions will be restored. For higher income taxpayers, the total amount of exemptions that can be claimed will be reduced by 2% for each $2,500 by which the taxpayer's AGI exceeds applicable thresholds, adjusted annually for inflation. For 2013, the JCT estimates the applicable Pease threshold to be $177,550 for single filers, $221,950 for head of household filers and $266,300 for married joint filers.
Child Tax Credit	The child credit is $1,000 per eligible child. The child tax credit is partially refundable using the earned income formula which is equal to 15% of a family's earnings in excess of a refundability threshold of $10,000 (indexed for inflation annually). *ARRA Modifications* *ARRA lowered the refundability threshold used in the formula to $3,000 (not indexed for inflation) for 2009 and 2010. This lower threshold was extended for 2011 and 2012 by P.L. 111-312.*	The proposal would extend the modifications made to the child tax credit by the Bush tax cuts. It would not extend the ARRA modifications. JCT estimates that the refundability threshold ($10,000 indexed for inflation), would be $13,350 in 2013.	Same as under the Scenario "Current Policy." Both the Bush tax cuts and the ARRA modifications would be extended.	The child credit will be $500 per eligible child. The child tax credit will be non-refundable for most families (the earned income formula expires).

Provision	**Current Policy** *In Effect in 2012* *(Bush Tax Cuts in Effect)*	**Hatch and Camp Proposals for 2013**	**Reid Proposal for 2013**	**Current Law** *In Effect in 2013* *(Bush Tax Cuts Expired)*
Adoption Tax Benefits	Eligible taxpayers can claim two adoption tax benefits, although the combined level of qualified expenses is limited to $10,000 (indexed for inflation). In 2012, this limit is $12,650. Specifically, in 2012, a taxpayer can either exclude from their income up to $12,650 of employer provided adoption assistance or claim a tax credit of up to $12,650, or a combination of both tax benefits as long as the combined level of qualified expenses does not exceed $12,650. In 2012, the combined limit for qualified expenses is $12,650. Both the tax credit and exclusion phase-out for taxpayers with incomes between $189,710-$229,710 in 2012 (indexed for annually for inflation).	Same as under the Scenario "Current Policy."	Same as under the Scenario "Current Policy."	The adoption tax credit will be available only for special needs adoptions. The exclusion for employer provided adoption assistance will expire. The limit for the credit will be reduced to $6,000 (not indexed for inflation). The phase-out range for the credit will be $75,000-$115,000 (not indexed for inflation).
Dependent Care Tax Credit	The dependent care credit is equal to 35% of the first $3,000 of eligible expenses for one qualifying individual ($6,000 of qualifying expenses for two or more eligible individuals). The 35% credit rate is reduced for incomes above $15,000.	Same as under the Scenario "Current Policy."	Same as under the Scenario "Current Policy."	The dependent care credit will be equal to 30% of the first $2,400 of eligible expenses for one qualifying individual ($4,800 for two or more qualifying individuals). The 30% credit rate will be reduced for incomes above $10,000.
Standard Deduction for Married Couples	The deduction for married couples is 200% the deduction for singles	Same as under the Scenario "Current Policy."	Same as under the Scenario "Current Policy."	The deduction for married couples will be 167% the deduction for singles.
15% Bracket for Married Couples	The upper limit of this bracket is equal to 200% (i.e., double) the upper limit for singles.	Same as under the Scenario "Current Policy."	Same as under the Scenario "Current Policy."	The upper limit of this bracket will be equal to 167% of the upper limit for singles.

Provision	**Current Policy** *In Effect in 2012* *(Bush Tax Cuts in Effect)*	**Hatch and Camp Proposals for 2013**	**Reid Proposal for 2013**	**Current Law** *In Effect in 2013* *(Bush Tax Cuts Expired)*
Earned Income Tax Credit Marriage Penalty Relief	The income level at which the EITC begins to phase-out for married taxpayers in comparison to unmarried taxpayers was increased. Specifically, it was increased by $3,000 under EGTRRA. *ARRA Modifications* *This amount was increased to $5,000 by ARRA (this amount was indexed for inflation). This modification was extended for 2011 and 2012 by P.L. 111-312.*	The proposal would extend the modifications made to the child tax credit by the Bush tax cuts. It would not extend the ARRA modifications. Hence, the phase-out level for married taxpayers would be $3,000 more than the level for unmarried taxpayers. (This increase in the phase-out level would be indexed for inflation.)	Same as under the Scenario "Current Law in 2012." Both the EGTRRA and ARRA modifications would be extended, hence the $5,000 increase in phase-out level would be extended. (This increase in the phase-out level would be indexed for inflation.)	The higher phase-out level for married taxpayers will expire and their phase-out levels will be the same as for unmarried taxpayers.
Employer Provided Educational Assistance	Up to $5,250 of qualifying employer provided educational assistance is excluded from income and hence not subject to taxation.	Same as under the Scenario "Current Policy."	Same as under the Scenario "Current Policy."	The provision will expire.
Student Loan Interest Deduction	Up to $2,500 of student loan interest expenses can be deducted from gross income (as an above-the-line deduction). The amount that can be deducted phases out between $55,000-$70,000 ($110,000-$140,000 for married joint filers), adjusted for inflation.	Same as under the Scenario "Current Policy."	Same as under the Scenario "Current Policy."	The deduction can only be claimed by eligible taxpayers for the first 60 months (5 years) of interest payments. In addition, the income phase-out levels are reduced to $40,000-$55,000 ($60,000-$75,000 for married joint filers), adjusted for inflation. The JCT estimates the phase-out ranges will be $50,000-$65,000 ($75,000-$90,000 for married joint filers) in 2013.

Provision	**Current Policy** *In Effect in 2012* *(Bush Tax Cuts in Effect)*	**Hatch and Camp Proposals for 2013**	**Reid Proposal for 2013**	**Current Law** *In Effect in 2013* *(Bush Tax Cuts Expired)*
Coverdells Education Savings Accounts (ESAs)	Coverdell ESAs are modified in several ways, including: (1) The maximum contribution amount for a beneficiary is $2,000 per year (2) Qualified expenses include elementary and secondary school expenses (kindergarten through 12th grade), in addition to higher education expenses (3) The phase-out range for married taxpayers is $190,000-$220,000, not indexed for inflation (double the phase-out range for singles) (4) Age limitations are waived for special needs beneficiaries (5) Beneficiaries who use Coverdells can also claim education tax credits without penalty (expenses paid for with Coverdell funds cannot be used to claim credits) (6) Contributions can be made to both a 529 plan and Coverdell for the same beneficiary without penalty.	Same as under the Scenario "Current Policy."	Same as under the Scenario "Current Policy."	These modifications expire, hence: (1) The maximum contribution amount for a beneficiary will be $500 per year (2) Qualified expenses will be limited to higher education expenses (3) The phase-out range for married taxpayers will be $150,000-$160,000, not indexed for inflation (4) Contributions can be made up until the beneficiary is 18 years old and all distributions must be made when the beneficiary turns 30 for both non-special needs and special needs beneficiaries (5) If taxpayers claim education tax credits when they take a Coverdell distribution, their distribution will be subject to taxation (6) Contributions made to a Coverdell for a beneficiary will be subject to a 6% excise tax if contributions for the same beneficiary are made to a 529 plan in the same year.

Provision	**Current Policy** *In Effect in 2012* *(Bush Tax Cuts in Effect)*	**Hatch and Camp Proposals for 2013**	**Reid Proposal for 2013**	**Current Law** *In Effect in 2013* *(Bush Tax Cuts Expired)*
Tax Treatment of National Health Service Corps Scholarships and F. Edward Herbert Armed Forces Health Professions Scholarship and Financial Assistance Programs	Students must generally pay taxes on any part of a scholarship, fellowship, or tuition reduction that can be attributed to teaching, research, or other services that have been performed, are being performed, or will be performed. A temporary exception to this general rule is allowed for funding received from the National Health Service Corps Scholarship Program and the F. Edward Hebert Armed Forces Health Professions Scholarship and Financial Assistance Program.	Same as under the Scenario "Current Policy."	Same as under the Scenario "Current Policy."	Funding received from the National Health Service Corps Scholarship Program and the F. Edward Hebert Armed Forces Health Professions Scholarship and Financial Assistance Program will be included as part of income and hence subject to taxation.
Estate Tax Exemption Level and Top Rate	Under EGTRRA the estate tax gradually phased out such that in 2009, the top exemption amount was $3.5 million per decedent with a 45% tax rate and there was no estate tax in 2010. Per legislative changes made by P.L. 111-312 for 2011 and 2012, the exemption amount was equal to $5 million per decedent indexed for inflation and the top tax rate was 35%.	Same as under the Scenario "Current Policy. " Specifically the exemption amount would be $5 million per decedent indexed for inflation and the top tax rate would be 35%.	Same as under the Scenario "Current Law."	The top exemption amount will fall to $1 million per decedent (not indexed for inflation) and the top tax rate will rise to 55%.

Provision	**Current Policy** *In Effect in 2012* *(Bush Tax Cuts in Effect)*	**Hatch and Camp Proposals for 2013**	**Reid Proposal for 2013**	**Current Law** *In Effect in 2013* *(Bush Tax Cuts Expired)*
		Other Provisions		
AMT Patch	The AMT Patch expired at the end of 2011. Hence for the 2012 tax year, the AMT exemption amounts were $33,750 for individuals and $45,000 for married individuals in 2012. In 2012, under current law, most nonrefundable personal credits will no longer be allowed against the AMT.	The proposal reinstates the AMT Patch for 2012 and 2013. For 2012, the exemption amounts would be $50,600 for individuals and $78,750 for married joint filers. For 2013, the respective exemption amounts would be $51,150 and $79.850. Nonrefundable personal credit would be allowed against the AMT for 2012 and 2013.	The proposal reinstates the AMT Patch for 2012. For 2012, the exemption amounts would be $50,600 for individuals and $78,750 for married joint filers. Nonrefundable personal credit would be allowed against the AMT for 2012.	NA
EITC Expansion (ARRA)	The EITC for families with three or more children is 45% as a result of ARRA modifications.	Same as under the Scenario "Current Law."	Same as under the Scenario "Current Policy." The EITC expansion for families with three or more children would be extended.	The 45% EITC for families with three or more children will expire. Families with three or more children will be eligible for the 40% EITC (which is for families with two or more children).
The American Opportunity Tax Credit (AOTC)	The AOTC is in effect. The ARRA temporarily replaced the permanent Hope Credit for higher education expenses with the larger and partially refundable American Opportunity Tax Credit (AOTC), and P.L. 111-312 extended this credit for 2011 and 2012.	Same as under the Scenario "Current Law." The AOTC would expire.	Same as under the Scenario "Current Policy." The AOTC would be extended.	The AOTC will expire. Taxpayers may be eligible for the Hope Credit.

Provision	**Current Policy** *In Effect in 2012* *(Bush Tax Cuts in Effect)*	**Hatch and Camp Proposals for 2013**		**Reid Proposal for 2013**	**Current Law** *In Effect in 2013* *(Bush Tax Cuts Expired)*
		Hatch	**Camp**		
Section 179 Expensing	Taxpayers may elect to deduct the cost of a property placed in service for a given year instead of depreciating those costs over time. The amount that can be deducted and the income level at which this benefit phases out have been increased temporarily several times. In 2012, the maximum amount that can be deducted is $125,000, with a phase-out level of $500,000.	The maximum amount that could be deducted would be set at $500,000, with a $2 million phase-out level.	The maximum amount that could be deducted would be set at $100,000, with a $400,000 phase-out level, indexed for inflation.	The maximum amount that could be deducted would be set at $250,000, with a $800,000 phase-out level.	In 2013, the temporary expansions to the Section 179 deduction will expire and the parameters of the deduction will revert to their permanent levels. Specifically, the maximum amount that can be deducted will fall to $25,000, with a phase-out level of $200,000.
Disregard for Means Tested Programs	P.L. 111-312 included a provision which disregarded all refundable tax credits and refunds when determining eligibility for means tested programs in 2012.	The refund and tax credit disregard would expire.		The refund and tax credit disregard would be extended.	Refunds and tax credits will be included when determining eligibility for certain means-tested programs.

Sources: S. 3413 and S. 3412, The Joint Committee on Taxation. JCS-2-12, The Joint Committee on Taxation. JCX-63-12, and Table 1 in CRS Report R42485, *An Overview of Tax Provisions Expiring in 2012*, by Margot L. Crandall-Hollick.

Notes: EGTRRA refers to the Economic Growth and Tax Relief Reconciliation Act of 2001 (P.L. 107-16) and JGTRRA refers to the Jobs Growth Tax Relief Reconciliation Act of 2003 (P.L. 108-27). There are other provisions addressed in the both the Hatch/Camp proposal and the Reid proposals specifically (1) EGTRRA provided employers with a tax credit of up to $150,000 for acquiring, constructing, rehabilitating, or expanding property used for a child care facility. The Hatch/Camp and Reid proposals extend this provision for 2013; (2) EGTRRA increased the small-issuer arbitrage rebate exception for school construction from $10 million to $15 million. The Hatch/Camp and Reid proposals extend this $15 million level for 2013; (3) EGTRRA expanded the definition of private activity fog which tax-exempt bonds may be issued to include bonds for qualified public educational facilities. The Hatch/Camp and Reid proposals extend the allowance to issue tax-exempt private bonds for public school facilities for 2013; (4) EGTRRA allowed an election in which Alaska Native Settlement trusts can pay a lower tax rate than generally applies to trusts. The Hatch/Camp and Reid proposals extend the this tax relief for 2013.
NA = not applicable.

a. These applicable thresholds are indexed for inflation occurring since 2009.

b. In addition, a scheduled 3.8% surtax on investment income for taxpayers with income above the $200,000/$250,000 married joint filer threshold, included as part of the Affordable Care Act, is scheduled to go into effect in 2013.

Table 2. Tax Brackets Under S. 3413, H.R. 8, and S. 3412 for Different Filing Statuses, 2013

Hatch Proposal-S. 3413 & Camp Proposal-H.R.8 (Current Policy)		Current Law		Reid Proposal-S. 3412	
Single Filers					
Taxable Income *(over-but not over)*	***Rate***	***Taxable Income*** *(over-but not over)*	***Rate***	***Taxable Income*** *(over-but not over)*	***Rate***
$0-$8,900	10%	$0-$36,150	15%	$0-$8,900	10%
$8,900-$36,150	15%			$8,900-$36,150	15%
$36,150-$87,550	25%	$36,150-$87,550	28%	$36,150-$87,550	25%
$87,550-$182,600	28%	$87,550-$182,600	31%	$87,550-$182,600	28%
$182,600-$397,000	33%	$182,600-$397,000	36%	$182,600-$202.900[a]	33%
				$202,900[a]-$397,000	36%
$397,000-	35%	$397,000	39.6%	$397,000	39.6%
Head of Household Filers					
Taxable Income *(over-but not over)*	***Rate***	***Taxable Income*** *(over-but not over)*	***Rate***	***Taxable Income*** *(over-but not over)*	***Rate***
$0-$12,700	10%	$0-$48,400	15%	$0-$12,700	10%
$12,700-$48,400	15%			$12,700-$48,400	15%
$48,400-$125,000	25%	$48,400-$125,000	28%	$48,400-$125,000	25%
$125,000-$202,450	28%	$125,000-$202,450	31%	$125,000-$202,450	28%
$202,450-$397,000	33%	$202,450-$397,000	36%	$202,450-$224,550[b]	33%
				$224,550[b]-$397,000	36%
$397,000-	35%	$397,000	39.6%	$397,000	39.6%
Married Joint Filers					
Taxable Income *(over-but not over)*	***Rate***	***Taxable Income*** *(over-but not over)*	***Rate***	***Taxable Income*** *(over-but not over)*	***Rate***
$0-$17,800	10%	$0-$63,500[c]	15%	$0-$17,800	10%
$17,800-$72,300[c]	15%			$17,800-$72,300[c]	15%
$72,300-$145,900	25%	$60,350-$145,900	28%	$72,300-$145,900	25%
$145,900-$222,300	28%	$145,900-$222,300	31%	$145,900-$222,300	28%
$222,300-$397,000	33%	$222,300-$397,000	36%	$222,300-$246,200[d]	33%
				$246,200[d]-$397,000	36%
$397,000-	35%	$397,000	39.6%	$397,000	39.6%

Source: Joint Committee on Taxation, *Description of Revenue Provisions Contained In The President's Fiscal Year 2013 Budget Proposal*, June 18, 2012, JCS-2-12, Tables 5 & 6.

Notes: These brackets are based on estimates of the individual income rate structure in 2013 from the Joint Committee on Taxation. The actual brackets for 2013 may differ.

a. In 2013, the 33% bracket in effect in 2012 is split into the 33% and 36% bracket with single filers with taxable income less than $202,900 ($200,000 of AGI minus the basic standard deduction and one personal exemption, adjusted for inflation), subject to the 33% rate.

b. In 2013, the 33% bracket in effect in 2012 is split into the 33% and 36% bracket. The starting point of the 36% bracket is set at the midpoint of the starting point for single filers and married joint filers, rounded down to the nearest $50.

c. For married joint filers, the top of the 15% bracket is scheduled to be equal to 167% of the top of the 15% bracket for singles upon the extension of the Bush Tax Cuts. The extension of the Bush Tax Cuts would extend the provision whereby the 15% bracket for married joint filers is 200% the bracket for singles.

d. In 2013, the 33% bracket in effect in 2012 is split into the 33% and 36% bracket with married joint filers with taxable income less than $246,200 ($250,000 of AGI minus the basic standard deduction and two personal exemptions, adjusted for inflation), subject to the 33% rate.

Policy Debate[11]

Supporters and opponents of the Bush tax cuts generally evaluate the Bush tax cuts from different perspectives. Supporters of the tax cuts stress both their long-term and short-term economic benefits. Opponents often emphasize that the tax cuts are costly in terms of reduced revenues and that the benefits of this policy disproportionally accrue to the highest income taxpayers.

When the Bush tax cuts were originally proposed, proponents stressed that by reducing marginal tax rates, this policy would lessen some of the distortions taxes had on work, saving, and investment, ultimately boosting long-term growth. For example, by reducing marginal tax rates, individuals would have more take-home pay, theoretically incentivizing them to work more. Advocates also highlighted that lower marginal rates on investment income—capital gains and dividends—would encourage increased investment, although analysis indicates capital gains may have little or no effect on saving.[12] Ultimately, this increased economic activity would boost long-term economic growth. The results of many economic studies, have shown that tax cuts generally do affect growth (and components of growth).[13] They have also generally shown, however, that the impact of tax cuts on growth is small in relation to the foregone revenue resulting from the cut.[14]

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[11] A more detailed overview of the policy debate, including on provisions not addressed in this paper, like the AMT, can be found in CRS Report R42485, *An Overview of Tax Provisions Expiring in 2012*, by Margot L. Crandall-Hollick.

[12] For more information on the economic impact of capital gains taxation, including a distribution analysis of beneficiaries of lower capital gains rates, see CRS Report R40411, *The Economic Effects of Capital Gains Taxation*, by Thomas L. Hungerford.

[13] In an analysis of the budgetary cost of the Bush tax cuts, CBO stated: "The policies [Bush tax cuts] undoubtedly exerted at least some influence on the economy…Those economic feedbacks on today's budget, however, are likely to be modest." For more information, see Congressional Budget Office, *Letter to the Honorable John M. Spratt, Jr.*, July 20, 2007, http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/83xx/doc8337/07-20-egtrra-jgtrra_and_deficits.pdf.

[14] Lowering marginal tax rates would theoretically increase the amount taxpayers work and so would theoretically increase their income (all else being equal). The sensitivity of income to changes in marginal tax rates is referred to as elasticity. An elasticity less than one implies that changes in taxpayers' income were proportionally less than the changes in the tax rate, while an elasticity greater than one implies that income gains are proportionally larger than the tax cut. A recent review of other studies found that the elasticity of income to tax rate changes was between 0.12 to 0.40. Since the resulting increase in income is proportionally smaller than the cut in marginal rates, government revenues will fall as a result of the cut. See Emmanuel Saez, Joel Slemrod, and Seth Giertz, "The Elasticity of Taxable Income with Respect to Marginal Tax Rates: A Critical Review," *Journal of Economic Literature*, vol. 50, no. 1 (2012), pp. 42. Similarly, CBO found that a 10% tax rate cut would offset between 5%-32% of the cost of cut in terms of revenue losses over the second 5 years of a year budgetary window. For more information, see Congressional (continued...)

When the Bush tax cuts were being considered by Congress in 2001, the economy had slipped into a recession. Tax-cut advocates were highlighting the short-term stimulative benefits of the tax cuts. The scheduled expiration of the Bush tax cuts at the end of 2012 is also occurring at a time of relatively weak economic growth and high unemployment. Recent estimates by CBO have concluded that the extension of the Bush tax cuts would have a limited stimulative benefit on the economy in 2013—estimating that every $1 dollar of Bush tax cuts would result in 10 to 60 cents of additional GDP.[15] Yet, while the Bush tax cuts may not have been an effective short-term stimulus *in response to a recession*, some economists warn that allowing these tax cuts to expire in 2013, at the same time as a scheduled fiscal contraction, may have a negative effect on the economy.[16]

Opponents of extending all the Bush tax cuts highlight both their high cost as well as the fact that most of the benefits go to upper-income taxpayers. Recent estimates by CBO indicate that the Bush tax cuts, whose costs were not offset, increased the deficit by $1.75 trillion over the past 10 years (2002-2011).[17] The 2010 Tax Act's two-year extension of the income and estate tax provisions of the Bush tax cuts (including the ARRA modifications which are also proposed to be extended by the Reid proposal) reduced revenues by $475.79 billion over a 10-year budgetary window (2011-2020).[18] Of these revenue losses, $363.55 billion is attributable to the extension of the income tax provisions of EGTRRA and JGTRRA. However, the revenue losses of the extending the Bush tax cuts for all but high income taxpayers is significant. The Reid and Hatch proposals to extend the EGTRRA and JGTRRA individual income tax provisions for one year—2013—would reduce revenues by $129.53 billion and $177.46 billion respectively for the 10-year budgetary window from 2013 through 2022.[19] Hence, extending the Bush tax cuts for taxpayers with income below $200,000 for single filers and $250,000 for married joint filers would cost approximately 72% of extending the tax cuts for all taxpayers.

While the expiration of the Bush tax cuts for higher income taxpayer may not yield significant cost savings in comparison to an extension for all taxpayers, critics still posit that it will help

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Budget Office, *Analyzing the Economic and Budgetary Effects of a 10 Percent Cut in Income Tax Rates*, Economic and Budget Issue Brief, December 1, 2005, http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/69xx/doc6908/12-01-10percenttaxcut.pdf. In so far as tax cuts are deficit-financed, they may actually negatively impact growth. For example, the Joint Committee on Taxation, in modeling the economic effects of reducing individual and corporate tax rates, found that "Growth eventually become(s) negative without offsetting fiscal policy…because accumulating Federal government debt crowds out private investment." Joint Committee on Taxation, *Macroeconomic Analysis of Various Proposals to Provide $500 Billion in Tax Relief*, JCX-4-05, March 1, 2005, p. 2.

[15] See Table 1, CBO, Policies for Increasing Economic Growth and Employment in 2012 and 2013, November 2011, http://www.cbo.gov/publication/42717. Of the policies examined, tax cuts were one of the least stimulative.

[16] Mark Zandi, chief economist at Moody's Analytics, testified to the Joint Economic Committee that the scheduled spending cuts included in the Budget Control Act which go into effect in 2013 and combined expiration of extended unemployment insurance benefits, the payroll tax cuts, and the Bush tax cuts in 2013 will reduce real GDP growth by nearly 3 percentage points in 2013. See http://jec.senate.gov/public//index.cfm?a=Files.Serve&File_id=df8f2728-94fa-4339-992a-a9b8d2505fc2.

[17] CBO, *Change in CBO's Baseline Projection of the Surplus Since January 2001*, May 12, 2011, http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/121xx/doc12187/changesbaselineprojections.pdf.

[18] Joint Committee on Taxation, *Estimated Budget Effects of the "Tax Relief Unemployment Insurance Reauthorization and Job Creation Act of 2010", Scheduled for Consideration by the United States Senate*, December 10, 2010, JCX-54-10.

[19] Joint Committee on Taxation, *Estimated Revenue Effects of the "Middle Class Tax Cut Act",* July 19, 2012, #12-2-112 R3 and Joint Committee on Taxation, *Estimated Revenue Effects of a Possible Modification to the "Tax Relief Act of 2012",* July 18, 2012, #12-2-116.

lessen inequity in the tax code that resulted from the Bush tax cuts. According to estimates examining tax burdens in 2010, the Bush tax cuts resulted in the lowest 20% of taxpayers seeing their after-tax income rise by 0.5%, while the top 20% saw their after-tax incomes rise by 4.9% and the top 1% saw their income rise by 6.6%, a distribution that critics highlight benefits wealthier taxpayers.[20] While comparative estimates of the distributional impact of the Reid, Hatch and Camp proposals are currently unavailable, the Reid proposal may reduce some of the gains in after-tax income for upper income taxpayers that resulted from the Bush tax cuts and which would continue under the Hatch and Camp proposals.[21]

The distributional impact of the Bush tax cuts—and hence the impact of a full extension as proposed by Senator Hatch and Chairman Camp—may be relevant to policy makers if they are concerned with growing income inequality in the United States.[22] A recent CBO report highlighted that while the main driver of increasing after-tax income inequality was the increasing concentration of *pre-tax income* among the wealthiest Americans, government transfers and federal tax policy also contributed to the growth of after-tax income inequality.[23] As the CBO report indicated, the equalizing impact of taxes depends on their progressivity,[24] with increasing progressivity reducing income inequality (holding the size of tax receipts constant).[25] The Bush tax cuts overall reduced the progressivity of federal income taxes[26] and hence were a factor in increases in income inequality in the United States, according to CBO. In this case, allowing the Bush tax cuts to expire for upper income earners would result in a more progressive tax code in comparison to an extension for all taxpayers.

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[20] Tax Policy Center. These estimates include the impact of the AMT-patch and the 2008 EESA recovery payments. Table T10-0232.

[21] However certain provisions of the Bush tax cuts which tend to benefit upper-income taxpayers like the preferential tax rates on capital gains and dividends do not expire under the Reid proposal. Instead of the marginal tax rates for both dividend and capital gains rise to 20% for upper income taxpayers (if the Bush tax cuts expired, dividends would be taxed as ordinary income). For more information on the distributional impact of the preferential capital gains tax rates, see CRS Report R40411, *The Economic Effects of Capital Gains Taxation*, by Thomas L. Hungerford.

[22] For example see, Emmanuel Saez, "Striking It Richer: The Evolution of Top Income in the United States (Updated with 2009 and 2010 estimates)," March 2, 2012, http://emlab.berkeley.edu/~saez/saez-UStopincomes-2010.pdf. In addition, see CRS Report R42400, *The U.S. Income Distribution and Mobility: Trends and International Comparisons*, by Linda Levine.

[23] CBO, *Trends in the Distribution of Household Income Between 1979 and 2007*, October. 2011.

[24] The current federal income tax is progressive meaning that taxes as a share of income increases as income levels of increase.

[25] CBO, *Trends in the Distribution of Household Income Between 1979 and 2007*, October. 2011, p. 20.

[26] CBO, *Trends in the Distribution of Household Income Between 1979 and 2007*, October 2011, p. 27.