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Tax Package Will Aid Nearly All, Especially Highest Earners

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The deal to extend the Bush-era tax cuts for two years includes a bevy of additional credits and deductions that will reduce the burden on nearly all households.

But the tax benefits will flow most heavily to the highest earners, just as the original cuts did when they were passed in 2001 and 2003. At least a quarter of the tax savings will go to the wealthiest 1 percent of the population.

The tentative deal includes a two-year patch for the alternative minimum tax, a reduction in the payroll tax and a plan to reinstate the estate tax with lower rates and higher exemptions than in 2009 — all of which will offer far more savings for high earners than those in the low- or middle-income bracket.

The wealthiest Americans will also reap tax savings from the proposal’s plan to keep the cap on dividend and capital gains taxes at 15 percent, well below the highest rates on ordinary income.

And negotiators have agreed that the estimated $900 billion cost of the cuts will simply be added to the deficit — not covered by reductions in spending or increases in other taxes. That is good news for hedge fund managers and private equity investors, who appear to have withstood an effort to get them to pay more by eliminating a quirk in the tax code that allows most of their income to be taxed at just 15 percent.

In fact, the only groups likely to face a tax increase are those near the bottom of the income scale — individuals who make less than $20,000 and families with earnings below $40,000.

"It's going to look like the rich are getting richer again," said Anne Mathias, an analyst for MF Global Inc.

In the agreement, which breaks a campaign pledge to eliminate some tax breaks for the top 2 percent of American earners, President Obama won a few concessions from Republicans, including a 13-month extension in government benefits for the long-term unemployed. After several extensions, the maximum has been 99 weeks.

The administration also succeeded in extending several of the tax credits in last year's stimulus plan to aid low- and moderate-income Americans: the earned-income tax credit, the child credit, the child and dependent-care credit and the tuition deduction.

As a result, families with an income near the median of $55,000 would owe about $2,700 less in taxes than if the Bush-era cuts had been allowed to expire.

A two-income couple earning $146,000 would owe about $7,000 less than if the tax cuts were allowed to expire, and about $3,400 less than they did in 2009.

The proposal does not include an extension of Mr. Obama's signature tax cut, the Making Work Pay credit, which provided a credit of up to $400 for individuals and $800 for families of low and moderate income. Instead, the plan creates a one-year reduction in Social Security payroll taxes, which are generally levied on the first $106,800 of income. For an individual earning $110,000, that provision would reduce payroll taxes by $2,136.

Although the $120 billion payroll tax reduction offers nearly twice the tax savings of the credit it replaces, it will nonetheless lead to higher tax bills for individuals with incomes below $20,000 and families that make less than $40,000. That is because their payroll tax savings are less than the $400 or $800 they will lose from the Making Work Pay credit.

“It will come to a few dollars a week,” said Roberton Williams, an analyst at the nonpartisan Tax Policy Center, “but it is an increase.”

To the wealthiest Americans, however, an assortment of breaks is available.

The plan includes a two-year “patch” for the alternative minimum tax, which is now paid by about 4 million taxpayers with income in the mid- to high six figures. Without the patch, more than 20 million additional taxpayers would have been liable for that tax.

The estate tax — which was allowed to lapse this year and was scheduled to resume at a rate of 55 percent on most assets above $1 million — will be reinstated under less onerous terms. Estates over $5 million will be subject to a 35 percent tax.

The proposal will also maintain the current rates on dividends and capital gains, averting scheduled increases to ordinary income and 20 percent, respectively.

The marginal tax rate on high incomes will also remain unchanged. The top brackets had been scheduled to increase to 36 percent and 39.6 percent, from 33 percent and 35 percent.

Under Mr. Obama’s failed proposal, which would have raised the rates on income over $250,000 for families and $200,000 for individuals, the taxpayers at the top 1 percent of the income scale — those with incomes above $564,000 — would have received an average tax break of $28,000. Under the agreement reached with Republicans, the top 1 percent will receive breaks of about $70,000.

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