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**EVEN IF THE 39.6 PERCENT RATE IS UNCHANGED, TAXPAYERS IN THE TOP
BRACKET WOULD RECEIVE A TAX CUT OF MORE THAN
\$10,000 FROM OTHER RATE CHANGES**

**Dollar Gains for Those in the Top Bracket Would Still Be
Dramatically Larger Than Gains for Middle Class**

by Isaac Shapiro

Taxpayers whose last dollar of taxable income is subject to a 39.6 percent rate have significant parts of their income taxed at lower rates; some of their income, for instance, is taxed at the 15 percent marginal tax rate, some at the 28 percent rate, some at the 31 percent rate, and some at the 36 percent rate. As a result, even if the top rate remains unchanged, a married couple filing jointly would receive a tax cut of more than \$10,000 from the other rate reductions proposed by the Bush Administration and passed by the House of Representatives. Assuming the rate cuts were fully in effect in 2002, this couple would receive:¹

- A \$600 tax cut from the creation of a new 10 percent tax bracket;
- A \$1,977 tax cut from the reduction in the 28 percent bracket to 25 percent;
- A \$3,534 tax cut from the reduction in the 31 percent bracket to 25 percent; and
- A \$4,038 tax cut from the reduction in the 36 percent bracket to 33 percent.

Their total tax cut from the reductions in these other marginal tax rates would amount to \$10,149. A married couple would receive a tax cut of this size even if the 39.6 percent rate remains unchanged. This would not account for any other tax cuts that they might benefit from, such as reductions in the estate tax, or its elimination. So even if the top rate is not touched, and

¹ The calculations reflect the following. The new 10 percent bracket applies to a maximum of \$12,000 in taxable income, yielding a tax cut of five percent of \$12,000 or \$600. For a married couple, the 25 percent bracket would represent a three percentage point tax cut from 28 percent on income ranging from \$46,500 to \$112,400, yielding a tax cut of three percent of \$65,900 or \$1,977. The new 25 percent bracket would also represent a six percentage point tax cut from 31 percent on income ranging from \$112,400 to \$171,300, yielding a tax cut of six percent of \$58,900 or \$3,534. A new 33 percent bracket would represent a three percentage point tax cut from 36 percent on income ranging from \$171,300 to \$305,900, yielding a tax cut of three percent of \$134,600 or \$4,038.

These calculations do not take into account the effect of the Alternative Minimum Tax on some of these taxpayers. The AMT would not reduce the size of these tax cuts for the large majority of taxpayers subject to the 39.6 percent rate since these taxpayers would still face tax rates above the AMT rate.

ignoring the effects of the rest of the tax package on those with high incomes, those in the 39.6 percent bracket would receive tax cuts far exceeding those received by most other taxpayers.

- The Treasury Department estimates if the provisions were fully in effect in 2002, taxpayers, on average, would receive a tax cut of \$1,117 from the entire Bush income tax package, including the child tax credit expansion, marriage penalty relief, and the rate reductions. This is less than one-ninth of the more than \$10,000 in tax cuts those in the top bracket would receive from the reductions in the 15 percent, 28 percent, 31 percent, and 36 percent rates.
- The \$1,117 represents a significant overstatement of the “typical or median” tax cut received by those receiving tax cuts because it averages in those at the top receiving large tax cuts and those at the bottom receiving no or little tax cut. Also, for purposes of this short analysis, the \$1,117 figure is overstated because it includes the effects of reducing the top rate.
- Citizens for Tax Justice has estimated the tax cut from the entire income tax package for the typical or median taxpayer would be \$500, about one-twentieth of the more than \$10,000 in tax cuts those in the top tax bracket would receive from lowering the 15 percent, 28 percent, 31 percent, and 36 percent rates. (The CTJ figure is calculated in 2001 dollars; its figure for 2002 would be slightly higher.)

In other words, even if the top rate remained unchanged, those in the 39.6 percent tax bracket would receive 20 times as large a tax cut from the rate reductions alone as the typical taxpayer would receive from the entire tax package.

Tax Cut from Rate Reductions for Married Couple Subject to 39.6% Rate, Assuming No Change in the 39.6 Percent Rate

(estimates reflect House or Bush proposal, as if the reductions were fully in effect in 2002)

Old Rate	New Rate	Taxable Income Range	Tax Cut
15%	10%	\$ 0-12,000	\$600
15%	15%	12,000-46,500	0
28%	25%	46,500-112,400	1,977
31%	25%	112,400-171,300	3,534
36%	33%	171,300-305,900	4,038
		Total tax cut from lower brackets with 39.6% rate intact	\$10,149