Senator Kerry's Tax Proposals

Leonard E. Burman and Jeffrey Rohaly[1]
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This note provides a very preliminary summary and distributional analysis of Senator Kerry's tax proposals. Some details of the proposal are not publicly available. The following summary is based on information from Kerry's website (speeches, press releases, and policy papers), communications with campaign staff and advisors, and some guesses about how the proposals will be made operational. The Tax Policy Center will update and correct this as more details become available.

Summary

Senator Kerry has said that he will repeal the Bush tax cuts for households with incomes over $200,000, but not the middle-class tax cuts, which he intends to make permanent. (See Table 1.) He also proposes a new refundable tax credit for higher education expenses, and changes to the estate tax. On balance, these provisions would reduce federal revenues by at least $425 billion over ten years compared with present law. (See Table 2.)

Present law assumes that the entire 2001 and 2003 tax cuts sunset in 2010 or before, as scheduled under present law. Since Senator Kerry would extend some of the 2001 and 2003 tax cuts past 2010, and since he would introduce a new higher education tax credit, the net effect of these proposals is to reduce revenue relative to the official current-law baseline. If instead, we assumed that many of the expiring tax cuts would be extended as proposed by the President (a so-called "extended baseline"), these proposals represent a tax increase of $721 billion.

For businesses, Senator Kerry proposes a 5 percent (1.75 percentage point) reduction in corporate tax rates, financed by increasing the tax on US corporations that produce goods and services overseas for third-country markets and by the elimination of corporate tax loopholes. In addition, Kerry would provide a temporary new jobs tax credit for manufacturers, small businesses, and those whose workers are affected by outsourcing, paid for by a "tax holiday"—a discounted corporate tax rate—for companies that repatriate foreign earnings. The campaign has estimated that these provisions together would be roughly revenue neutral. (We have not verified that estimate.)

Three tax credits aim to expand health insurance coverage: a tax credit of up to 50 percent of premiums paid by small businesses on behalf of their employees, a refundable tax credit for 75 percent of premiums paid by displaced workers for up to six months of coverage, and a refundable 25 percent credit for early retirees aged 55 to 64 who do not have access to employer-sponsored health insurance. The Kerry campaign estimates that these provisions would reduce federal revenues by $177 billion over ten years. (We have not verified these estimates.)

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There are also proposals for tax credits for new technology, a tax credit for telecommunications companies that deploy broadband in rural and underserved areas, a 20 percent tax credit for the purchase of energy efficient building equipment, and tax credits for small employers of salaried reservists called up to active duty. The energy-efficient equipment credit would cost roughly $1 billion. No estimates are currently available for the other proposals.

Preliminary Analysis

Senator Kerry's tax proposals would increase the deficit by less than the President's. (On the other hand, although they are not the focus of this analysis, Senator Kerry's non-tax proposals would likely have a more adverse effect on the deficit than the President's.) Both candidates would reduce taxes by far more in the out years—after 2014—than in the short-term budget window, although the cost of the President's proposals would grow much faster.[2] Senator Kerry's proposed tax cuts are much more progressive than the President's, providing little or no tax cuts for very high-income taxpayers but larger tax cuts for lower- and middle-income households.

<u>Repeal Bush Tax Cuts for People with Income over $200,000 and Make Middle Class Tax Cuts Permanent</u>

Kerry proposes to repeal Bush's tax cuts for families with incomes over $200,000, although exact details are unclear. We assume that the plan would restore the top two marginal income tax rates to 36 and 39.6 percent (from 33 and 35 percent now) and restore two high-income phaseouts—for itemized deductions (Pease) and personal exemptions (both of which are currently scheduled to phase out by 2008). We also assume that taxpayers in the top two brackets would face the same marginal tax rates on capital gains and dividends as they did under prior law, except that the special lower 18-percent tax rate for assets held at least five years will not reappear in 2009, as scheduled under current law.[3]

The estate tax, currently being phased out, would be retained, but the current top rate of 48 percent would be frozen in place and the exemption level would increase to $2 million in 2005 and remain there permanently. Certain farms and small businesses could qualify for a $5 million exemption, on the condition that heirs keep them in operation for at least 10 years. The proposal represents the largest tax increase in 2009 (when the exemption is currently scheduled to increase from $1.5 million to $2.5 million) and 2010 (when the estate tax is scheduled to expire for one year), but it would also increase tax payments in earlier years because tax avoidance associated with repeal of the estate tax would be curtailed. On balance, the estate tax changes would raise $8 billion over ten years as compared with current law.

[2] Gale and Orszag (2004) have examined the effects of President Bush's proposal to make the 2001 and 2003 tax cuts permanent, and Burman, Gale, and Orszag (2003) explain why the proposals to significantly expand tax-free savings opportunities would likely result in very large and growing revenue losses over time.

[3] Otherwise, this provision would create significant additional complexity for a comparatively small tax break for most taxpayers.

Since Senator Kerry has promised not to increase taxes for anyone with income under $200,000, the proposal will apparently include a hold-harmless provision allowing such taxpayers to calculate their taxes under the old rules (what is now current law) and pay that amount if it is lower than the tax due under the new regime.

College Opportunity Tax Credit (COTC)

Senator Kerry would provide a new refundable tax credit for expenses of post-secondary education. Like the current Hope tax credit, the College Opportunity Tax Credit would be a 100 percent tax credit for the first $1,000 of eligible expenses; a 50 percent credit would apply to the next $3,000 of expenses (rather than $1,000 under current law). The maximum credit would thus be $2,500 (versus $1,500 under current law). We assume that, like the Hope tax credit, the maximum allowable expenses would be indexed for inflation after 2005. The Hope credit applies only to the first two years of post-secondary education; the COTC would expand eligibility to the first four years of post-secondary education in a qualifying institution. In addition, the credit would be refundable, so eligible students or their parents could claim the full credit even if they had little or no tax liability.

The new credit would effectively replace the Hope tax credit. Since the COTC is more generous than the lifetime learning tax credit for those students who meet its eligibility criteria, the lifetime learning credit would only be used by graduate students, undergraduates past their fourth year of study and other students not eligible for the COTC such as those attending school less than half-time or not pursuing a degree. We assume that under the Kerry plan, the above-the-line deduction for tuition and fees would remain in place for the 2005 tax year and then be allowed to sunset as scheduled on December 31, 2005. We estimate that all of these changes would reduce tax revenues by about $71 billion over ten years.[4]

Under current law, the Hope and lifetime learning credits are subject to an AMT limitation for years after 2003.[5] The Administration's 2005 Budget proposes to extend a provision allowing the education credits, as well as certain other personal non-refundable credits, regardless of AMT through 2005. In our estimates, we therefore assume that the COTC would be allowed against the AMT for 2005 but would be limited by AMT in 2006 and thereafter. If the COTC were to be allowed against the AMT permanently, its ten-year cost would increase by more than $19 billion to about $91 billion.

New Jobs Tax Credit

Senator Kerry proposes a new tax credit to cover employer’s payroll taxes for new manufacturing jobs. The credit covers 100 percent of employer contributions for Social Security and Medicare payroll taxes (equal to 7.65 percent of wages for all but high-income employees) for employees in excess of the prior year’s average. The credit would be available for two years. The campaign claims that the cost of this provision will be roughly offset by a one-year “tax holiday,” in which multinational corporations can repatriate foreign earnings at a discounted tax

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[4] This cost is measured against a baseline in which the rest of the Kerry tax plan is enacted.
[5] The credits cannot reduce a taxpayer's liability below the amount of his or her tentative alternative minimum tax.

rate of 10 percent, less than one third as much as the corporate tax rate of 35 percent that ordinarily applies.

Eliminate Deferral for Multinational Companies that Export to US, Cut Corporate Tax Rates, and Close Corporate Tax Shelters

The proposal would end deferral of US tax liability for foreign subsidiaries of US multinationals, except to the extent that that the foreign subsidiary is selling in its own country. The anti-deferral provisions would finance a cut in corporate tax rates by 5 percent (1.75 percentage points) according to the Kerry campaign.

Other Tax Provisions

Increase the Child and Dependent Care Tax Credit and Make it Partially Refundable. Under current law, taxpayers may claim a nonrefundable tax credit for up to 35 percent of child care expenses up to $3,000 per child for one or two children. The credit rate phases down to 20 percent as income increases and the credit is limited to the earnings of the lower earning spouse (or the head of household's earnings for single parents). Because the credit is nonrefundable, few taxpayers can benefit from the higher credit rates. Senator Kerry proposes to increase the maximum amount of qualifying expenses from $3,000 to $5,000, make the credit partially refundable, and make a credit available to stay-at-home parents of infants. The Kerry campaign estimates that this proposal would cost about $20 billion over ten years, and be paid for by closing corporate tax loopholes. We cannot verify these estimates.

Refundable Tax Credits for Small Businesses to Purchase Health Care Coverage. Kerry's plan would for the first time create a refundable business tax credit, worth up to 50 percent of the cost of a small employer's contributions toward health insurance premiums.

Tax Credit for Laid Off Workers. Laid off workers would receive a 75 percent refundable credit towards the cost of health insurance premiums for up to six months.

Tax Credit for Early Retirees Without Employer Sponsored Health Insurance. Individuals aged 55 to 64 who do not have access to employer-sponsored health insurance would receive a 25 percent refundable tax credit toward the cost of health insurance purchased through the FEHBP. Health economist Kenneth Thorpe estimates the cost of these provisions at $177 billion over ten years. By comparison, the President's health-related provisions proposed in his Budget would cost about $120 billion.

A 20 percent tax credit for the purchase of energy-efficient building equipment. The proposal would allow a 20 percent nonrefundable credit against the cost of certain electric and natural gas heat pumps and hot water heaters. The ten-year cost of this proposal is likely to be around $1 billion (based on Treasury estimates of a similar provision proposed in 2000).

A tax credit to telecommunications companies that deploy broadband in rural and underserved parts of America. (No details are available.)

Tax credit for called up reservists. For employers with 50 or fewer employees, the proposal would provide a tax credit of up to $12,000 per worker called up for the reserves. A credit of up to $20,000 credit would be available for manufacturing companies with fewer than 100 employees. Half of the credit would cover the reservist's salary while half may be used to hire and train a temporary replacement.

Distributional Effects

The Kerry plan (excluding the health insurance, business tax measures, and child care tax credit proposals) would provide a tax cut relative to current law for most tax units with incomes under about $500,000 in 2005.[6] (See Table 3.) The average tax cut would be about $146. The largest tax cut would go to middle- and upper-middle income households. The middle fifth of tax units would gain close to 30 percent of the net tax cut, and the fourth quintile would get almost half of the net cut. (See Table 4.) The bottom four quintiles get more than 100 percent of the net tax cut because the top quintile pays a net tax increase, averaging $41 in 2005. Those with more than $1 million of income would face a substantial tax increase, averaging $93,503 more in tax in 2005.

Compared to the extended baseline in which all of the President's proposed extensions are enacted, the Kerry plan would produce a net tax increase. Tax units would pay an average $194 more under the Kerry plan in 2005 than under the extended baseline. (See Table 5.) Households with incomes under $200,000 would pay lower taxes, but those with higher incomes would pay higher taxes.[7] Relative to the extended baseline, the bottom four quintiles pay slightly lower taxes, largely because of the college opportunity tax credit. Taxpayers in the top quintile would pay an average of $1,213 more in taxes. (See Table 6.)

In 2011, after the 2001 and 2003 tax cuts are set to expire, most households would pay lower taxes under the Kerry plan, by an average of $1,003. (See Table 7.) That is because the Kerry plan would make the middle class tax cuts permanent and would raise the threshold for the estate tax relative to current law, in which all of the Bush tax cuts are scheduled to expire after 2010. Taxpayers in every income class would get a tax cut, with the largest tax cuts in the top quintile. (See Table 8.)

Relative to the extended baseline, the Kerry plan primarily affects high-income taxpayers, who would pay higher taxes. (See Tables 9 and 10.) There are small average tax cuts among those with incomes under $100,000 (in 2003 dollars), attributable to the college opportunity tax credit.[8]

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[6] We measure income as "cash income," a broader measure of income than AGI and similar to the measure used by JCT and Treasury. For details, see "Description of Income Measures" at http://taxpolicycenter.org/TaxModel/tmdb/TMTemplate.cfm?DocID=574.

[7] Note that these estimates do not account for the "hold harmless" provision in the Kerry plan that would guarantee that taxpayers with incomes under $200,000 do not pay higher taxes under the new law. Because very few households are in that category, it would likely have very small effects on the estimates.

[8] Apparently, the Kerry plan would make permanent the savers' tax credit, a provision that President Bush does not propose to extend. This would only benefit taxpayers with lower incomes and is not shown in the table or in the revenue estimates.

Fiscal Responsibility

The Kerry plan would reduce tax revenues compared with current law by about $602 billion over ten years, including $361 billion to make the middle class tax cuts permanent for taxpayers with incomes under $200,000, $71 billion for the college opportunity tax credit, and $177 billion for the health insurance tax incentives. All told, Treasury estimated that the President's budget proposals would reduce revenues by $1,240 billion, of which about $990 billion is attributable to making most of the 2001 and 2003 tax cuts permanent. (We estimate that those provisions alone would reduce revenues by about $1.2 trillion; the Treasury assumes that lower tax rates lead to higher taxable income, which reduces their cost.) However, Kerry also proposes new spending programs aimed at expanding health insurance coverage that Kenneth Thorpe estimates would cost $653 billion over the 10-year budget period. Thus, on balance, these elements of the two plans would add roughly the same amount to the federal debt over the decade.[9]

Estimates for both proposals assume the individual alternative minimum tax relief is extended only through 2005, an unreasonable assumption. In addition, the cost of extending certain perennially expiring tax provisions is excluded. As a result, the revenue baseline is artificially inflated. That means that future deficits could well be significantly larger than implied by official projections, even before accounting for the additional tax cuts and spending increases.

[9] The Kerry campaign claims that there will be other budgetary savings associated with the war in Iraq not reflected in these comparisons.

REFERENCES

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Table 1: Expiring Tax Cuts and Extension Proposals

	Enacted Policy	Information Reported	Pre-EGTRRA	EGTRRA	JGTRRA	FY 2005 Budget Proposal	Kerry Proposal
General Income and Estate Tax Cuts	Reduce top four income tax rates	Tax rate	28, 31, 36, 39.6	2001-03: 27, 30, 35, 38.6 2004-05: 26, 29, 34, 37.6 2006-10: 25, 28, 33, 35	2003-10: 25, 28, 33, 35	2011 and on: 25, 28, 33, 35	2005 and on: 25, 28, 36, 39.6
	Create 10 percent bracket	Taxable income cap for married couples	0	2001-07: $12,000 2008: $14,000 2009-10: Indexed	2003: $14,000 2004: $14,300	2005: $14,300, indexed thereafter	2005: $14,300, indexed thereafter
	Increase AMT exemption	Exemption level	$33,750 Single $45,000 Married	2001-04: $35,750 Single, $49,000 Married	2003-04: $40,250 Single, $58,000 Married	2005 only: $40,250 Single, $58,000 Married	2005 only: $40,250 Single, $58,000 Married
	Repeal PEP and PEASE	Percent reduction relative to pre-EGTRRA law	0	2006-07: 33% 2008-09: 66% 2010: Repealed		2011 and on Repeal	0
	Reduce dividend tax rates	Tax rate	Taxed as ordinary income		2003-07: 5, 15 2007: 0, 15	2009 and on: 0, 15	2005-07: 5, 15, 36, 39.6 2008 on: 0, 15, 36, 39.6
	Reduce capital gains rates	Tax rate	10, 20 (with exceptions)		2003-07: 5, 15 2007: 0, 15	2009 and on: 0, 15	2005-07: 5, 15, 20, 20 2008 on: 0, 15, 20, 20
	Repeal estate Tax	Exemption level, highest effective tax rate	$675,000, 60%	2002: $1 million, 50% …gradually changing to… 2009: $3.5 million, 45% 2010: repeal		2011 and on: repeal	2005 and on: $2 million, 48% $4 million QFOBI

	Enacted Policy	Information Reported	Pre-EGTRRA	EGTRRA	JGTRRA	FY 2005 Budget Proposal	Kerry Proposal
Children and Marital Status	Expand child credit	Maximum credit amount	$500	2001-04: $600 2005-08: $700 2009: $800 2010: $1000	2003-04: $1000	2005 and on: $1000	2005 and on: $1000
	Expand standard deduction for married couples	Deduction for couples as percent of deduction for singles	167%	2005: 174% 2006: 184% 2007: 187% 2008: 190% 2009-10: 200%	2003-04: 200%	2005 and on: 200%	2005 and on: 200%
	Expand 15-percent bracket for married couples	Maximum income as percent of maximum for singles	167%	2005: 180% 2006: 187% 2007: 193% 2008-10: 200%	2003-04: 200%	2005 and on: 200%	2005 and on: 200%
	Expand EITC for married couples	Increase beginning and end of phaseout	NA	2002-04: $1000 2005-07: $2000 2008: $3000 2009-10: indexed		2011 and on: indexed	2011 and on: indexed
	Expand Child and Dependent Care Tax Credit	Maximum $ per kid, max rate, refundability	$2,000, 30%, nonrefundable	2003-2010: $3,000, 35%, nonrefundable			2005 and on: $5,000, 35%, partially refundable

	Enacted Policy	Information Reported	Pre-EGTRRA	EGTRRA	JGTRRA	FY 2005 Budget Proposal	Kerry Proposal
Saving	Raise traditional and Roth IRA contribution limits	Contribution limit	$2000	2002-04: $3000 2005-07: $4000 2008: $5000 2009-10: indexed		2011 and on: indexed	2011 and on: indexed
	Increase 401(k) contribution limits	Contribution limit	$10,000	2002-06: raise by $1,000 per year 2006: $15,000 2007-10: indexed		2011 and on: indexed	2011 and on: indexed
	Increase IRA and 401(k) contribution limits for people over 50	Additional allowable contributions	NA	2002-05: $500 2006-10: $1000		2011 and on: $1000	2011 and on: $1000
	Create Roth 401(k)	Contribution limit	NA	2006-07: $4000 2007: $5000 2009-10: indexed	2005-07: $4000 2008: $5000 2009-10: indexed	2011 and on: indexed	2011 and on: indexed
	Create Saver's Credit	Eligible income range for married couple, credit rate	NA	2002-2006: $0-30,000, 50% $30,000-32,500, 20% $32,500-50,000, 10%		Allow expiration	?

	Enacted Policy	Information Reported	Pre-EGTRRA	EGTRRA	JGTRRA	FY 2005 Budget Proposal	Kerry Proposal
Education	Raise Education IRA contribution limits	Contribution limit	$500	2002-10: $2,000		2011 and on: $2000	2011 and on: $2000
	Increase eligibility for education IRA contributions	Income phaseout range	$180k-210k	2002-10: $190k-220k		2011 and on: $190k-220k	2011 and on: $190k-220k
	Create Deduction for Education Expenses	Eligible income cap for married couple, deduction limit	NA	2002-03: $130,000, $3000 2004-05: $130,000, $4000 2006: Expires		Allow expiration	Repealed
	Expand deductible student loan interest payments	Income phase-out range	$45k-60k single $90k-120k married	2002: $50k-65k single $100k-130k married 2003-10: indexed		2011 and on: indexed	2011 and on: indexed
	Create prepaid tuition programs	NA	NA	2002-10: Allows purchase of tuition credits on behalf of a beneficiary		Make permanent	Make permanent

Source: Joint Committee on Taxation 2001 and 2003. Summary Of Provisions Contained In The Conference Agreement For H.R. 1836, The Economic Growth And Tax Relief Reconciliation Act Of 2001. Summary Of Conference Agreement On H.R. 2, The "Jobs And Growth Tax Relief Reconciliation Act Of 2003"

Table 2A
Calendar-Year Revenue Change Due to Selected Kerry Proposals
Relative to Current Law and Administration's Extended Baseline, 2005-14[1]

Proposal	Revenue Change Relative to Current Law		Revenue Change Relative to Extended Baseline[2]	
	2005-2009	2005-2014	2005-2009	2005-2014
Make middle class income tax cuts permanent and repeal high-income tax cuts[3]	103	-394	248	632
Modify estate tax[4]	19	0	28	233
Enact College Opportunity Tax Credit[5]	-37	-78	-37	-78
Subtotal TPC estimates	84	-473	239	786
Health tax credits (Kerry campaign estimate)				
Small business	-24	-67	-24	-67
Early retirees	-23	-66	-23	-66
Workers between jobs	-14	-44	-14	-44
Subtotal health credits	-61	-177	-61	-177
Total Kerry Plan	**23**	**-650**	**178**	**609**

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0304-4) and Kerry campaign estimates where noted.

(1) Calendar years except for Kerry campaign estimates which are fiscal years. Kerry plan is effective 01/01/05 and is assumed to be permanent. Revenue estimates include outlay portion of refundable tax credits (earned income tax credit, child tax credit, college opportunity tax credit, and health credits.

(2) Extended baseline is current law plus the Administration's FY2005 Budget Proposal to extend provisions in the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) and the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA) affecting the following: marginal tax rates; the 10-percent bracket; the child tax credit; the child and dependent care credit; the limitation on itemized deductions (Pease); the personal exemption phaseout (PEP); the standard deduction, 15-percent bracket, and EITC for married couples; the AMT; pension and IRA provisions; estate tax repeal; 15 percent tax rate on qualified dividends and capital gains (0 percent for lower-income taxpayers).

(3) The Kerry plan contains the following additional provisions: increase top two marginal tax rates to 36 and 39.6 percent; increase tax rate on capital gains to 20 percent for taxpayers in the top two tax brackets; increase tax rate on dividends to 36 and 39.6 percent for taxpayers in the top two tax brackets; eliminate the repeal of the limitation on itemized deductions (Pease) and the personal exemption phaseout (PEP).

(4) The Kerry plan eliminates the repeal of the estate tax: the top estate tax rate would be 48 percent; the estate tax exemption would be set at $2 million per individual; and the Qualified Family-Owned Business Interest (QFOBI) exemption would be $5 million per individual.

(5) Revenue impact is measured against a baseline in which the rest of the Kerry tax plan has been enacted. Assumes the COTC cannot reduce a taxpayer's liability below his or her tentative AMT for years after 2005.

Table 2B
Fiscal-Year Revenue Change Due to Selected Kerry Proposals
Relative to Current Law and Administration's Extended Baseline, 2005-14[1]

Proposal	Revenue Change Relative to Current Law		Revenue Change Relative to Extended Baseline[2]	
	2005-2009	2005-2014	2005-2009	2005-2014
Make middle class income tax cuts permanent and repeal high-income tax cuts[3]	97	-361	233	610
Modify estate tax[4]	7	8	14	182
Enact College Opportunity Tax Credit[5]	-31	-71	-31	-71
Subtotal TPC estimates	74	-425	217	721
Health tax credits (Kerry campaign estimate)				
Small business	-24	-67	-24	-67
Early retirees	-23	-66	-23	-66
Workers between jobs	-14	-44	-14	-44
Subtotal health credits	-61	-177	-61	-177
Total Kerry Plan	**12**	**-602**	**155**	**544**

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0304-4) and Kerry campaign estimates where noted.

(1) Fiscal years. Kerry plan is effective 01/01/05 and is assumed to be permanent. Revenue estimates include outlay portion of refundable tax credits (earned income tax credit, child tax credit, college opportunity tax credit, and health credits.
(2) Extended baseline is current law plus the Administration's FY2005 Budget Proposal to extend provisions in the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) and the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA) affecting the following: marginal tax rates; the 10-percent bracket; the child tax credit; the child and dependent care credit; the limitation on itemized deductions (Pease); the personal exemption phaseout (PEP); the standard deduction, 15-percent bracket, and EITC for married couples; the AMT; pension and IRA provisions; estate tax repeal; 15 percent tax rate on qualified dividends and capital gains (0 percent for lower-income taxpayers).
(3) The Kerry plan contains the following additional provisions: increase top two marginal tax rates to 36 and 39.6 percent; increase tax rate on capital gains to 20 percent for taxpayers in the top two tax brackets; increase tax rate on dividends to 36 and 39.6 percent for taxpayers in the top two tax brackets; eliminate the repeal of the limitation on itemized deductions (Pease) and the personal exemption phaseout (PEP).
(4) The Kerry plan eliminates the repeal of the estate tax: the top estate tax rate would be 48 percent; the estate tax exemption would be set at $2 million per individual; and the Qualified Family-Owned Business Interest (QFOBI) exemption would be $5 million per individual.
(5) Revenue impact is measured against a baseline in which the rest of the Kerry tax plan has been enacted. Assumes the COTC cannot reduce a taxpayer's liability below his or her tentative AMT for years after 2005.

Table 3
Kerry Plan with College Tax Credit vs. Current-Law Baseline:
Distribution of Individual Income and Estate Tax Change by Cash Income Class, 2005[1]

Cash Income Class (thousands of 2003 dollars)[2]	Tax Units[3] Number (thousands)	Tax Units[3] Percent of Total	Percent Change in After-Tax Income[4]	Percent of Total Tax Change	Average Tax Change ($)	Average Federal Tax Rate[5] Current Law	Average Federal Tax Rate[5] Proposal
Less than 10	20,301	0.4	1.5	8.1	-84	3.4	1.9
10-20	26,357	14.0	0.6	10.6	-85	5.5	4.9
20-30	20,537	18.1	0.7	16.3	-167	11.1	10.5
30-40	15,633	14.1	0.7	16.2	-218	15.3	14.7
40-50	11,543	10.8	0.7	15.5	-284	17.4	16.8
50-75	20,112	7.9	0.8	36.4	-383	19.5	18.8
75-100	11,773	13.8	1.1	42.9	-770	21.2	20.4
100-200	14,039	8.1	1.3	91.5	-1,378	23.5	22.5
200-500	3,588	9.7	0.5	19.8	-1,164	26.5	26.1
500-1,000	593	2.5	-2.3	-31.9	11,380	27.9	29.6
More than 1,000	284	0.4	-4.6	-125.7	93,503	31.3	34.5
All	145,321	100.0	0.3	100.0	-146	21.3	21.1

Sources: Urban-Brookings Tax Policy Center Microsimulation Model (version 0304-4).

(1) Calendar year. Baseline is current law. Includes extending the following provisions: $1,000 child tax credit amount; standard deduction and width of 15-percent bracket for married couples twice that of singles; 10-percent bracket applies to first $14,000 of taxable income for married couples filing jointly ($7,000 for singles and $10,000 for heads of household), indexed for inflation after 2003; the use of personal nonrefundable credits regardless of AMT liability; and AMT exemption of $58,000 for married couples filing jointly ($40,250 for singles and heads of household).
Includes the following additional provisions: increase top two marginal tax rates to 36 and 39.6 percent; increase tax rate on capital gains to 20 percent for taxpayers in the top two tax brackets; increase tax rate on dividends to 36 and 39.6 percent for taxpayers in the top two tax brackets; enact the College Opportunity Tax Credit; increase top estate tax rate to 48 percent; set the estate tax exemption at $2 million per individual; increase the Qualified Family-Owned Business Interest (QFOBI) deduction to $5 million per individual.
(2) Tax units with negative cash income are excluded from the lowest income class but are included in the totals. For a description of cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm
(3) Includes both filing and non-filing units. Tax units that are dependents of other taxpayers are excluded from the analysis.
(4) After-tax income is cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); and estate tax.
(5) Average federal tax (individual income tax, net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); and estate tax) as a percentage of average cash income.

Table 4
Kerry Plan with College Tax Credit vs. Current-Law Baseline:
Distribution of Individual Income and Estate Tax Change by Cash Income Percentiles, 2005[1]

Cash Income Class[2]	Percent Change in After-Tax Income[3]	Percent of Total Tax Change	Average Tax Change ($)	Average Federal Tax Rate[4]	
				Current Law	Proposal
Lowest Quintile	1.1	10.9	-81	3.4	2.4
Second Quintile	0.7	15.8	-115	7.7	7.1
Middle Quintile	0.7	28.9	-210	14.6	14.0
Fourth Quintile	0.8	49.7	-361	19.1	18.5
Top Quintile	0.0	-5.7	41	25.3	25.3
All	0.3	100.0	-146	21.3	21.1
Addendum					
Top 10 Percent	-0.5	-66.0	955	26.7	27.0
Top 5 Percent	-1.2	-113.4	3,266	27.8	28.6
Top 1 Percent	-3.2	-163.7	23,309	29.6	31.9
Top 0.5 Percent	-4.0	-153.4	43,668	30.3	33.1
Top 0.1 Percent	-5.0	-107.1	150,072	31.9	35.3

Sources: Urban-Brookings Tax Policy Center Microsimulation Model (version 0304-4).

(1) Calendar year. Baseline is current law. Includes extending the following provisions: $1,000 child tax credit amount; standard deduction and width of 15-percent bracket for married couples twice that of singles; 10-percent bracket applies to first $14,000 of taxable income for married couples filing jointly ($7,000 for singles and $10,000 for heads of household), indexed for inflation after 2003; the use of personal nonrefundable credits regardless of AMT liability; and AMT exemption of $58,000 for married couples filing jointly ($40,250 for singles and heads of household).
Includes the following additional provisions: increase top two marginal tax rates to 36 and 39.6 percent; increase tax rate on capital gains to 20 percent for taxpayers in the top two tax brackets; increase tax rate on dividends to 36 and 39.6 percent for taxpayers in the top two tax brackets; enact the College Opportunity Tax Credit; increase top estate tax rate to 48 percent; set the estate tax exemption at $2 million per individual; increase the Qualified Family-Owned Business Interest (QFOBI) deduction to $5 million per individual.
(2) Tax units with negative cash income are excluded from the lowest quintile but are included in the totals. Includes both filing and non-filing units. Tax units that are dependents of other taxpayers are excluded from the analysis. For a description of cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm
(3) After-tax income is cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); and estate tax.
(4) Average federal tax (individual income tax, net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); and estate tax) as a percentage of average cash income.

Table 5
Kerry Plan with College Tax Credit vs. Administration's FY2005 Budget Proposal Baseline: Distribution of Individual Income and Estate Tax Change by Cash Income Class, 2005[1]

Cash Income Class (thousands of 2003 dollars)[2]	Tax Units[3] Number (thousands)	Tax Units[3] Percent of Total	Percent Change in After-Tax Income[4]	Percent of Total Tax Change	Average Tax Change ($)	Average Federal Tax Rate[5] Baseline	Average Federal Tax Rate[5] Proposal
Less than 10	20,301	14.0	1.5	-6.0	-83	3.3	1.9
10-20	26,357	18.1	0.5	-6.2	-66	5.4	4.9
20-30	20,537	14.1	0.3	-4.7	-64	10.7	10.5
30-40	15,633	10.8	0.2	-3.3	-59	14.9	14.7
40-50	11,543	7.9	0.1	-2.1	-52	16.9	16.8
50-75	20,112	13.8	0.1	-3.4	-48	18.9	18.8
75-100	11,773	8.1	0.1	-2.7	-65	20.4	20.4
100-200	14,039	9.7	0.1	-4.9	-98	22.6	22.5
200-500	3,588	2.5	-0.5	13.0	1,023	25.7	26.1
500-1,000	593	0.4	-2.4	25.4	12,089	27.8	29.6
More than 1,000	284	0.2	-4.6	95.0	94,146	31.3	34.5
All	145,321	100.0	-0.4	100.0	194	20.7	21.1

Sources: Urban-Brookings Tax Policy Center Microsimulation Model (version 0304-4).

(1) Calendar year. Baseline is current law plus the Administration's 2005FY Budget Proposal which includes extending the following provisions: $1,000 child tax credit amount; standard deduction and width of 15-percent bracket for married couples twice that of singles; 10-percent bracket applies to first $14,000 of taxable income for married couples filing jointly ($7,000 for singles and $10,000 for heads of household), indexed for inflation after 2003; reduction in third and fourth marginal tax rates to 25 and 28 percent; the use of personal nonrefundable credits regardless of AMT liability; and AMT exemption of $58,000 for married couples filing jointly ($40,250 for singles and heads of household).
Kerry Plan includes the following provisions: increase top two marginal tax rates to 36 and 39.6 percent; increase tax rate on capital gains to 20 percent for taxpayers in the top two tax brackets; increase tax rate on dividends to 36 and 39.6 percent for taxpayers in the top two tax brackets; enact the College Opportunity Tax Credit; increase top estate tax rate to 48 percent; set the estate tax exemption at $2 million per individual; increase the Qualified Family-Owned Business Interest (QFOBI) exemption to $5 million per individual.
(2) Tax units with negative cash income are excluded from the lowest income class but are included in the totals. For a description of cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm
(3) Includes both filing and non-filing units. Tax units that are dependents of other taxpayers are excluded from the analysis.
(4) After-tax income is cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); and estate tax.
(5) Average federal tax (individual income tax, net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); and estate tax) as a percentage of average cash income.

Table 6

Kerry Plan with College Tax Credit vs. Administration's FY2005 Budget Proposal Baseline: Distribution of Individual Income and Estate Tax Change by Cash Income Percentiles, 2005[1]

Cash Income Class[2]	Percent Change in After-Tax Income[4]	Percent of Total Tax Change	Average Tax Change ($)	Average Federal Tax Rate[5]	
				Baseline	Proposal
Lowest Quintile	1.1	-8.1	-80	3.4	2.4
Second Quintile	0.4	-6.8	-66	7.5	7.1
Middle Quintile	0.2	-5.9	-57	14.2	14.0
Fourth Quintile	0.1	-5.0	-49	18.6	18.5
Top Quintile	-0.9	126.1	1,213	24.7	25.3
All	-0.4	100.0	194	20.7	21.1
Addendum					
Top 10 Percent	-1.3	129.0	2,485	26.1	27.0
Top 5 Percent	-1.8	131.6	5,047	27.3	28.6
Top 1 Percent	-3.4	128.3	24,319	29.5	31.9
Top 0.5 Percent	-4.0	117.0	44,349	30.3	33.1
Top 0.1 Percent	-5.0	80.7	150,640	31.9	35.3

Sources: Urban-Brookings Tax Policy Center Microsimulation Model (version 0304-4).

(1) Calendar year. Baseline is current law plus the Administration's 2005FY Budget Proposal which includes extending the following provisions: $1,000 child tax credit amount; standard deduction and width of 15-percent bracket for married couples twice that of singles; 10-percent bracket applies to first $14,000 of taxable income for married couples filing jointly ($7,000 for singles and $10,000 for heads of household), indexed for inflation after 2003; reduction in third and fourth marginal tax rates to 25 and 28 percent; the use of personal nonrefundable credits regardless of AMT liability; and AMT exemption of $58,000 for married couples filing jointly ($40,250 for singles and heads of household).
Kerry Plan includes the following provisions: increase top two marginal tax rates to 36 and 39.6 percent; increase tax rate on capital gains to 20 percent for taxpayers in the top two tax brackets; increase tax rate on dividends to 36 and 39.6 percent for taxpayers in the top two tax brackets; enact the College Opportunity Tax Credit; increase top estate tax rate to 48 percent; set the estate tax exemption at $2 million per individual; increase the Qualified Family-Owned Business Interest (QFOBI) exemption to $5 million per individual.
(2) Tax units with negative cash income are excluded from the lowest quintile but are included in the totals. Includes both filing and non-filing units. Tax units that are dependents of other taxpayers are excluded from the analysis. For a description of cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm
(3) Includes individual income tax provisions only.
(4) After-tax income is cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); and estate tax.
(5) Average federal tax (individual income tax, net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); and estate tax) as a percentage of average cash income.

Table 7

Kerry Plan with College Tax Credit vs. Current-Law Baseline:

Distribution of Individual Income and Estate Tax Change by Cash Income Class, 2011[1]

Cash Income Class (thousands of 2003 dollars)[2]	Tax Units[3]		Percent Change in After-Tax Income[4]	Percent of Total Tax Change	Average Tax Change ($)	Average Federal Tax Rate[5]	
	Number (thousands)	Percent of Total				Current Law	Proposal
Less than 10	20,896	0.4	1.6	1.4	-103	3.0	1.4
10-20	28,583	13.3	1.7	5.2	-286	6.2	4.5
20-30	21,608	18.1	2.6	8.9	-654	12.9	10.7
30-40	16,776	13.7	2.1	7.8	-733	16.5	14.7
40-50	12,408	10.6	2.0	6.8	-866	18.4	16.8
50-75	20,269	7.9	2.1	15.5	-1,212	21.3	19.7
75-100	12,969	12.9	2.2	14.3	-1,740	23.5	21.8
100-200	17,689	8.2	2.0	25.9	-2,316	25.9	24.4
200-500	4,805	11.2	1.4	10.0	-3,303	28.5	27.5
500-1,000	817	3.1	1.2	3.4	-6,653	30.2	29.3
More than 1,000	388	0.5	0.1	0.8	-3,061	33.9	33.8
All	157,762	100.0	1.8	100.0	-1,003	23.9	22.5

Sources: Urban-Brookings Tax Policy Center Microsimulation Model (version 0304-4).

(1) Calendar year. Baseline is current law. Kerry Plan includes extending the provisions proposed in the Administration's FY2005 Budget with the following exceptions: increase top two marginal tax rates to 36 and 39.6 percent; increase tax rate on capital gains to 20 percent for taxpayers in the top two tax brackets; increase tax rate on dividends to 36 and 39.6 percent for taxpayers in the top two tax brackets; eliminate the repeal of the limitation on itemized deductions (Pease) and the personal exemption phaseout (PEP); enact College Opportunity Tax Credit; and eliminate the repeal of the estate tax and institute an estate tax exemption of $2 million per individual, a top estate tax rate of 48 percent, and a maximum Qualified Family-Owned Business Interest (QFOBI) exemption of $5 million per individual.

(2) Tax units with negative cash income are excluded from the lowest income class but are included in the totals. For a description of cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm

(3) Includes both filing and non-filing units. Tax units that are dependents of other taxpayers are excluded from the analysis.

(4) After-tax income is cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); and estate tax.

(5) Average federal tax (individual income tax, net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); and estate tax) as a percentage of average cash income.

Table 8

Kerry Plan with College Tax Credit vs. Current-Law Baseline:

Distribution of Individual Income and Estate Tax Change by Cash Income Percentiles, 2011[1]

Cash Income Class[2]	Percent Change in After-Tax Income[3]	Percent of Total Tax Change	Average Tax Change ($)	Average Federal Tax Rate[4]	
				Current Law	Proposal
Lowest Quintile	1.4	2.3	-119	3.3	1.9
Second Quintile	2.3	9.3	-467	9.5	7.5
Middle Quintile	2.2	14.9	-744	16.4	14.5
Fourth Quintile	2.1	23.9	-1,198	21.2	19.6
Top Quintile	1.5	49.5	-2,483	28.1	27.0
All	1.8	100.0	-1,003	23.9	22.5
Addendum					
Top 10 Percent	1.2	28.3	-2,843	29.3	28.5
Top 5 Percent	1.0	17.0	-3,400	30.4	29.7
Top 1 Percent	0.6	5.6	-5,629	32.3	31.9
Top 0.5 Percent	0.4	2.5	-4,993	33.1	32.9
Top 0.1 Percent	-0.1	-0.2	2,172	35.0	35.0

Sources: Urban-Brookings Tax Policy Center Microsimulation Model (version 0304-4).

(1) Calendar year. Baseline is current law. Kerry Plan includes extending the provisions proposed in the Administration's FY2005 Budget with the following exceptions: increase top two marginal tax rates to 36 and 39.6 percent; increase tax rate on capital gains to 20 percent for taxpayers in the top two tax brackets; increase tax rate on dividends to 36 and 39.6 percent for taxpayers in the top two tax brackets; eliminate the repeal of the limitation on itemized deductions (Pease) and the personal exemption phaseout (PEP); enact College Opportunity Tax Credit; and eliminate the repeal of the estate tax and institute an estate tax exemption of $2 million per individual, a top estate tax rate of 48 percent, and a maximum Qualified Family-Owned Business Interest (QFOBI) exemption of $5 million per individual.
(2) Tax units with negative cash income are excluded from the lowest quintile but are included in the totals. Includes both filing and non-filing units. Tax units that are dependents of other taxpayers are excluded from the analysis. For a description of cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm
(3) After-tax income is cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); and estate tax.
(4) Average federal tax (individual income tax, net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); and estate tax) as a percentage of average cash income.

Table 9
Kerry Plan with College Tax Credit vs. Administration's FY2005 Budget Proposal Baseline: Distribution of Individual Income and Estate Tax Change by Cash Income Class, 2011[1]

Cash Income Class (thousands of 2003 dollars)[2]	Tax Units[3] Number (thousands)	Tax Units[3] Percent of Total	Percent Change in After-Tax Income[4]	Percent of Total Tax Change	Average Tax Change ($)	Average Federal Tax Rate[5] Baseline	Average Federal Tax Rate[5] Proposal
Less than 10	20,896	13.2	1.5	-2.2	-98	2.9	1.4
10-20	28,583	18.1	0.5	-2.3	-77	5.0	4.5
20-30	21,608	13.7	0.3	-1.7	-73	10.9	10.7
30-40	16,776	10.6	0.1	-0.9	-49	14.8	14.7
40-50	12,408	7.9	*	-0.2	-18	16.8	16.8
50-75	20,269	12.8	*	0.2	11	19.6	19.7
75-100	12,969	8.2	-0.1	0.6	41	21.7	21.8
100-200	17,689	11.2	-0.3	6.9	369	24.2	24.4
200-500	4,805	3.0	-1.2	15.1	2,976	26.7	27.5
500-1,000	817	0.5	-4.3	21.6	25,135	26.2	29.3
More than 1,000	388	0.2	-6.6	62.6	153,211	29.2	33.8
All	157,762	100.0	-1.0	100.0	602	21.7	22.5

Sources: Urban-Brookings Tax Policy Center Microsimulation Model (version 0304-4).
* Less than 0.05 percent.

(1) Calendar year. Baseline is current law plus the Administration's FY2005 Budget Proposal that proposes extending provisions in the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) and the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA) affecting the following: marginal tax rates; the 10-percent bracket; the child tax credit; the child and dependent care credit; the limitation on itemized deductions (Pease); the personal exemption phaseout (PEP); the standard deduction, 15-percent bracket, and EITC for married couples; pension and IRA provisions; estate tax exemption, rates, and state death tax credit; 15 percent tax rate on qualified dividends and capital gains (0 percent for lower-income taxpayers). The Kerry plan contains the following additional provisions: increase top two marginal tax rates to 36 and 39.6 percent; increase tax rate on capital gains to 20 percent for taxpayers in the top two tax brackets; increase tax rate on dividends to 36 and 39.6 percent for taxpayers in the top two tax brackets; eliminate the repeal of the limitation on itemized deductions (Pease) and the personal exemption phaseout (PEP); enact the College Opportunity Tax Credit; and eliminate the repeal of the estate tax: set top estate tax rate at 48 percent; set the estate tax exemption at $2 million per individual; increase the Qualified Family-Owned Business Interest (QFOBI) exemption to $5 million per individual.
(2) Tax units with negative cash income are excluded from the lowest income class but are included in the totals. For a description of cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm
(3) Includes both filing and non-filing units. Tax units that are dependents of other taxpayers are excluded from the analysis.
(4) After-tax income is cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); and estate tax.
(5) Average federal tax (individual income tax, net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); and estate tax) as a percentage of average cash income.

Table 10

Kerry Plan with College Tax Credit vs. Administration's FY2005 Budget Proposal Baseline: Distribution of Individual Income and Estate Tax Change by Cash Income Percentiles, 2011[1]

Cash Income Class[2]	Percent Change in After-Tax Income[4]	Percent of Total Tax Change	Average Tax Change ($)	Average Federal Tax Rate[5]	
				Baseline	Proposal
Lowest Quintile	1.1	-3.0	-93	3.0	1.9
Second Quintile	0.4	-2.5	-75	7.8	7.5
Middle Quintile	0.1	-1.6	-49	14.6	14.5
Fourth Quintile	*	0.3	10	19.6	19.6
Top Quintile	-1.9	106.5	3,209	25.6	27.0
All	-1.0	100.0	602	21.7	22.5
Addendum					
Top 10 Percent	-2.6	104.5	6,312	26.6	28.5
Top 5 Percent	-3.3	100.9	12,153	27.3	29.7
Top 1 Percent	-5.5	88.3	53,051	28.0	31.9
Top 0.5 Percent	-6.1	76.0	91,468	28.5	32.9
Top 0.1 Percent	-7.1	48.3	289,634	30.1	35.0

Sources: Urban-Brookings Tax Policy Center Microsimulation Model (version 0304-4).
* Less than 0.05 percent.

(1) Calendar year. Baseline is current law plus the Administration's FY2005 Budget Proposal that proposes extending provisions in the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) and the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA) affecting the following: marginal tax rates; the 10-percent bracket; the child tax credit; the child and dependent care credit; the limitation on itemized deductions (Pease); the personal exemption phaseout (PEP); the standard deduction, 15-percent bracket, and EITC for married couples; pension and IRA provisions; estate tax exemption, rates, and state death tax credit; 15 percent tax rate on qualified dividends and capital gains (0 percent for lower-income taxpayers). The Kerry plan contains the following additional provisions: increase top two marginal tax rates to 36 and 39.6 percent; increase tax rate on capital gains to 20 percent for taxpayers in the top two tax brackets; increase tax rate on dividends to 36 and 39.6 percent for taxpayers in the top two tax brackets; eliminate the repeal of the limitation on itemized deductions (Pease) and the personal exemption phaseout (PEP);
enact the College Opportunity Tax Credit; and eliminate the repeal of the estate tax: set top estate tax rate at 48 percent; set the estate tax exemption at $2 million per individual; increase the Qualified Family-Owned Business Interest (QFOBI) exemption to $5 million per individual.
(2) Tax units with negative cash income are excluded from the lowest quintile but are included in the totals. Includes both filing and non-filing units. Tax units that are dependents of other taxpayers are excluded from the analysis. For a description of cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm
(3) Includes individual income tax provisions only.
(4) After-tax income is cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); and estate tax.
(5) Average federal tax (individual income tax, net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); and estate tax) as a percentage of average cash income.