

Congress of the United States

JOINT COMMITTEE ON TAXATION

Washington, DC 20515-6453

JUL 13 2012

MEMORANDUM

TO: [REDACTED]

FROM: Thomas A. Barthold

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SUBJECT: Capital Gains and Dividend Preferential Rate Extension Effects

This memorandum is in response to your request of June 15, 2012, for information about the number of taxpayers that would be affected by an extension of preferential rates for capital gains and dividends.

Under present law, generally, gains on sales or dispositions of equity investments held for more than a year receive preferential treatment with a lower tax rate of 15 percent (zero percent for taxpayers otherwise in the 15 percent ordinary income bracket) in 2012. After December 31, 2012, the preferential rate increases to 20 percent (and 10 percent). Also under present law, prior to December 31, 2012 qualifying dividends receive the same treatment as capital gains. After December 31, 2012, dividends are treated as ordinary income.

You requested that we provide you with information about the number of taxpayers that would benefit from an extension of the lower preferential rates for capital gains and dividends. We estimate that 26 million individual tax returns would be able to take advantage of the reduced rates in 2013. On a static basis, we estimate that the average benefit to those 26 million individual returns is approximately \$1,280. Our conventional revenue estimate includes behavior of taxpayers shifting capital gains and corporations responding to the lower tax rate on dividends. As a result, some taxpayers may take advantage of the lower rates by increasing their capital gains, thereby possibly increasing their overall tax liability. These potential behavioral responses are not accounted for in the estimates of the average benefit figures provided herein. Finally, you requested that we also provide this information for the subset of the population that is elderly. We estimate that approximately nine million returns with an individual age 65 or older would be able to take advantage of the reduced rates for capital gains and dividends in 2013. Again on a static basis, we estimate that the average benefit for those nine million elderly tax returns is approximately \$1,700.