Congress of the United States
JOINT COMMITTEE ON TAXATION
Washington, DC 20515–6453

OCT 13 2009

MEMORANDUM

TO: Mark Prater, Tony Coughlan, Nick Wyatt, and Chris Conlin

FROM: Thomas A. Barthold T.A.B.

SUBJECT: Effective Marginal Tax Rates

This is a response to your request of October 7, 2009, asking for information on effective marginal tax rates resulting from the premium credits and the cost sharing subsidies of the America's Healthy Future Act of 2009," as well the effective marginal tax rates from income and payroll taxes. The attached table shows these effective marginal tax rates for calendar year 2013 at selected income levels assuming the present law baseline, plus the adoption of the provisions of the "America's Healthy Future Act of 2009."

The table does not reflect the impact of the cost sharing subsidy. The cost sharing subsidy drops precipitously at two points--at 150 percent of the Federal poverty line and at 200 percent of the Federal poverty line. These "cliffs" effectively represent infinite marginal tax rates at the instant the cliff occurs, and a zero marginal tax rate elsewhere.

Attachment

MARGINAL TAX RATES FOR A FAMILY OF FOUR

Calendar Year 2013

Percent of Federal Property Level	Wage Income	Effective Marginal Income Tax Rate	Effective Marginal Tax Rate from Reduction of Premium Credit	Combined Effective Income and Premium Marginal Tax Rate	Combined Effective Income and Premium Marginal Tax Rate Including Payroll Taxes [1]
150%	$34,200	36% [2]	12% [3]	48%	59%
250%	$57,000	15% [4]	22% [3]	37%	49%
350%	$79,800	15% [4]	12% [3]	27%	39%
450%	$102,600	28% [4]	0% [3]	28%	40%

Joint Committee on Taxation

NOTE: The calculations assume the taxpayer is married and files a joint return, takes the standard deduction, has two children eligible for the child credit; and all income is wage income; The total health insurance premium is assumed to be $13,630 annually.

[1] The column showing the combined marginal tax rates including payroll taxes attributes both the employee and employer share of payroll taxes to the individual. Attributing the employer share to individuals requires that the employer share of payroll taxes also be considered income to the employee, which, because this income is excluded from income for purposes of the individual income tax and the Premium credit, requires an adjustment to the marginal tax rates shown for these taxes. These effects are all accounted for in the calculation that includes payroll taxes.

[2] Reflects statutory rate of 15 percent plus 21 percent phaseout rate for earned income tax credit.

[3] Because the taxpayer must pay an increasing share of income for the premium as income rises between 100 percent and 300 percent of the Federal poverty level (from two percent of income at 100 percent of Federal poverty level to 12 percent of income at 300 percent of poverty level), effective marginal tax rates from loss of the premium credit increase from approximately seven percent to about 27 percent over this range. From 300 percent of Federal poverty level to 400 percent of Federal poverty level, the marginal tax rate from the loss of the premium credit is 12 percent, reflecting the constant 12 percent of income that is devoted to premiums over this range. After 400 percent of poverty no premium credit applies, and thus the premium credit no longer affects marginal tax rates.

[4] Reflects statutory rate of 15 percent or 28 percent only.