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How the 2001 and 2003 Tax Cuts Affect Hypothetical Families

By Adam Carasso,
C. Eugene Steuerle, and
Mohammed Adeel Saleem

How do the 2001 and 2003 tax cuts affect families and tax return filers? What are the tax consequences of having children or being middle-income? The following discussion addresses these questions for an array of families with varying income, number of children, and marital status, for tax year 2003.

The table below shows the combined amount of tax cut each hypothetical household received from the 2001 and 2003 tax cuts at different levels of adjusted gross income (AGI). The table also shows the estimated number of filers in the actual population for each type of hypothetical household.

Under the 2001 tax cut, the new 10 percent bracket was generally of largest benefit to low- and middle-income filers. Under the 2003 tax cut, the child credit expansion (up to an additional \$400 per child) is the

most important tax provision for families with children and earning less than \$75,000, while rate reductions combined with the 15 percent bracket expansion dominate for families earning more than \$100,000 and for single filers at all income levels. For millionaires, while reducing the taxes on capital gains and dividends lowers taxes thousands of dollars, lowering the top two tax rates (for example, 39.6 percent to 35 percent, and 36 percent to 33 percent) lowers taxes by tens of thousands of dollars.

While larger families with children benefit most from the expanded child credit, many such families who are middle-to-upper income find their net benefit limited because they are pushed onto the alternative minimum tax (AMT) (expressed in the table by an asterisk).

Families earning \$10,000 and below do not benefit from the tax cuts as they tend not to owe any income taxes and the new "refundable" portion of the child credit is not available until income exceeds \$10,500 in 2003. As to who pays taxes after the tax cuts, some families with low wages receive larger refunds (expressed in the table in bold italics), while filers at AGI levels of \$500,000 and \$1 million still tend to pay taxes exceeding \$100,000 and \$200,000.

The Combined 2001 and 2003 Tax Cuts for Hypothetical Families by Type of Filer for Tax Year 2003								
AGI	Single	Head of Household			Married Filing Jointly			
# of kids	0	1	2	3	0	1	2	3
# of filers	39.4 mil	8.4 mil	4.6 mil	0.8 mil	23.3 mil	9.2 mil	9.2 mil	3.1 mil
\$10,000	\$110	\$0	\$0	\$0	\$76	\$0	\$0	\$0
\$25,000	350	999	<i>1,442</i>	<i>1,368</i>	702	<i>1,210</i>	<i>1,661</i>	<i>1,579</i>
\$35,000	350	1,000	1,500	2,000	932	1,433	1,897	2,245
\$50,000	669	1,073	1,572	2,073	773	1,272	1,773	2,271
\$75,000	1,318	1,587	2,058	3,821	1,714	1,817	1,938	2,437
\$100,000	2,001	1,743	2,401	3,348	2,596	3,004	3,413	4,510
\$200,000	5,218	2,673*	2,673*	2,673*	5,623	5,531	4,918*	4,364*
\$500,000	15,585	14,822*	14,822*	14,822*	12,328*	12,328*	12,328*	12,328*
\$1,000,000	37,713	37,573	37,573	37,573	38,426	38,426	38,426	38,426

Notes: Tax calculations account for both the regular and alternative minimum tax (AMT), and include taxation of capital gains and dividends. Households receiving a larger tax refund — rather than a reduction in actual taxes owed — are in bold italics. Households on the AMT are indicated by an asterisk. All children qualify for the dependency exemption, the earned income tax credit, and the child tax credit. Please see <http://www.taxpolicycenter.org/commentary/families.cfm#family> for expanded tables and more details.

Source: Urban-Brookings Tax Policy Center Microsimulation Model, October 2003.



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