



## **DEMOCRATS' TICKING TAX BOMB, PART III**

*Non-partisan Joint Committee on Taxation Confirms Democrats' Year-end Tax Hike Will Hit Millions of Middle-Class Families Hard*

Washington Democrats will impose a \$3.8 trillion tax hike on hard-working Americans (as described in [Part I](#) of this series) starting January 1, 2011. This will result in higher taxes for every American who pays income taxes, as well as on small businesses, the engines of job creation. [Part II](#) of this series provided some examples showing how much more in taxes typical taxpayers can expect to pay as a result of this looming tax hike. Unfortunately, Democrats have so far done nothing to disarm this ticking tax bomb.

As described below, Part III explores how married couples and parents – including millions of middle-income families – will be targeted for even higher tax increases than other Americans starting next year.

According to JCT, among the most significant family-related tax increases that will take effect on January 1, 2011 are:

- The **child tax credit** will be cut in half, from \$1,000 to \$500 per child, costing 31 million families an average of \$1,033 in higher taxes next year.
- The **marriage penalty** in the standard deduction and the 15% bracket will be reinstated, costing 35 million married couples an average of \$595 in higher taxes in 2011.
- The **10% bracket** will be eliminated, raising the lowest tax rate to 15%, costing 88 million taxpayers an average of \$503 in higher taxes next year.

Here are some further details about these looming family-related tax increases:

### **Child Tax Credit Cut In Half**

In 2009, the U.S. Department of Agriculture released a study on the cost of raising children.\* The study found that for a family of four, annual per child expenses ranged from \$8,330 to \$23,180, depending on pre-tax household income and the age of the children.\*\* This study also found that, for a middle-income, two-parent family, the total average expenditures on a child, from birth through age 17, reached \$222,360 – nearly a quarter of a million dollars – by 2009.

Recognizing both this ever-increasing cost of raising children and the contributions that children grow up to make to our society, Congress in 2001 doubled the child credit from \$500 per child to \$1,000 per child. Thus, for example, an eligible family with three children can currently claim \$3,000 per year in child credits, whereas before 2001 they could only claim \$1,500.\*\*\* In 2011, however, the Democrats' failure to act will cause the child credit to revert to \$500 per child, resulting in a \$1,500 tax increase on a family of five. In addition, the 2001 and 2003 tax relief allowed families to take the child credit

against their alternative minimum tax (AMT) liability, if any. In 2011, if the Democrats fail to act, families subject to the AMT could, depending on their particular circumstances, see the value of even this lower, \$500 child tax credit reduced or eliminated entirely. The Joint Committee on Taxation (JCT) has estimated that, overall, 31 million families would pay an average of \$1,033 in higher taxes next year because of Democrats' tax increase on parents.

<b>CHILD TAX CREDIT IN 2011</b>		
<b>Child Credit</b>	<b>Without Democrats' 2011 Tax Hike</b>	<b>With Democrats' 2011 Tax Hike</b>
Amount of credit (per child)	\$1,000	\$500
Allowed against AMT?	Yes	No

**DEMOCRATS' 2011 TAX INCREASE ON PARENTS: \$500 PER CHILD**

### **Marriage Penalties Reinstated**

According to JCT, “[a] ‘marriage penalty’ exists when the combined tax liability of a married couple filing a joint return is greater than the sum of the tax liabilities of each individual computed as if they were not married.” The tax code imposes such penalties – including several entirely new ones resulting from certain tax increases in the Majority’s new health law – because particular tax parameters for married couples filing jointly are set at amounts that are less than twice the amounts applicable to single filers. The tax relief enacted in 2001 and 2003 eliminated the marriage penalty for many low- and middle-income families by increasing both the standard deduction for joint filers and the upper income limit of the 15% bracket for joint filers to twice the amounts applicable to single filers.

If Democrats permit these marriage penalties to be reinstated, the standard deduction for joint filers will drop significantly in 2011 (subjecting more income to a 15% tax rate), and the income range covered by the 15% bracket will narrow considerably (subjecting more income to the 28% tax rate). JCT has estimated that the reinstatement of these marriage penalties will cost 35 million married couples an average of \$595 more in taxes in 2011.

**MARRIAGE PENALTIES IN 2011**

<p><b>For Married Couples, Filing Jointly, the Married Penalty is Reinstated With Respect To:</b></p>	<p align="center"><b>Without Democrats' 2011 Tax Hike</b></p>	<p align="center"><b>With Democrats' 2011 Tax Hike</b></p>
<p>The standard deduction</p>	<p>\$11,600</p> <p><u>No marriage penalty</u> because the standard deduction for married couples would be twice the standard deduction for singles (\$5,800)</p>	<p>\$9,750</p> <p><u>Marriage penalty is reinstated</u> because the standard deduction for married couples is \$1,850 less than twice the standard deduction for singles (\$5,800)</p>
<p>The last dollar of taxable income taxed at the 15% rate (instead of 28%, the next highest rate)</p>	<p>\$69,700</p> <p><u>No marriage penalty</u> because the last dollar of income taxed at 15% (instead of at 28%) for married couples would be twice the corresponding amount for singles (\$34,850)</p>	<p>\$58,200</p> <p><u>Marriage penalty is reinstated</u> because the last dollar of income taxed at 15% (instead of at 28%) for married couples is \$11,500 less than twice the corresponding amount for singles (\$34,850)</p>

**DEMOCRATS' 2011 MARRIAGE PENALTIES: UP TO \$1,773 (FOR CERTAIN MARRIED COUPLE WITH \$69,700 OR MORE IN TAXABLE INCOME)**

*Dollar amounts listed in the table above for 2011 are JCT estimates reflecting expected inflation adjustments.*

## **10% Bracket Eliminated**

Prior to 2001, the lowest tax bracket was 15%. The 2001 tax relief reduced the lowest tax rate by creating a new, inflation-adjusted 10% bracket that applies, in 2010, to the first \$16,750 of taxable income for married couples filing joint returns. This lower 10% rate effectively provides a 5% rate cut on those first dollars of taxable income. In 2011, however, the 10% rate will disappear, and the higher 15% rate again will apply to the very first dollar of taxable income. JCT has estimated that the elimination of the 10% bracket would cost 88 million taxpayers an average of \$503 in higher taxes next year.

<b>LOWEST TAX BRACKET IN 2011</b>		
<b>For All Married Couples Filing Joint Returns...</b>	<b>... The Lowest Tax Rate Without Democrats' 2011 Tax Hike</b>	<b>...But the Lowest Tax Rate With Democrats' 2011 Tax Hike</b>
The first \$17,150 of taxable income would be taxed at the lowest tax rate	10%	15%

**DEMOCRATS' 2011 TAX INCREASE FROM ELIMINATING THE 10% BRACKET: UP TO \$858 (FOR MARRIED COUPLES EARNING AS LITTLE AS \$17,150 IN TAXABLE INCOME)**

*Dollar amounts are based on JCT estimates of various tax parameters reflecting expected inflation adjustments for 2011.*

*Note that the elimination of the 10% bracket will similarly expose all single filers who pay income taxes to a 15% rate, rather than a 10% rate, on their first \$8,575 of taxable income.*

While the effect of these Democrat tax increases on any particular family's budget will depend on their own specific facts and circumstances, it is clear by any measure that this is a massive tax hike that middle-class American families simply can't afford. For more detail about the effect of the Democrats' 2011 tax increase on senior citizens, stay tuned for Part IV of this series, coming soon.

\*This study is available at: <http://www.cnpp.usda.gov/Publications/CRC/crc2009.pdf>.

\*\*Expenses tend to rise with a child's age and with a household's income.

\*\*\*The child credit phases out for married couples with incomes between \$110,000- \$130,000 and for single parents with incomes between \$75,000-\$95,000.

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