# SUMMARY OF H.R. 15
# THE MIDDLE CLASS TAX CUT ACT OF 2012

JULY 30, 2012

## I. TEMPORARY EXTENSION OF TAX RELIEF

**One-year extension of marginal individual income tax rate reductions for middle-class taxpayers.** The Economic Growth and Tax Relief Reconciliation Act of 2001 ("EGTRRA") created a new 10-percent regular income tax bracket for a portion of taxable income that was previously taxed at 15 percent. EGTRRA also reduced the other regular income tax rates of 28%, 31%, 36% and 39.6% to 25%, 28%, 33%, and 35%, respectively. These marginal individual income tax rate reductions are scheduled to expire for taxable years beginning after December 31, 2012. The bill extends for one year the 10%, 25%, and 28% rate brackets. It also extends the 33% rate bracket to the extent that this bracket applies to taxable income of $200,000 or less for single filers ($250,000 or less for joint filers). *This proposal is estimated to cost $62.872 billion over the budget window.*

**One-year extension of repeal of the overall limitation on itemized deductions ("Pease") and the personal exemption phase-out ("PEP") for middle-class taxpayers.** Prior to 2010, certain taxpayers were subject to limitations on the amount that they could claim with respect to itemized deductions (the "Pease" limitation) and a phase-out of personal exemptions ("PEP"). These provisions reduced the value of itemized deductions and personal exemptions based on the amount that the taxpayer's adjusted gross income exceeded a specified threshold. EGTRRA gradually phased out these provisions, and these provisions were repealed fully in 2010. However, these limitations are scheduled to come back into force for taxable years beginning after December 31, 2012. The bill sets the threshold at which these limitations apply so that taxpayers with adjusted gross income under $200,000 ($250,000 for a married couple filing jointly), adjusted for inflation, would not be subject to Pease and PEP for taxable years beginning in 2013. *This proposal is estimated to cost $846 million over the budget window.*

**One-year extension of EGTRRA and ARRA improvements to child tax credit.** EGTRRA doubled the value of the child tax credit from $500 to $1,000, allowed the child tax credit to be claimed against the alternative minimum tax, and enhanced the refundable child tax credit. The American Recovery and Reinvestment Act of 2009 ("ARRA") further enhanced the refundable child tax credit by allowing taxpayers to begin claiming the refundable credit once the taxpayer had $3,000 of earned income (e.g., wages, tips, salaries). These provisions are scheduled to expire for taxable years beginning after December 31, 2012. The bill extends these provisions for one year. *This proposal is estimated to cost $46.311 billion over the budget window.*

**One-year extension of marriage penalty relief for middle-class taxpayers.** 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 the married individuals, calculated as if they were not married. Prior to EGTRRA, numerous marriage penalties existed in the tax code. Among other things, EGTRRA increased the basic standard deduction for a married couple filing a joint return to twice the basic standard deduction for an unmarried individual filing a return and also increased the size of the 15 percent regular income tax bracket for a married couple filing a joint return to twice the size of the corresponding rate bracket for an unmarried individual filing a single return. The bill extends this relief for one year. *This proposal is estimated to cost $6.42 billion over the budget window.*

**One-year extension of earned income tax credit simplification and increase.** The bill would extend for one year certain EGTRRA modifications and ARRA modifications to the earned income tax credit. The bill would retain the EGTRRA provisions to (1) simplify the definition of earned income, the relationship test, and the tie-breaking rule; (2) provide additional math error authority for the IRS; (3) repeal the prior-law provisions that would reduce an taxpayer's earned income tax credit by the amount of the taxpayer's AMT liability; and (4) increase the beginning and ending points of the credit phase-out for married taxpayers. The bill also would extend for one year the ARRA provision that increases the beginning point of the phase-out range for all married couples filing a joint return (regardless of the number of children) by $1,880. *This proposal is estimated to cost $6.538 billion over the budget window.*

**One-year extension of education tax incentives.** The bill would extend for one year certain modifications to the suite of education tax incentives included in the EGTRRA. Included in this extension is the deduction of student loan interest (maximum of $2,500) for single filers with adjusted gross income up to $75,000 and married couples filing jointly with adjusted gross income of $150,000; allowance of up to $2,000 in contributions per beneficiary to a tax-preferred Coverdell education savings account for qualified education expenses; and extensions of tax-preferences for certain bond-financing mechanisms for education facilities. *This proposal is estimated to cost $2.213 billion over the budget window.*

**One-year extension of tax benefits for families and children.** The bill extends for one year certain tax benefits for families and children enacted in EGTRRA, including: the maximum $13,170 adoption tax credit (as well as the maximum exclusion of $32,170 per eligible child), the employee tax credit for employee child care (25 percent of qualified expenses for employee child care and 10 percent of qualified expenses for child care resource and referral services), and the increased dependent care tax credit (35% of up to $3,000 of eligible expenses for one qualifying individual up to $1,050, and 35% of up to $6,000 of eligible expenses for two or more qualifying individuals up to $2,100). *This proposal is estimated to cost $785 million over the budget window.*

**One-year extension of reduced maximum rate for capital gains and qualified dividend income for middle-class taxpayers.** The bill extends for one year the 0-percent/15-percent rate structure for capital gain and qualified dividend income for taxpayers with taxable income up to $200,000 for single filers and $250,000 for married couples filing jointly. For taxpayers with income above $200,000 ($250,000 for married couples filing jointly), the maximum capital gains rate would revert to the pre-tax-cut rate of 20 percent; the maximum rate on qualified dividend income also would be 20 percent. *This proposal is estimated to cost $17.631 billion over the budget window.*

**One-year extension of the American Opportunity Tax Credit ("AOTC").** The ARRA provided a credit (the AOTC) of up to $2,500 per student per year for qualified tuition and related expenses for each of the first four years of the student's post-secondary education. The credit phases out for single filers with income over $80,000 (joint filers with income over $160,000. It is 40 percent refundable (maximum of $1,000). The credit was originally set to expire at the end of 2010. In December 2010, the AOTC was extended through 2012. The bill extends the AOTC through 2013. *This proposal is estimated to cost $13.123 billion over the budget window.*

**One-year extension of enhanced small business expensing.** In order to help small businesses quickly recover the cost of certain capital expenses, small business taxpayers may elect to write-off the cost of acquiring certain depreciable business assets in the year of acquisition (in lieu of recovering these costs over time through depreciation). Under present law, the aggregate amount that may be expensed is limited to $125,000 (the "aggregate expense limit"), with that amount reduced (but not below zero) by the amount by which the cost of qualifying property exceeds $500,000 (the "reduction threshold"); the aggregate expense limit and the reduction threshold are both adjusted for inflation. In 2013, the aggregate expense limit and the reduction threshold are scheduled to revert to $25,000 and $200,000, respectively. The bill would set the aggregate expense limitation for 2013 at $250,000 (indexed for inflation) and the reduction threshold at $800,000 (indexed for inflation). *This proposal is estimated to cost $878 million over the budget window.*

## II. ALTERNATIVE MINIMUM TAX RELIEF

**One-year extension of alternative minimum tax relief.** The alternative minimum tax ("AMT") has the effect of taking back many of the benefits of the 2001 and 2003 tax cuts. In order to ensure that middle-class taxpayers are able to enjoy the benefits of extending these tax cuts, the bill would extend AMT relief for nonrefundable personal credits and increase the AMT exemption amount to $78,750 (for joint filers) and $50,600 (for individuals) for 2012. Absent this patch, over 30 million taxpayers could face AMT liability. *This proposal is estimated to cost $92.039 billion over the budget window.*

*Prepared by the staff of the Committee on Ways and Means*
*Sander M. Levin, Ranking Member*
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