

February 25, 2004

The Impending Tax Increases

Unless Congress takes action, the following tax increases* will automatically occur:

In 2005:

- The child tax credit will decrease from \$1,000 to \$700.
- The standard deduction for couples as a percentage of the standard deduction for singles will decrease from 200% to 174%--reinstating the marriage penalty.
- The top end of the 15% marginal income tax bracket for couples as a percentage of the top end for singles will decrease from 200% to 174%--reinstating the marriage penalty.
- The 10% marginal income tax bracket will contract from covering the first \$7,000 of income for singles and \$14,000 for joint filers to covering only the first \$6,000 of income for singles and \$12,000 for joint filers.
- The exemption for the Alternative Minimum Tax (AMT) will decrease from \$40,250 to \$33,750 for single filers and from \$58,000 to \$45,000 for married couples filing jointly.
- The bonus depreciation will decrease from 50% to 30%.

In 2006:

- The section 179 small business expensing cap will decrease from \$100,000 to \$25,000, and the definition of a small business will decrease from \$400,000 to \$200,000.

In 2009:

- The personal capital gains rate will increase from 15% and 0% to 20% and 10%.

- Dividends will no longer be taxed at the personal capital gains rates, thereby increasing the double taxation of dividends by as much as 62%.

In 2011:

- The marginal income tax rates will increase as follows:
 - 35% bracket will increase to 39.6%
 - 33% bracket will increase to 36%
 - 28% bracket will increase to 31%
 - 25% bracket will increase to 28%
 - 10% bracket will increase to 15%
- The child tax credit will decrease from \$1,000 to \$500.
- The annual education IRA contribution limit will decrease from \$2,000 to \$500.
- The standard deduction for couples as a percentage of the standard deduction for singles will decrease from 200% to 167%--reinstating the marriage penalty.
- The top end of the 15% marginal income tax bracket for couples as a percentage of the top end for singles will decrease from 200% to 167%--reinstating the marriage penalty.
- The estate tax using the “stepped up” basis will return with a 60% maximum rate (including surtax) and \$1 million exemption, after years of decreasing estate tax rates, increasing exemptions, and one year using the more fair “carryover” basis to calculate the tax due.
- The annual IRA contribution limit will decrease from \$5,000 plus post-2008 inflation to \$2,000.

*This list is not exhaustive.

NOTE: The items above that appear twice do so because of phase-ins or phase-outs in the law in between the two appearances. For example, the standard deduction for couples decreases from 200% of singles to 174% in 2005. It then gradually rises back up to 200% by 2010 and then decreases to 167% in 2011.

Special thanks to Americans for Tax Reform.

RSC staff contact: Paul S. Teller, paul.teller@mail.house.gov, (202) 226-9718