Center on Budget and Policy Priorities

POLICY BASICS

THE 2001 AND 2003 TAX CUTS

Note: This Policy Basics does not reflect tax changes made in the American Taxpayers Relief Act, or ATRA, passed in January 2013.

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The biggest changes in tax policy enacted under President George W. Bush were the 2001 and 2003 tax cuts, often referred to as the "Bush tax cuts" but formally named the Economic Growth and Tax Relief Reconciliation Act of 2001 and the Jobs and Growth Tax Relief Reconciliation Act of 2003.

What Are Their Main Features?

The 2001 and 2003 tax cuts reduced the top four marginal income tax rates (see table), as well as the tax rate on capital gains and dividends. They also phased out the estate tax, repealing it entirely in 2010.

Income Tax Rate Reductions Under the 2001 and 2003 Tax Cuts

Previous Rate	New Rate
39.6%	35%
36%	33%
31%	28%
28%	25%

In addition, the tax cuts included three components often referred to as "middle-class" tax cuts, though many higher-income families benefit from them as well. One provision created a new bottom income tax rate of 10 percent for some of the income previously taxed at a 15 percent rate. Another provision increased the Child Tax Credit from $500 to $1,000 per child and made many low-income working families eligible for the credit. The third provision was "marriage penalty relief" — a set of changes that reduced taxes for some married couples.

Nearly all of the tax cuts are scheduled to expire at the end of 2010.

How Much Do They Cost?

The 2001 and 2003 tax cuts added about $1.7 trillion to deficits between 2001 and 2008. Because they have been financed by borrowing — which increases the national debt — this figure includes the extra interest costs resulting from that additional debt.

This figure also includes the cost of "patching" the Alternative Minimum Tax to keep the tax from hitting millions of upper-middle-class households, a problem the tax cuts helped cause. (See Policy Basics: The Alternative Minimum Tax.)

Over the next decade (2009-2018), making the tax cuts permanent would cost $4.4 trillion, assuming that the tax cuts remain deficit-financed.

Whom Do They Benefit The Most?

A very large share of the value of the tax cuts flows to high-income taxpayers. In fact, the top 1 percent of households — a group with incomes over $450,000 in 2008 — would receive 31 percent of the tax cuts' benefits over the next ten years if the tax cuts were made permanent.

Policy Basics is a series of brief background reports on issues related to budgets, taxes, and government assistance programs.

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