

**Washington, D.C.** - Today, Rep. David Price (D-NC) voted in favor of the Middle Class Tax Relief Act of 2010, which permanently extends lower tax rates for middle and lower income families making up to \$250,000 a year. The package also extends lower dividend and capital gains tax rates for lower and middle income taxpayers, and maintains American Recovery and Reinvestment Act improvements to the child tax credit, earned income tax credit and small business expensing.

"Extending these tax cuts will let every working family keep more of their paycheck, strengthen small businesses and protect seniors who rely on income from investments," Rep. Price said. "It will also strengthen our economy because most of these funds will be used right away to purchase goods and services, or expand small businesses. I am proud to vote for middle class tax relief as we fight to keep the economic recovery going."

The Middle Class Tax Relief Act also includes a permanent extension of several education tax incentives. It makes up to \$2,500 of student loan interest payments deductible for single filers with adjusted gross income of \$75,000 (\$150,000 for married couples filing jointly) and extends the \$2,000 yearly contribution cap for tax-preferred Coverdell education savings accounts.

"Education is the key to our success here in the Triangle, but it's also the key to our long-term prosperity and competitiveness as a country," Rep. Price said. "Tax-advantaged loan repayment and educational savings plans respond to pressing needs: making college more affordable and expanding access to education for middle class Americans."

The Middle Class Tax Relief Act does not extend the lower tax rates for income over \$250,000, allowing President Bush's tax cuts for the wealthiest Americans to expire. Extending these lower rates would benefit only three percent of the population but would add \$700 billion to the deficit over the next ten years. Economists agree that extending lower rates for the wealthiest Americans would have a minimal stimulative effect on the economy.

"Borrowing \$700 billion from foreign governments to give millionaires a permanent tax break just plunges us further into debt," Rep. Price said. "It is simply not credible for Republicans to claim concern about our long-term debt challenges, and at the same time favor blowing a \$700 billion hole in the deficit to give tax cuts to millionaires."

## **SUMMARY OF THE MIDDLE CLASS TAX RELIEF ACT OF 2010**

### **I. EXTENSION OF ALTERNATIVE MINIMUM TAX RELIEF**

**Two-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 increasing the AMT exemption amount to \$72,450 for joint filers and \$47,450 for individuals in 2010 and 2011. This will protect more than 25 million families from the AMT. This proposal is estimated to cost \$134.609 billion over 10 years.

### **II. EXTENSION OF THE 2001 AND 2003 TAX CUTS**

**Permanent 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, 2010. The bill would permanently extend the 10%, 25% and 28% rate brackets. It also permanently extends the 33% rate bracket to the extent that this bracket applies to income of \$200,000 or less for single filers (\$250,000 or less for joint filers). This proposal is estimated to cost \$655.686 billion over 10 years.

**Permanent reduced capital gains and dividend tax relief for middle-class taxpayers.** The bill would make permanent the temporarily reduced rates on capital gain and dividend income for taxpayers with adjusted gross income up to \$200,000 for single filers and adjusted gross income up to \$250,000 for married couples filing jointly. The bill would maintain the current 15% rate for middle-class taxpayers. For taxpayers with income above \$200,000 (\$250,000 for married couples filing jointly), the capital gains rate would revert to the pre-tax cut rate of 20%, and the dividend rate would revert to the pre-tax cut ordinary income rates. This proposal is estimated to cost \$99.113 billion over 10 years.

**Permanent 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 has received \$3,000 of earned income (e.g., wages, tips, salaries). All of these enhancements are scheduled to expire for taxable years beginning after December 31, 2010. The bill would permanently extend these enhancements. This proposal is estimated to cost \$432.748 billion over 10 years.

**Permanent extension of PEP and Pease relief 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 personal exemptions (the "PEP" limitation). These limitations reduced the value of itemized deductions and personal exemptions based on the amount that the taxpayer's adjusted gross income exceeded a specific threshold. EGTRRA gradually phased out these limitations and these limitations were fully repealed in 2010. However, these limitations are scheduled to come back in full force for taxable years beginning after December 31, 2010. The bill would permanently set 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 these limitations. This proposal is estimated to cost \$10.158 billion over 10 years.

**Permanent marriage penalty relief for middle-class taxpayers.** A "marriage penalty" exists when the combined tax liability of a married filing a joint return is greater than the sum of the tax liabilities of each individual computed 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 single return and also increased the size of the 15% 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 would permanently extend this tax relief. This proposal is estimated to cost \$140.682 billion over 10 years.

**Permanent earned income tax credit simplification and increase.** The bill would make permanent certain EGTRRA modifications and ARRA modifications to the earned income tax credit. The bill would retain the EGTRRA provisions to simplify the definition of earned income; simplify the relationship test, simplify the tie-breaking rule; provide additional math error authority for the IRS; 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 increase the beginning and ending points of the credit phase-out for married taxpayers. The bill would also make permanent 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. The estimated cost of this proposal is included in the estimate immediately preceding.

**Permanent extension of education tax incentives.** The bill would make permanent certain modifications to the suite of education tax incentives included in the EGTRRA. Included in this extension would be 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 \$18.741 billion over 10 years.

**Permanent extension of tax benefits for families and children.** The bill would make permanent certain tax benefits for families and children enacted in the 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 \$6.314 billion over 10 years.

**Permanent extension of enhanced small business expensing.** The bill would make permanent the increased small business expensing amounts set to expire at the end of 2010 that were enacted prior to the ARRA and prior to the "Small Business Jobs Act of 2010". 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 these expenses in the year of acquisition in lieu of recovering these costs over time through depreciation. The bill would provide that small business taxpayers be allowed to write-off up to \$125,000 (indexed for inflation) of capital expenditures subject to a phase-out once capital expenditures exceed \$500,000 (indexed for inflation). This proposal is estimated to cost \$25.693 billion over 10 years.

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