



## OBAMA ADMINISTRATION TAX PROPOSALS

Excerpts from **The US Department of the Treasury,**  
**“General Explanations of the Administration’s Fiscal Year 2011 Revenue Proposals”<sup>1</sup>**

### **CONTINUE THE 2001 AND 2003 TAX CUTS**

Most of the tax reductions enacted in 2001 and 2003 expire on December 31, 2010. The Administration’s baseline projection of current policy continues all of these expiring provisions except for repeal of estate, gift, and generation-skipping transfer (GST) taxes. Estate and gift and GST taxes are assumed to be extended at parameters in effect for calendar year 2009 (a top rate of 45 percent and an exemption amount of \$3.5 million).

### **REINSTATE THE 39.6-PERCENT RATE**

#### **Reason for Change**

Increasing the income tax liability of higher-income taxpayers would reduce the deficit, make the income tax system more progressive and distribute the cost of government more fairly among taxpayers of various income levels.

#### **Proposal**

The Administration’s tax receipts baseline assumes a policy of permanently extending the EGTRRA tax rates. This proposal would permit the EGTRRA reduction in the highest income tax rate to sunset after 2010. Thus, beginning in 2011, the highest income tax rate would be 39.6 percent. At 2010 levels, the 39.6-percent rate would apply to taxable incomes over \$373,650 for married taxpayers filing jointly, heads of household and single filers. However, the taxable income levels at which this rate begins to apply would be indexed for inflation for 2011 and for each year thereafter.

### **REINSTATE THE 36-PERCENT RATE FOR TAXPAYERS WITH INCOME OVER \$250,000 (MARRIED) AND \$200,000 (SINGLE)**

#### **Reason for Change**

Increasing the income tax liability of higher-income taxpayers would reduce the deficit, make the income tax system more progressive and distribute the cost of government more fairly among taxpayers of various income levels.

#### **Proposal**

The Administration’s tax receipts baseline assumes a policy of permanently extending the EGTRRA tax rates. This proposal would permit the EGTRRA reduction in the second highest income tax rate to sunset after 2010. Thus, beginning in 2011, the second highest tax rate would be 36 percent. The taxable income levels at which that rate begins to apply would vary by filing status and would be indexed annually for inflation. The 36-percent tax rate would apply to taxable income above the following amounts but less than the income levels at which the 39.6-percent rate would apply: \$250,000 less the standard deduction and two personal exemptions, indexed from 2009, for married taxpayers filing jointly; \$200,000 less the standard deduction and one personal exemption, indexed for

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<sup>1</sup> US Department of the Treasury, “General Explanations of the Administration’s Fiscal Year 2011,” Feb 2010, Accessed Mar 3, 2010 from <http://www.treas.gov/offices/tax-policy/library/greenbk10.pdf>



inflation from 2009, for single filers. The 28-percent tax rate bracket would be expanded so that taxpayers earning less than these amounts would not see their taxes rise as a result of the increased tax rate brackets.

## **IMPOSE A 20-PERCENT RATE ON CAPITAL GAINS AND DIVIDENDS FOR TAXPAYERS WITH INCOME OVER \$250,000 (MARRIED) AND \$200,000 (SINGLE)**

### **Reasons for Change**

Lower- and middle-income taxpayers should be protected from the tax increase that would otherwise occur in 2011. Allowing the 15-percent rate to expire for high-income taxpayers who are most able to absorb the rate increase would still keep the top rate for long-term capital gains at historically low levels. The 20-percent maximum rate on capital gains would be the same as the maximum capital gains rate enacted in 1987, and is the same as the top rate enacted in 1981. Taxing qualified dividends at the same low rate as capital gains reduces the tax bias against equity investment and helps promote more efficient allocation of capital since investors can choose to reallocate their dividends to the most productive investments.

### **Proposal**

The Administration's tax receipts baseline assumes a policy of permanently extending the zero- and 15-percent tax rates for qualified dividends and long-term capital gains for certain taxpayers. The 0- and 15-percent tax rates for long-term capital gains and qualified dividends would be extended permanently for taxpayers with incomes up to \$250,000 for joint returns and \$200,000 for single taxpayers. The 20-percent tax rate on long-term capital gains and qualified dividends would apply for married taxpayers filing jointly with income over \$250,000 less the standard deduction and two personal exemptions (indexed from 2009) and for single taxpayers with income over \$200,000 less the standard deduction and one personal exemption (indexed from 2009). The reduced rates on gains on assets held over 5 years would be repealed.

This proposal is effective for taxable years beginning after December 31, 2010.

## **LIMIT THE TAX RATE AT WHICH ITEMIZED DEDUCTIONS REDUCE TAX LIABILITY TO 28 PERCENT**

### **Reasons for Change**

Increasing the income tax liability of higher-income taxpayers would reduce the deficit, make the income tax system more progressive, and distribute the cost of government more fairly among taxpayers of various income levels.

### **Proposal**

The proposal would limit the value of all itemized deductions by limiting the tax value of those deductions to 28 percent whenever they would otherwise reduce taxable income in the 36 or 39.6 percent tax brackets. A similar limitation also would apply under the AMT. This proposal would apply to itemized deductions after they have been reduced under a separate budget proposal that would reinstate the pre-EGTRRA limitation on certain itemized deductions, but with adjusted AGI thresholds in 2011 of \$250,000 (indexed from 2009) for married taxpayers filing jointly and \$200,000 (indexed from 2009) for other taxpayers. After 2011, these thresholds would be indexed.

The proposal is effective for taxable years beginning after December 31, 2010.

## **ELIMINATE CAPITAL GAINS TAXATION ON INVESTMENTS IN SMALL BUSINESS STOCK**



Under the proposal the percentage exclusion for qualified small business stock sold by an individual or other non-corporate taxpayer would be increased permanently to 100 percent and the AMT preference item for gain excluded under this provision would be eliminated. As under current law, the stock would have to be held for at least five years and other limitations on the section 1202 exclusion would continue to apply. The proposal would include additional documentation requirements to assure compliance with those limitations.

The proposal would be effective for qualified small business stock acquired after February 17, 2009.

2011 Tax Rates under Extended Baseline and as Proposed in 2011 Budget			
Taxable Income		Marginal Tax Rate	
Over	But not over	Extended Baseline	Budget Proposal
<b>Single</b>			
\$0	\$8,500	10%	10%
\$8,500	\$34,550	15%	15%
\$34,550	\$83,700	25%	25%
\$83,700	\$174,600	28%	28%
\$174,650	\$194,050	33%	28%
\$194,050	\$379,650	33%	36%
\$379,650	---	35%	39.6%
<b>Married Filing Jointly</b>			
\$0	\$17,000	10%	10%
\$17,000	\$69,100	15%	15%
\$69,100	\$139,500	25%	25%
\$139,500	\$212,600	28%	28%
\$212,600	\$235,450	33%	28%
\$235,450	\$379,650	33%	36%
\$379,650	---	35%	39.6%
<b>Head of Household</b>			
\$0	\$12,150	10%	10%
\$12,150	\$46,300	15%	15%
\$46,300	\$119,550	25%	25%
\$119,550	\$193,600	28%	28%
\$193,600	\$214,750	33%	28%
\$214,750	\$379,650	33%	36%
\$379,650	---	35%	39.6%

Tax Rate would decrease

Tax Rate would increase

Source: Rosanne Altshuler et al., "Tax Proposals in the 2011 Budget," Urban-Brookings Tax Policy Center, Accessed Mar 1, 2010 from [http://www.taxpolicycenter.org/UploadedPDF/412029\\_2011\\_budget.pdf](http://www.taxpolicycenter.org/UploadedPDF/412029_2011_budget.pdf).