CHAPTER III

EFFECTS ON INCOME DISTRIBUTION

The tax changes in the Omnibus Budget Reconciliation Act of 1993 shift the distribution of the tax burden toward families in the upper-income groups. Effective tax rates increase much more for families in the top quintile (that is, the top 20 percent) than for other families. Within the top quintile, effective tax rates increase the most for families in the top 1 percent of the income distribution. By contrast, tax rates increase only slightly for families in the third and fourth quintiles and decline for families in the bottom two quintiles.

The tax law changes also affect families differently depending on the age of the head of the household and the number of children. Effective tax rates increase more for families headed by people 65 years old or over than for other families and more for families without children than for families with children. The biggest reductions in tax rates are for low-income families with children.

Under current law, the decision to marry can affect the total amount of tax that two people pay. The OBRA-93 tax changes increase the impact of marital status on tax liability for couples with very low income and very high income. For married couples, an increase occurs in both the marriage penalty for two-earner couples with equal (or nearly equal) earnings and the marriage bonus for one-earner couples (and couples in which the lower-earning spouse earns only a small fraction of their total income).

OBRA-93 increases the tax penalty for taxpayers whose incomes are variable. Even under current law, taxpayers whose incomes vary greatly from year to year pay more tax over several years than others who have the same average income but less year-to-year variation. The rate increases in OBRA-93 will increase this penalty for high-income taxpayers.

DISTRIBUTION BY INCOME GROUP

OBRA-93 changes the distribution of the tax burden substantially by increasing income tax rates on upper-income taxpayers and decreasing income taxes for some lower-income taxpayers by expanding the earned income tax credit. The Congressional Budget Office estimates that the OBRA-93 tax provisions (including the refundable portion of the EITC) increase federal taxes for families by about 4 percent and reduce after-tax income by about 1 percent (see Table 6). The effects on families differ dramatically among income

TABLE 6. TAX BURDENS ON FAMILIES BEFORE AND AFTER OBRA-93 USING 1994 INCOME LEVELS, 1998 LAW, AND JANUARY 1993 ECONOMIC ASSUMPTIONS

	All Federal Taxes			Income After Taxes		Effective Tax Rates		Share of Total Change (Percent)
	Average Before OBRA-93 (Dollars)	Change (Dollars)	Change (Percent)	Average Before OBRA-93 (Dollars)	Change (Percent)	Before OBRA-93 (Percent)	After OBRA-93 (Percent)	
Families by Adjusted Family Income								
All Families								
By quintile								
First	589	-166	-28.1	7,878	2.1	7.0	5.0	-8.3
Second	3,119	-35	-1.1	17,623	0.2	15.0	14.9	-1.8
Third	6,498	64	1.0	27,156	-0.2	19.3	19.5	3.2
Fourth	10,800	110	1.0	38,172	-0.3	22.1	22.3	5.7
Fifth	29,203	1,884	6.5	82,111	-2.3	26.2	27.9	100.9
All	10,107	382	3.8	34,129	-1.1	22.8	23.7	100.0
By percentile								
Top 10	41,225	3,473	8.4	111,727	-3.1	27.0	29.2	94.6
Top 5	59,374	6,521	11.0	157,427	-4.1	27.4	30.4	89.4
Top 1	158,719	29,417	18.5	408,157	-7.2	28.0	33.2	76.3
81 to 90	16,757	239	1.4	51,452	-0.5	24.6	24.9	6.3
91 to 95	22,859	388	1.7	65,483	-0.6	25.9	26.3	5.3
96 to 99	36,188	1,177	3.3	98,908	-1.2	26.8	27.7	13.1
Families with Children (Quintiles)								
First	559	-380	-68.0	10,493	3.6	5.1	1.6	-25.8
Second	4,811	-134	-2.8	23,585	0.6	16.9	16.5	-8.8
Third	9,665	73	0.8	35,240	-0.2	21.5	21.7	4.7
Fourth	15,305	144	0.9	49,663	-0.3	23.6	23.8	8.1
Fifth								
81 to 90 percent	22,402	223	1.0	66,243	-0.3	25.3	25.5	5.0
Top 10 percent	54,694	6,450	11.8	147,793	-4.4	27.0	30.2	116.5
All	11,178	336	3.0	37,610	-0.9	22.9	23.6	100.0
Families with Head Age 65 or Older (Quintiles)								
First	200	9	4.6	7,336	-0.1	2.6	2.8	0.5
Second	718	27	3.8	15,412	-0.2	4.4	4.6	1.6
Third	2,169	60	2.8	25,121	-0.2	7.9	8.2	2.9
Fourth	5,037	115	2.3	36,149	-0.3	12.2	12.5	4.5
Fifth								
81 to 90 percent	10,178	651	6.4	50,892	-1.3	16.7	17.7	10.4
Top 10 percent	38,198	3,753	9.8	119,182	-3.1	24.3	26.7	80.0
All	5,615	421	7.5	30,663	-1.4	15.5	16.6	100.0

(Continued)

TABLE 6. CONTINUED

	All Federal Taxes			Income After Taxes		Effective Tax Rates		Share of Total Change (Percent)
	Average Before OBRA-93 (Dollars)	Change (Dollars)	Change (Percent)	Average Before OBRA-93 (Dollars)	Change (Percent)	Before OBRA-93 (Percent)	After OBRA-93 (Percent)	
Other Families (Quintiles)								
First	876	-37	-4.3	5,276	0.7	14.2	13.6	-1.4
Second	3,060	25	0.8	13,066	-0.2	19.0	19.1	1.0
Third	5,842	58	1.0	20,787	-0.3	21.9	22.2	2.5
Fourth	9,843	86	0.9	31,412	-0.3	23.9	24.1	4.7
Fifth								
81 to 90 percent	15,848	153	1.0	45,329	-0.3	25.9	26.2	5.1
Top 10 percent	37,798	2,450	6.5	98,197	-2.5	27.8	29.6	87.7
All	11,308	399	3.5	33,074	-1.2	25.5	26.4	100.0
Families by Dollar Income								
Less than $10,000	455	-68	-14.9	5,577	1.2	7.5	6.4	-2.5
$10,000-$20,000	1,718	-86	-5.0	13,258	0.6	11.5	10.9	-3.9
$20,000-$30,000	4,240	-41	-1.0	20,775	0.2	16.9	16.8	-1.7
$30,000-$40,000	6,891	50	0.7	27,970	-0.2	19.8	19.9	1.6
$40,000-$50,000	9,667	105	1.1	35,062	-0.3	21.6	21.8	2.7
$50,000-$75,000	14,295	192	1.3	46,719	-0.4	23.4	23.7	7.8
$75,000-$100,000	21,604	312	1.4	64,185	-0.5	25.2	25.5	5.6
$100,000-$200,000	33,910	649	1.9	95,854	-0.7	26.1	26.6	8.8
$200,000 or more	135,359	23,521	17.4	350,578	-6.7	27.9	32.7	81.3
All	10,107	382	3.8	34,129	-1.1	22.8	23.7	100.0

SOURCE: Congressional Budget Office.

NOTES: The table shows the effects of tax law changes as applied to families at 1994 levels of income. The table compares provisions effective in 1998 of the new tax law and pre-OBRA-93 law. The representation of the tax law prior to OBRA-93 differs from the actual tax law that would have applied to families in 1994 by treating three temporary provisions--the limitation on itemized deductions, the phase-out of the personal exemption, and the temporary 2.5-cent portion of the federal motor fuels excise tax--as if they had already expired. Thus, the table represents the extension of these three provisions in OBRA-93 as a tax increase, although it has no effect on families in 1994.

It includes the fully phased-in effects of all permanent revenue provisions except the empowerment zone provision, the provisions on estimated tax payments, and miscellaneous compliance measures. The table includes both the outlay and tax portions of the earned income tax credit.

Pretax family income is the sum of wages, salaries, self-employment income, rents, taxable and nontaxable interest, dividends, realized capital gains, pensions, and all cash transfer payments. Income also includes the employer share of Social Security, federal unemployment insurance payroll taxes, and the corporate income tax. For purposes of ranking by adjusted family income, income for each family is divided by the projected 1994 poverty threshold for a family of that size. Quintiles contain equal numbers of people. Families with zero or negative income are excluded from the lowest income category but included in the total.

Changes in individual income taxes are distributed directly to families paying those taxes. Changes in payroll taxes are distributed directly to families paying those taxes, or indirectly through their employers. Changes in federal excise taxes are distributed to families according to their consumption of the taxed good or service. Changes in corporate income taxes are distributed to families according to their income from capital.

OBRA-93 = Omnibus Budget Reconciliation Act of 1993.

quintiles. For example, families in the bottom quintile receive a tax reduction of 28 percent and an average increase in after-tax income of 2 percent. Families in the third and fourth quintiles pay higher taxes, but the bottom four quintiles taken together pay slightly less tax. Consequently, those in the top quintile pay more than 100 percent of the additional taxes. The taxes on these families increase by more than 6 percent, which lowers their after-tax income on average by 2 percent. Compared with families at the top and bottom of the income distribution, families in the three middle quintiles experience relatively small changes in effective tax rates and after-tax incomes.

Families in the top 1 percent of the income distribution pay more than three-fourths of the additional taxes paid by those in the top quintile. For those very high income families, federal taxes rise by more than 18 percent, reducing their after-tax income by 7 percent. These families pay virtually all of the additional taxes from the provisions that impose new marginal tax rate brackets of 36 percent and 39.6 percent on high-income recipients, eliminate the Hospital Insurance cap, make permanent the limit on itemized deductions and the phaseout of personal exemptions, and increase tax rates under the individual alternative minimum tax.

The changes in average effective tax rates for families ranked by income quintile or income level mask shifts in the distribution of tax burdens within income groups. For example, the impact of the increase in motor fuels taxes differs among families depending on the type of cars they drive and how much they drive them. Including more Social Security benefits in income affects mostly older families with relatively high incomes. Expanding the earned income tax credit mainly benefits low-income families with children.

DISTRIBUTION BY AGE AND FAMILY SIZE

The effects of OBRA-93 on tax burdens differ among families depending on whether or not they have children and whether or not the head of the household is elderly. On average, families with children experience a slightly smaller tax increase than nonaged families without children (see Table 6).

This difference occurs because low-income families with children experience a larger tax cut than other low-income families. Even though OBRA-93 expands the EITC to include childless families, the largest increases in the credit are for families with children. Consequently, although OBRA-93 increases after-tax income for families with children in the bottom income quintile by about 4 percent, it increases after-tax income of nonaged families without children by less than 1 percent.

Families headed by people 65 years old or over experience a larger increase in effective tax rates (over 7 percent) than other families (about 3 percent). The relatively larger increase in effective tax rates for these older families occurs for three reasons. First, low-income older families have very little income from employment and in most cases have no children and therefore do not benefit from the expansion of the EITC. Second, older families receive relatively more income from capital than other families at similar income levels. As a result, the increases in corporate income taxes in OBRA-93 affect them relatively more. Most important, for families in the top quintile, OBRA-93 increases taxes more for these older families than for others by increasing the proportion of Social Security benefits included in adjusted gross income. The increased taxation of Social Security benefits affects only couples with incomes above $44,000 and single people with incomes above $34,000.

DISTRIBUTION WITHIN THE BOTTOM QUINTILE

On average, by expanding the EITC, the tax provisions in OBRA-93 increase the after-tax income of families in the bottom quintile of the income distribution by 2 percent. Some low-income families, however, experience a net reduction in income. The expansion of the EITC benefits only those low-income families that are eligible for the credit, while other provisions, including the increases in motor fuels taxes and corporate income taxes, slightly reduce the after-tax income of most low-income families. Among low-income families, the OBRA-93 changes favor families with children and are relatively less favorable for older families (headed by people 65 years old or over).

The OBRA-93 tax provisions reduce average effective tax rates for families with children in the bottom quintile by 68 percent, raising their after-tax income by 4 percent. By contrast, families in the bottom quintile headed by people 65 years old or over experience a small tax rate increase (about 5 percent, or $9 per family on average). Other families in the bottom quintile see their tax rates decline by 4 percent, which raises their after-tax income slightly (see Chapter 2).

HORIZONTAL EQUITY ISSUES

Horizontal equity--when families in the same economic circumstances pay the same amount of tax--is an important criterion of fairness in the tax system. An income tax violates horizontal equity, for example, if tax liability depends on how a taxpayer earns or consumes income. Two other ways in which a progressive income tax can violate horizontal equity is by treating taxpayers differently according to their marital status and the timing of their receipt of income.

OBRA-93 increases the effect of marital status on tax liability by raising marginal tax rates. It increases marriage penalties for some and marriage bonuses for others. The taxpayers it affects are only those with very high and very low incomes. OBRA-93 also increases the tax liability of taxpayers whose incomes fluctuate from year to year, compared with the tax liabilities of taxpayers with the same average incomes whose incomes change little over time.

Marriage Penalties and Bonuses

Under the current income tax, a married couple's tax liability almost always differs from the combined liability that the two people would pay if they earned the same combined income but could file returns as single taxpayers. A married couple will pay more tax in some cases (a "marriage penalty") and less in others (a "marriage bonus"). In general, a couple will pay a marriage penalty if both individuals earn approximately the same income, but will receive a marriage bonus if all or most income is earned by one spouse.

The size of the marriage penalty or bonus depends on the relative magnitudes of the tax law parameters for joint and single returns. The most important of these parameters are the relative width of the tax rate brackets and the relative size of the standard deductions for joint and single filers. Other parameters that affect the marriage penalty include the income amounts at which the EITC reaches its maximum level and begins to phase out, the phaseout ranges for individual retirement account (IRA) deductions, itemized deductions, personal exemptions, and the threshold amounts for including Social Security benefits in income subject to tax.

The principle that two people with the same combined income should pay the same tax regardless of their marital status ("marriage neutrality") is one standard of fairness in taxing families and individuals. An alternative standard of fairness is that all married couples with the same combined income should pay the same tax, regardless of how the income is divided between them. Under a progressive income tax, it is impossible to achieve both standards of equity simultaneously. Requiring all people to file single returns would eliminate marriage penalties and bonuses. However, with graduated tax rates, it would tax couples more when one person earns all the income than when both individuals earn half the combined income. With joint filing, all married couples with the same income pay the same tax, but there will be either marriage penalties or bonuses depending on the relationship between the tax schedules for joint and single returns.

The Economic Recovery Tax Act of 1981 reduced the marriage penalty by allowing an extra deduction for second earners. The deduction was equal to the lesser of 10 percent of the earnings of the lower-earning spouse or $3,000. The Tax Reform Act of 1986 repealed the second-earner deduction, but reduced the marriage penalty by lowering marginal tax rates, reducing the number of tax brackets, and changing standard deductions for joint and single filers.[1]

Provisions in OBRA-93 that affect marriage penalties and bonuses include the expansion of the EITC and the new tax brackets for high-income taxpayers. The changes increase the absolute size of both marriage penalties and marriage bonuses.

The examples that follow illustrate these effects by showing how OBRA-93 affects the marriage penalty and bonus for two childless couples who receive all their income from earnings--one in which both spouses earn half the total income of the couple and the other in which one spouse earns all the income.[2] OBRA-93 does not affect the marriage penalty or bonus for most couples. It increases the marriage penalty for two-earner couples with very low or very high combined incomes. It increases the marriage bonus for one-earner couples with very high incomes.

The two-earner couple pays a marriage penalty at most income levels (see top panel of Figure 1). But OBRA-93 has no effect on the marriage penalties for couples with combined earnings between $18,000 and $179,000--about 78 percent of couples with earnings.

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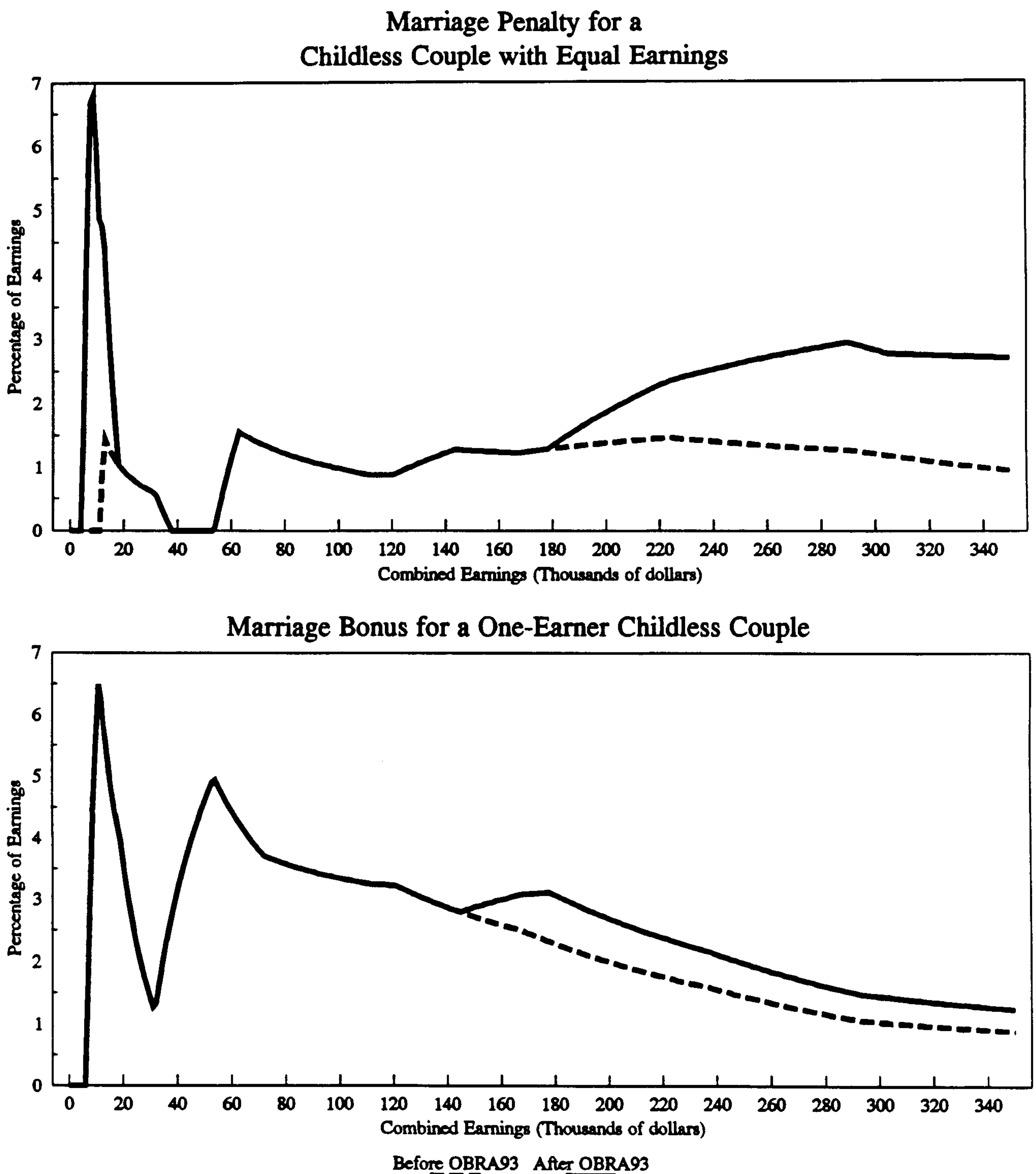
1. A study using a tax simulation model found that TRA-86 on average reduced the marriage penalty. See Harvey Rosen, "The Marriage Penalty Is Down But Not Out," Working Paper No. 2231 (National Bureau of Economic Research, Cambridge, Mass., 1987).

2. In the examples, the Congressional Budget Office assumes that the taxpayers claim either the standard deduction or itemized deductions equal to 20 percent of earnings, whichever is larger.

Figure 1. Income Tax Marriage Penalty and Bonus Before and After OBRA93



SOURCE: Congressional Budget Office

NOTES: All calculations use 1994 tax parameters.

The estimates assume all income is from earnings and that the taxpayer claims the greater of the standard deduction or 20 percent of earnings.

OBRA-93 = Omnibus Budget Reconciliation Act of 1993.

Expanding the EITC to include families without children increases the marriage penalty for low-income couples. The penalty peaks at almost 7 percent of income for couples with combined incomes of $10,000. Although this penalty is large, it affects very few taxpayers. A combined income of $10,000 would imply that both spouses earn $5,000, an amount one-third less than they would earn if they both worked all year at the minimum wage.

OBRA-93 substantially increases the marriage penalty for two-earner couples with incomes of more than $179,000. This increase results from the new 36 percent bracket, which begins at taxable incomes of $115,000 for single filers and $140,000 for joint filers, and the new 39.6 percent bracket, which begins at a taxable income of $250,000 for both single and joint filers.

For example, under the new law in tax year 1994, a couple with combined earnings of $325,000 pay taxes of $81,797 if they file a joint return. If they each filed a single return with earnings of $162,500, they would pay a combined tax of $72,926. The marriage penalty is $8,871, or 2.7 percent of combined income.

Under pre-OBRA-93 law, the same two people would pay $74,887 if filing a joint return and $71,419 if filing two single returns--a marriage penalty of $3,468, or 1.1 percent of combined income. Overall, OBRA-93 raises the marriage penalty for most couples with combined incomes of more than $179,000 from about 1 percent of combined income under pre-OBRA-93 law to amounts ranging between 1 percent and 3 percent of combined income.

OBRA-93 also increases the marriage bonus for one-earner couples, but only for couples with incomes of more than $140,000 (see bottom panel of Figure 1). The increased marriage bonus occurs because the married earner reaches the 36 percent bracket at a higher taxable income than a single earner.

For example, under the new rates, a married couple with one earner and earnings of $180,000 pays $36,291; if single, the earner would pay $41,815. The marriage bonus for the couple is $5,525, or 3.1 percent of combined earnings. OBRA-93 raises taxes by less than 0.5 percent for the couple, but for a single earner with the same income it raises taxes by 4 percent. Under pre-OBRA law, the marriage bonus was smaller--$4,109, or 2.3 percent of combined earnings. Overall, OBRA-93 raises the marriage bonus for all one-earner couples with earnings of more than $140,000, but the increase in the bonus at all incomes is less than 1 percent of combined income.

The above examples illustrate how OBRA-93 affects the marriage penalty for couples without children. The expansion of the earned income tax credit in OBRA-93 also increases marriage penalties for some couples with children. Suppose, for example, that two people with earnings of $15,000 marry--one with two children and the other with no children. The spouse with children would receive the EITC if single, but receives no EITC when married because the combined income of the couple exceeds the maximum eligible earnings for the EITC. The loss of the EITC imposes a substantial marriage penalty in relation to total income. For this couple, the increase in the EITC in OBRA-93 raises the marriage penalty from $2,019 under pre-OBRA-93 law (6.7 percent of combined income) to $2,985 under current law (9.9 percent of combined income).

These examples illustrate the potential size of marriage penalties at different income levels, but they do not show how many people experienced increases in penalties and bonuses under OBRA-93. The relative numbers of people experiencing marriage penalties and bonuses depend in part on the percentage of married taxpayers with one earner and the division of earnings between spouses in two-earner couples.

Based on projections for shares of earnings from joint returns, CBO estimates that OBRA-93 increased marriage penalties for only a small fraction of couples. The tax rate changes only affected the minority of taxpayers who have very low or very high incomes, and most of those taxpayers whom the changes could potentially affect do not pay a marriage penalty.

Although other factors affect the marriage penalty, joint returns in which the second earner receives less than 20 percent of the couple's earned income probably had either a marriage bonus or a small penalty. These amount to about 57 percent of all joint returns (see Table 7). OBRA-93 increased the marriage penalty only for returns with combined income less than $20,000 and more than $140,000--less than 20 percent of joint returns in 1994. Among those high- and low-income taxpayers, CBO estimates that the second-earning spouse will receive less than 20 percent of combined earnings in more than 70 percent of returns. Consequently, marriage penalties will probably increase in an appreciable way for fewer than 6 percent of returns.

TABLE 7. DISTRIBUTION OF JOINT RETURNS BY COMBINED EARNINGS AND BY SHARE OF LESSER EARNER (In percent)

	One Earner	Fraction of Earnings Held by Lesser Earner: Zero to 10 Percent	10 to 20 Percent	20 to 30 Percent	30 to 40 Percent	40 to 50 Percent	Total	Number of Returns (Millions)
Combined Earnings								
$1-$10,000	74	6	4	4	5	8	100	2.4
$10,000-$20,000	56	7	8	7	10	13	100	3.5
$20,000-$30,000	45	9	10	11	12	13	100	5.6
$30,000-$50,000	37	9	9	12	14	18	100	12.1
$50,000-$75,000	26	10	9	15	19	22	100	9.5
$75,000-$100,000	22	11	9	13	19	26	100	3.4
$100,000-$200,000	32	15	12	13	12	15	100	2.1
$200,000 or More	52	23	10	5	3	6	100	0.5
All Joint Returns	38	10	9	12	14	17	100	39.1

SOURCE: Congressional Budget Office using its Tax Simulation Model and 1994 levels of income.

The Income Averaging Problem

Under a progressive income tax, taxpayers pay more tax over a period of years if their income fluctuates than if their income is the same every year. This situation occurs because, with graduated rates, the additional amount taxpayers pay per dollar of income above their annual average amount exceeds the reduced amount they pay per dollar of income below their annual average.

Before the Tax Reform Act of 1986, the individual income tax contained a special provision for income averaging. This provision enabled taxpayers with taxable income greater than 140 percent of their average taxable income in the previous three years to reduce their tax liability for the current year. The income averaging provisions lowered, but did not eliminate, the extra tax on taxpayers with uneven incomes.

TRA-86 eliminated income averaging, but it reduced the penalty for taxpayers with uneven incomes by flattening the marginal tax rate schedule. OBRA-93 increases marginal income tax rates at the top, but has no provision for income averaging.

The result is that some taxpayers with uneven incomes will pay more tax than those with the same average income but with equal incomes in every year. Take, for example, three joint taxpayers with average incomes of $150,000 per year over five years (see Table 8). Taxpayer 1 has the same income every year; taxpayer 2 has twice as much income in the current year as in each of the previous four years; and taxpayer 3 has three times as much income in the current year as in each of the previous four years.

A comparison of tax liability for these three taxpayers at 1993 tax rates under prior and current law indicates that the additional rate brackets in OBRA-93 increase taxes for all of them. The law imposes a small additional penalty on taxpayer 2 and a much larger additional penalty on taxpayer 3. Under the prior-law rate schedule, all three taxpayers pay the same average annual tax of $38,805. OBRA-93 raises the average annual tax liability to $39,305 for taxpayer 1 (an increase of 1.3 percent), to $39,905 for taxpayer 2 (an increase of 2.8 percent), and to $41,133 for taxpayer 3 (an increase of 6.0 percent.) The penalty for having uneven incomes is $600 per year (over five years) for taxpayer 2 and $1,828 per year for taxpayer 3. These penalties amount to 1.5 percent and 4.4 percent of tax liability for the two taxpayers. As a percentage of taxable income, they amount to 0.4 percent for taxpayer 2 and 1.2 percent for taxpayer 3.

The income averaging formula in effect before TRA-86 would not have reduced the tax liability of taxpayer 2 under either the pre-OBRA-93 or post-OBRA-93 rate schedules. It would have reduced the tax liability of taxpayer 3 by $514 under the post-OBRA-93 rate schedule. This reduction would lower the tax penalty for taxpayer 3 to 3.2 percent of tax liability and 0.9 percent of income.

As the above example illustrates, the penalty for uneven incomes can be substantial for a taxpayer with a taxable income in any year that is both very high and is several multiples of his or her average taxable income. The OBRA-93 rate changes will impose this penalty on very few taxpayers, however, and for most of the taxpayers that it affects the penalty will be small. (The higher marginal tax rates affect less than 1 percent of taxpayers and only a minority of these pay higher taxes because their incomes fluctuate.) The averaging formula in effect before TRA-86, if restored, would reduce the penalty somewhat, but only for taxpayers with extremely uneven incomes.

TABLE 8. EXAMPLES OF PENALTIES FOR JOINT RETURNS WITH UNEVEN INCOMES USING 1994 TAX RATES (In dollars)

	Current Amount	Annual Amount in Four Previous Years	Average Amount
	Taxes with No Income Averaging		
Taxpayer 1			
Taxable income	150,000	150,000	150,000
Tax before OBRA-93	38,805	38,805	38,805
Tax after OBRA-93	39,305	39,305	39,305
Taxpayer 2			
Taxable income	250,000	125,000	150,000
Tax before OBRA-93	69,805	31,055	38,805
Tax after OBRA-93	75,305	31,055	39,905
Taxpayer 3			
Taxable income	321,429	107,143	150,000
Tax before OBRA-93	91,947	25,519	38,805
Tax after OBRA-93	103,590	25,519	41,133
	Taxes with Pre-TRA-86 Income Averaging Formula		
Taxpayer 2			
Before OBRA-93	69,805	31,055	38,805
After OBRA-93	75,305	31,055	39,905
Taxpayer 3			
Before OBRA-93	91,947	25,519	38,805
After OBRA-93	101,019	25,519	40,619

SOURCE: Congressional Budget Office.

NOTE: OBRA-93 = Omnibus Budget Reconciliation Act of 1993; TRA-86 = Tax Reform Act of 1986.