CONGRESSIONAL BUDGET OFFICE
U.S. Congress
Washington, DC 20515

Douglas W. Elmendorf, Director

December 2, 2010

Honorable Sander M. Levin
Chairman
Committee on Ways and Means
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

The Congressional Budget Office has reviewed the House amendment to the Senate amendment to H.R. 4853, the Middle Class Tax Relief Act of 2010, as reported by the House Committee on Rules on December 1, 2010. The staff of the Joint Committee on Taxation (JCT) estimates that enacting the legislation would increase federal budget deficits by $145 billion in fiscal year 2011, by $203 billion in 2012, and by $1.5 trillion over the 2011-2020 period. Those amounts reflect both reductions in revenues and increases in outlays for refundable tax credits. Over the 2011-2020 period, the legislation would reduce revenues by an estimated $1.1 trillion and increase outlays by an estimated $0.4 trillion. For additional details on the estimate, see JCX-53-10, as published by the JCT (www.jct.gov).

The legislation would permanently extend, in some cases in modified form, a number of tax provisions enacted in 2001 and 2003 that are scheduled to expire at the end of December 2010. Under current law, as a result of the expirations, statutory tax rates on ordinary income, capital gains, and dividends will rise; the child tax credit will decline; and the 15 percent tax bracket will narrow for taxpayers who file joint returns, among other changes. Relative to current law, the legislation would reduce the individual income tax rates on ordinary income except for the two highest tax rates that apply to taxpayers with adjusted gross income greater than $200,000 ($250,000 for taxpayers who file joint tax returns), increase the amount of the child tax credit, and expand the 15 percent tax bracket. The legislation would also reduce the tax rates on capital gains and dividends by permanently extending, for taxpayers with incomes below the thresholds described above, the 15 percent and 0 percent rates that were initially enacted in 2003.

Among other provisions, the legislation would also increase for two years, through 2011, the exemption amounts allowed under the alternative minimum tax (AMT). Higher exemption amounts that temporarily lessened the impact of the AMT expired at the end of 2009.

The estimated budgetary impact of the legislation is shown in the following table.

	By Fiscal Year, in Billions of Dollars											
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2011-2015	2011-2020
Estimated Revenues [a]	-145	-168	-93	-112	-108	-105	-100	-98	-98	-98	-626	-1,125
Estimated Outlays	0	35	35	35	39	42	47	48	49	50	144	380
Net Increase in the Deficit	145	203	128	147	147	147	147	147	147	147	770	1,505
On-budget	145	202	128	146	147	147	147	146	146	147	768	1,501
Off-budget	*	*	*	*	*	*	*	*	*	*	2	3

Source: Staff of the Joint Committee on Taxation.

Notes: All changes in off-budget deficits reflect reductions in revenues; * = less than $500 million.

a. Negative numbers denote a reduction in revenues, relative to current law.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is Mark Booth.

Sincerely,

Douglas W. Elmendorf

Douglas W. Elmendorf
Director

cc: Honorable Dave Camp
Ranking Member

Honorable John M. Spratt Jr.
Chairman
Committee on the Budget

Honorable Paul Ryan
Ranking Member